

**ACTIVE ENERGY GROUP PLC**  
**ANNUAL REPORT**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2018**

Company Registration Number: 03148295

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FOR THE YEAR ENDED 31 DECEMBER 2018**

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# ACTIVE ENERGY GROUP PLC

## COMPANY INFORMATION

<b>Country of Incorporation</b>	England and Wales
<b>Directors</b>	T M S Rowan S C Melling A Esposito
<b>Secretary</b>	Cargill Management Services Ltd 27-28 Eastcastle Street London W1W 8DH
<b>Registered Office</b>	27-28 Eastcastle Street London W1W 8DH
<b>Corporate Head Office</b>	12 Hay Hill, Mayfair London W1J 8NR
<b>Registered Number</b>	03148295
<b>Auditors</b>	Jeffreys Henry LLP Chartered Accountants and Registered Auditors London EC1V 9EE
<b>Bankers</b>	HSBC Bank Plc 69 Pall Mall London SW1Y 5EY
<b>Solicitors</b>	DWF LLP 20 Fenchurch Street London EC3M 3AG
<b>Nominated Adviser &amp; Broker</b>	SP Angel Corporate Finance LLP Prince Frederick House, 35 – 39 Maddox Street London W1S 2PP
<b>Financial Public Relations &amp; Investor Relations</b>	St Brides Partners WeWork The Monument, 51 EastCheap, London EC3M 1JP Finsbury, London EC2M 5QQ

# ACTIVE ENERGY GROUP PLC

## CHIEF EXECUTIVE OFFICER STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

2018 was an important year for Active Energy as it focussed on building its position as a developer and supplier of renewable based fuels. It completed the construction of the first prototype plant to utilise the CoalSwitch™ technology and commenced on a strategy of commercial development for CoalSwitch™ as both a renewable fuel by itself as well as a component for derivative renewable fuels combining with other biomass and coal based material.

During 2018 AEG achieved several significant developmental milestones and the Board's focus moved from validating the feasibility of the technology, to identifying the important commercial opportunities which must be focused on to successfully develop CoalSwitch™.

In February 2018, AEG announced the opening of the first CoalSwitch™ reference plant in Utah, US (the "Reference Plant"), which represented a significant achievement for the CoalSwitch™ programme. It was the first scalable plant with an ability to produce CoalSwitch™ in sufficient quantities to meet prospective customer demand. Although the Reference Plant was subsequently verified by a number of commercial partners & customers, the Board recognised that it had to be relocated to commence commercial production as the Utah site was not in an optimal location for scalable production.

At the same time, the Group continued to focus on feedstock business opportunities which would assist the commercial development of the CoalSwitch™ programme. The Group had worked extensively with the Province of Newfoundland and Labrador, (the "Province") to secure forestry rights which could provide a commercial base for a CoalSwitch™ operation in the Province. The process took time to complete, but in November 2018, the Group secured cutting timber permits ("CTPs") for Blocks 17 and 18 in the Province. The Group believes that this represents a starting point for a long-term relationship with the Province and has been in active conversations to assess additional complementary opportunities in the Province.

In tandem with the above, additional feedstock opportunities were identified in North America, Europe and Asia to complement the CoalSwitch™ programme and each geography has its own unique circumstances. Accordingly, the Board believes that the optimum route to market is now through the actual production of CoalSwitch™ to sell to end customers with a lesser focus on the feedstock supply issues.

With this in mind, the Board made a series of strategic decisions in mid 2018 to accelerate the commercialisation of CoalSwitch™. The first decision was to choose the optimal location for the business in the US. Upon thorough investigation, the Board decided that the prime base had to be on the East Coast of the US. The area has huge amounts of lumber feedstock, an established transportation infrastructure and links both domestically and to pellet markets in Western Europe and Asia.

The pellet market has been growing significantly since 2014, most notably, in Europe. Global wood pellet imports were 24million tonnes in 2018 and the global wood pellet market is forecast to rise to over 35 million tonnes per annum by 2025(source: Futuremetrics 2018.) The market for a CoalSwitch™ pellet remains highly attractive with potential customers indicating an enthusiasm for the pellet and for Active Energy to commence deliveries as soon as possible. The Group has therefore updated its business strategy to capitalise on this and optimise the business opportunities.

The second key decision was to accelerate AEG's commercial strategy with the establishment of partnerships in the industry. The Board believes that, in consideration of the Group's available resources, the optimal way to build a global franchise is through such industry partnerships.

In 2018 the Group started to establish these commercial partnerships. The first signed in the fourth quarter of 2018, was a joint venture agreement with Georgia Renewable Power LLC ("GRP") to advance the commercial development of CoalSwitch™ in North Carolina and further examine the derivative product opportunities.

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The second significant collaboration to assist the Group was with Andritz. A global engineering group focussed on the supply of equipment to the pulp and paper industry, Andritz completed an assessment of the initial pilot plant in Utah and agreed to work with the Group in forthcoming commercial opportunities. In the first half of 2019, this partnership has strengthened with joint presentations to prospective customers and the establishment of a technical programme which aims to produce a new facility with production capacity up to 50 tonnes per hour.

The third partnership was with Cobant in Poland. Cobant has commenced test production for the recovery of environmentally damaging coal fines stored in coal slurry ponds in Poland. Through testing at their proprietary laboratories, Cobant established that CoalSwitch™ could be used as a binder to form briquettes suitable for burning, either to existing coal plants, or into the retail market. The relationship was extended with the formation of a joint venture to jointly examine commercial opportunities and examine financing opportunities, including EU funding. Testing and analysis for the fuel including CoalSwitch™ was completed in Poland. As announced on 9 April 2019, although the EU grant funding has not been forthcoming at this time, the collaboration with Cobant has been important. Their support has been highly valued and the Board hopes that joint commercial opportunities can be established in Poland in the coming months.

The Board continues to actively explore other commercial industrial partnerships with the prime focus being the production of CoalSwitch™ and the creation of revenues from CoalSwitch™ either as a renewable fuel of itself, or as component for other renewable fuels including other waste biomass products.

### Developments since December 2018

As mentioned, the Group recognised that for its corporate strategy to succeed, it needed an operational base in the prime lumber regions of the US, especially with its new relationship with GRP. During the fourth quarter of 2018 and into the early months of 2019, the Group focused on identifying a suitable site to achieve these objectives.

In the first quarter of 2019, AEG acquired an industrial site in Lumberton, North Carolina (“Lumberton Site”). The site will become the new base for all Active Energy’s CoalSwitch™ operations in the US and house the first permanent production facility for CoalSwitch™. It includes up to 415,000 sq ft of covered factory space and circa 151 acres of surrounding land and was purchased for a total consideration of US\$3,330,000. It also includes ancillary facilities, such as water treatment, an analysis lab, offices and IT hardware, thus reducing the amount of capital expenditure required for the Lumberton Site.

The Directors believe that the size of the Lumberton Site will ensure significant scope for the expansion of the initial CoalSwitch™ plant via the addition of extra CoalSwitch™ production facilities targeting capacity of up to 400,000 tonnes per annum during 2021. Furthermore, the Directors expect that AEG will benefit from complementary biomass, saw logging and other renewable technology opportunities in the Lumberton area.

The Lumberton Site is of significant strategic importance to AEG. It provides access to the prime lumber district in the US, steam and power via AEG's joint venture partner, GRP, as well as proximal access to the Eastern Seaboard of the United States, ensuring that AEG is connected to established export routes for sales to Europe and South East Asia. In recent weeks, long term local feedstock supply contracts in North Carolina have been completed, ready to commence lumber deliveries as soon as the existing 5 tonne per hour plant is operational. This contract can be expanded to supply up to 800,000 tonnes of lumber per annum to the Lumberton Site.

The Board believes that these developments provide the bedrock for the future development of the business by providing key elements required to commercialise the CoalSwitch™ product—namely access to significant quantities of feedstock, access to power and steam, the establishment of proven and scalable technology and easy access to routes to market.

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As a result, AEG has now completed the relocation of the existing Reference Plant from Utah to the Lumberton site, with the intention of commencing CoalSwitch™ production at a rate of 5 tonnes per hour in the second half of 2019. AEG's recent collaboration with Andritz means that developments are well underway to significantly increase the production capacity at the Lumberton Site, aiming for a 50 tonne per hour plant facility before the end of 2020. Andritz and AEG are currently working together on the designs for this new plant facility.

The support for the Group in the local region has been positive. In April 2019 the Group was awarded a US\$500,000 building re-use and renovation grant for the site after the North Carolina Rural Infrastructure Authority voted to support the project. This is being allocated through the Community Development Block Grant programme of the U.S. Department of Housing and Urban Development and administered in part by the North Carolina Department of Commerce.

Further grants are currently being evaluated and the Group is working with its partners to make the Lumberton Site the primary base for all the Company's U.S. CoalSwitch™ operations and the focus of the Lumberton Site as a renewable energy hub.

### Financial Review:

#### *Overview*

During 2018 management has focused on reducing costs and strengthening the Group's balance sheet. As a result losses attributable to AEG excluding non-cash share based payment were limited to US\$2,360,674 (2017: US\$ 14,476,213). Similarly, the Group's overall net assets position has improved to US\$497,408 (2017: net liabilities US\$2,534,966).

#### *Consolidated income statement*

Following the losses in 2017 associated with the discontinuance of the Ukrainian wood fibre business, the Group focused its efforts on reducing costs and minimising losses in 2018. As a result, total comprehensive loss for the year attributable to owners of the parent was limited to US\$3,256,104 (2017: US\$14,783,962). Excluding non-cash share based payments losses attributable to AEG were limited to US\$2,360,674 (2017: US\$ 14,476,213). The primary elements of the consolidated income statement are as follows:

- Revenues were US\$195,000 (2017: US\$nil) reflecting the provision of engineering consultancy services associated with the Group's CoalSwitch™ technology.
- Research and development costs of US\$nil (2017: US\$2,389,807). The 2017 expenses reflect AEG's investment in research and development associated with CoalSwitch™ technology, prior to the construction of the first reference plant.
- An impairment charge of US\$950,700 (2017: US\$Nil) was recorded against the Northern Alberta and Ukrainian intangible development assets, reflecting a re-evaluation of the economics of these assets.
- Administrative expenses were US\$2,982,866 (2017: US\$2,870,721) reflecting ongoing corporate costs and business development activity. Excluding non-cash share based payments, administrative expenses were US\$2,087,436 (2017: US\$ 2,562,972) reflecting cost reduction initiatives undertaken in 2018.
- Finance expenses were US\$406,929 (2017: US\$3,031,054), reflects ongoing servicing of the Group's Convertible Loan Notes, offset by interest capitalised to tangible and intangible fixed assets and foreign exchange gains.
- Loss on discontinued operations of US\$386,994 (2017: US\$7,284,981) reflects the close out of contractual matters associated with Active Energy's former Ukrainian wood chip operations. No further costs are expected to be incurred on these operations, which ceased during 2017.
- The tax credit of US\$1,346,010 (2017: US\$355,491) reflects income associated with research and development tax rebates.

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### *Statement of financial position*

During 2018 the Group has focused on stabilising its financial position and as a result the Group's overall net assets position improved to US\$497,408 (2017: net liabilities US\$2,534,966.) The primary elements of the consolidated statement of financial position are explained below.

- Non-current assets increased to US\$14,587,953 (2017: USD12,633,431). This increase primarily relates to investment in the construction of the CoalSwitch™ reference plant in the first half of 2018 of US\$2,069,877; combined with investment of US\$596,345 in CoalSwitch™ related intellectual property and costs incurred of US\$804,103 to secure timber licences in Newfoundland and Labrador, partially offset by the impairment charges discussed above.
- Current assets increased to US\$2,003,178 (2017: US\$680,300) reflecting anticipated research and development tax rebates.
- Current liabilities increased to US\$4,179,400 (2017:US\$2,034,283) reflecting increased shareholder loans.
- Non-current liabilities decreased to US\$11,914,323(2017: US\$13,814,414) reflecting the conversion of convertible loan notes into ordinary equity shares during 2018.
- Equity attributable to owners of the parent improved to US\$497,408 (2017: negative US\$2,534,966) as a result of the following:
  - In June 2018 the Company announced that it had raised £1m (before expenses) through an issue of equity via an oversubscribed placing of new equity with new and existing investors.
  - In November 2018 AEG raised a further £1.495 million (before expenses) via the issue of new equity. In addition certain creditors resolved to receive a total of 15,500,000 ordinary shares of 1p each (“Ordinary Shares”) in lieu of cash in consideration for services provided to the Company.
  - During 2018 certain holders of convertible loan notes elected to convert their notes into shares, resulting in the issue of ordinary equity shares during 2018.
  - Movements in the consolidated income statement described above.

### *Post year-end developments*

Since the end of 2018 the Group has continued to stabilise and secure its financial position. On 4 March 2019 the Company announced that it had completed a fund raising of US\$3,413,000 (or £2,573,906) (before expenses) through the subscription of convertible loan notes by new and existing institutional investors in order to acquire an industrial site in Lumberton, North Carolina. Furthermore, on 23 April 2019 the Group announced that it has been awarded a US\$500,000 building re-use and renovation grant for the Lumberton site. Management continues to actively discuss opportunities with existing and prospective partners and potential providers of project finance, in order to execute Active Energy’s business plan following the acquisition of the Lumberton Site.

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### Corporate:

During 2018, our board composition changed to reflect the strategic development of the business. In Q1 2018, Brian Evans-Jones stepped down and shortly thereafter, we welcomed Simon Melling as a Non-Executive Director. Simon brings with him over 30 years' experience of working in senior roles within the finance sector. Simon was previously the CEO of AIM listed stockbroker Cenkos Securities Limited and is currently CEO of Vermeer LLP. In July 2018 Richard Spinks relinquished the role of Chief Executive Officer for the Group and Michael Rowan assumed this position.

Mr. Spinks later stepped down as an Executive Director of the Group in October 2018 and has now resigned from all positions within the AEG Group. In December 2018, Antonio Esposito joined the Board. Mr Esposito is a qualified engineer with over 18 years' experience in logistics, operations, business development and project management globally and has an in-depth understanding of commodities export and global markets with a notable focus on woods and biomass-based fuels.

Furthermore, we are in active discussions with individuals to join the Senior Management team in the coming months along with candidates to join the Board, as we look to strengthen our team ahead of the production and commercialisation phase.

### Outlook:

2018 was a pivotal year for AEG, where the Board made the necessary decisions to optimise the commercial opportunities for Coalswitch™. The core technology has been supported by independent analysis from commercial partners and the Group's sole focus must be on execution of a profitable business plan. Recent conversations have only supported this strategy and more prospective partners are now emerging as the Lumberton Site gets closer to scalable production.

Following the acquisition of the Lumberton Site and commercial partnerships with GRP and Cobant, coupled with the Company's ongoing collaboration with Andritz, the Board believes that the key strategic elements are now in place to underpin the future development of the business and successful roll out of CoalSwitch™ as a black pellet fuel.

I would like to take this opportunity to thank all members of the current team for their commitment and dedication to AEG.

2018 presented challenges, and with the continued dedication of our team, combined with the inherent value in our technology and revised business model, I am confident that we can reach our immediate commercial and strategic goals. We look to capitalise on the opportunities arising from the changes occurring in the coal fired-power and biomass industries, by the commercialisation and delivery of a second-generation biomass black pellet fuel and its derivative products.

**Michael Rowan**  
**Chief Executive Officer**  
**26 June 2019**





# ACTIVE ENERGY GROUP PLC

## OPERATIONS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2018

The Group's primary activities are centred on the commercialisation of its CoalSwitch™ product and process supported by a forestry management business, Timberlands.

### CoalSwitch™

CoalSwitch™ uses patented technologies to create a new second generation biomass fuel which can be briquetted or pelleted as required by customers. CoalSwitch™ has a number of significant advantages compared with existing biomass fuels such as torrefied or white pellet alternatives, namely and among others:

- Lower unit costs reflecting lower feedstock costs. CoalSwitch™ technology can process lower quality fibre materials such as forestry residuals and waste wood including waste, bark, branches leaves, needles and salty hog thus reducing feedstock costs.
- CoalSwitch™ has a higher energy density than alternative biomass fuels.
- CoalSwitch™ has a higher bulk density than alternative biomass fuels.
- CoalSwitch™ when pelletised is hydrophobic meaning that the pellets do not degrade in water in the same way as traditional white or torrefied pellets. In addition, CoalSwitch™ pellets can be transported with minimal losses/degradation due to being almost dust-free in storage, handling or transport.
- CoalSwitch™ pellets can be used in coal fired power stations, without the need for significant capital expenditure for retrofitting and modifying existing coal burning facilities.

AEG first became involved in this ground-breaking technology in 2015. During 2016 & 2017 work was primarily focused on research and development activities. 2018 was a pivotal year for the commercial development of CoalSwitch™ technology.

### Construction of Reference Plant

In September 2017, AEG announced that it was constructing a five-tonne-per-hour CoalSwitch™ plant at its premises in Utah, USA. In February 2018, AEG announced the opening of this plant. During the first half of 2018, AEG operated the facility, albeit with the customary issues as one would expect when commissioning any new technology or equipment. Additional testing of the design and functionality of the reactors was undertaken and samples were produced. The Board regarded the completion and initial testing of the plant as the significant breakthrough in the development of the CoalSwitch™ business model, showing that the initial reactor results and positive laboratory results can be upscaled to industrial scale production facilities.

At the end of the H1 2018, the Board decided to limit activity at the Utah Reference Plant, pending review of the optimal deployment of this facility, which included a potential sale of the Reference Plant at that time to a customer. The review is now complete and AEG has now moved the Reference Plant to the Lumberton site in North Carolina, where it intends to commence scalable production in the second half of 2019.

### Activities in North Carolina, United States of America

During the fourth quarter of 2018 and into the first half of 2019, North Carolina, USA emerged as the centre of activity for AEG's CoalSwitch™ business. This jurisdiction is ideally placed to leverage value from AEG's CoalSwitch™ technology, as it provides access to the prime lumber district in the US, as well as proximal access to the Eastern Seaboard of the United States, ensuring that AEG is connected to established export routes for sales to Europe and South East Asia.

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On 15 October 2018, AEG announced that it had entered into a joint venture agreement with Georgia Renewable Power LLC to advance the commercial development of CoalSwitch™. The aim of the joint venture is to leverage the significant synergies between GRP and AEG's businesses including GRP's established steam and drying infrastructure at its existing power plants. The joint venture also intends to work on a number of additional projects, including the creation of black pellet fuel inclusive of poultry litter (a beneficiated pelletised fuel derived from poultry litter) using CoalSwitch™ technology.

On 27 March 2019, AEG announced that it had completed the acquisition of an industrial site in Lumberton, North Carolina for a total consideration of US\$3,330,000. The site, which includes up to 415,000 sq ft of covered factory space and approximately 151 acres of surrounding land, is the new base for all Active Energy's CoalSwitch™ operations in the US. The Lumberton Site has a number of additional advantages for AEG:

- It is strategically located close to AEG's joint venture partner GRP thereby providing access to steam and power, required to operate CoalSwitch™ facilities.
- The Lumberton Site is fully permitted for operations and the permits, thus reducing the time to market of the planned production of CoalSwitch™.
- The Lumberton Site includes key ancillary facilities, such as water treatment, an analysis laboratory, offices and IT hardware, thus further reducing the amount of capital expenditure required.
- The Directors believe that the size of the Lumberton Site provides significant scope for the expansion of the initial CoalSwitch™ plant via the addition of extra CoalSwitch™ production facilities. Furthermore, the Directors expect that AEG will also benefit from complementary biomass, saw logging, rental and other commercial opportunities in the Lumberton area. The site is also eligible for government grants and support and in April 2019, the Group was awarded a US\$500,000 building re-use and renovation grant.
- As part of Active Energy's due diligence on the Lumberton Site, the Company's Directors reviewed an independent valuation report on the Lumberton Site. The report, which was dated November 2017, valued the Lumberton Site at US\$4,550,000.

AEG has relocated the existing Reference Plant from Utah to the Lumberton Site, with the intention of commencing CoalSwitch™ production at a rate of 5 tonnes per hour in the second half of 2019. AEG is targeting additional investment and development in order to increase production capacity via a new 50 tonne per hour production facility with the ability to produce to up to 400,000 tonnes per annum from 2021.

### Joint Venture in Poland and Test Results from the Polish Government

On 13 March 2018, AEG announced that it had signed a joint venture agreement with Cobant Sp. z o.o. a Polish research, development and environmental waste coal recovery company active in the land reclamation, environmental services and energy sectors. The joint venture's primary objective was the production and commercialisation of a "SuperFuel" product that blends CoalSwitch™ with reclaimed coal from coal slurry dumps in Upper Silesia, Poland. On the 13 June 2018, AEG announced that the joint venture received confirmation from the Polish Government Burn Test Laboratory that testing had been completed on the "SuperFuel™" product. The test results demonstrated that the "SuperFuel" has a similar calorific value to coal with significantly lower sulphur content and low ash and SOx and NOx emissions. Receipt of approval from the formal independent certification tests enable the commencement of commercial production of the "SuperFuel" for use in coal fired power stations across Poland, and also in municipal heating and private household heating systems. In addition, this approval certified the "SuperFuel" product to carry the Polish Government's Ecological Safety Symbol, a requirement to allow solid fuels to be sold without restriction in Poland.

In August 2018, the joint venture applied to the EU to request grant funding to support further development of the SuperFuel technology. In April 2019, the joint venture was notified that, whilst the Company's application scored highly, it had been unsuccessful in receiving funds. AEG and Cobant are working together to develop the optimal strategy for CoalSwitch™ and SuperFuel™ related opportunities in Poland.

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### South East Asia Activities

During 2018 and into 2019 the strategic focus of AEG has shifted towards North America, and specifically opportunities in North Carolina and Canada, and resources have been dedicated to those regions accordingly. Nevertheless, AEG is continuing to make progress in South East Asia. The research and development program into the creation of CoalSwitch™ from empty fruit bunch palm oil waste has been successfully completed. Furthermore, AEG has had approaches from and is actively working with government bodies, who are taking an increasing interest in AEG's knowledge and experience, and the Group is actively working with local commercial partners in the region. The Board hopes for a commercial milestone as soon as practicable.

### **PeatSwitch™**

During the development of the CoalSwitch™ technology, AEG's scientists identified that the technology can also be reconfigured to produce an enhanced soil replacement product from waste fibre. This substrate can be easily adjusted and tailored to meet the specific requirements of an individual agricultural customer and more importantly specific plant type or species.

On 11 June 2018, the Group announced that it had entered into a Memorandum of Understanding with Young Living Farms ("YLF"), pursuant to which YLF would become the first buyer of a PeatSwitch plant, utilising components of the Reference Plant. However, this did not result in a definitive commercial contract due to internal strategic reviews at YLF. In the light of this AEG is currently considering the commercial opportunities with this product.

### **Timberlands**

#### Overview

The mission of the Timberlands business is to identify, develop and manage forestry projects. This business has multiple benefits and advantages to AEG and the forestry owners, including, among others:

- Security and traceability of feedstock for CoalSwitch™ production plants located at these sites.
- Using timber in CoalSwitch™ technology optimises output and value, as wood which is traditionally seen as waste, can be processed in CoalSwitch™ plants to produce value.
- An opportunity to secure long-term timber proprietary tenures should allow AEG to enter into significant and long-term supply agreements for its products with a lesser risk of market price fluctuations and the opportunity to increase profitability of the CoalSwitch™ product.
- Control of the supply chain ensures co-ordinated environmental sustainability.

#### Newfoundland

On 26 November 2018, and following many months of work and negotiation, AEG announced that its subsidiary, Timberlands International Limited through its local operating company Timberlands International (Newfoundland and Labrador) Inc, had been formally issued two five-year Commercial Timber Permits ('CTPs') for Forestry Management Areas 17 and 18 by the Ministry of Fisheries and Land Resources of the Crown Province of Newfoundland and Labrador.

The CTPs were issued with a five-year revolving renewal facility relating to a total Annual Allowable Cut of 100,000 cubic metres per annum. In addition, the CTPs specify certain standard conditions including the species, class and volume of timber that may be cut and the locations from where such timber may be cut.

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The Group is currently reviewing the optimal commercial strategy to develop its opportunities in Newfoundland. Recent conversations have presented complementary business opportunities for the Group, in addition to the CTPs. These are being examined with the aim to construct and install a CoalSwitch™ plant in the Province.

### Alberta

AEG is continuing to consider various commercial opportunities in Alberta. On 17 May 2018, AEG announced an MoU with Powerwood Canada (“Powerwood”) which, subject to formal contract and available funding, would allow AEG to assume a controlling interest in Powerwood. Powerwood has access to a number of forestry assets granted by the Crown in the name of the Province of Alberta. Commercial conversations have continued between the parties but at this time, there is no immediate prospect of a transaction.

In addition, AEG has continued to maintain an ongoing relationship with the Métis Settlements General Council under the stewardship of Metis Settlements General Council President Gerald Cunningham.

Finally, in recent weeks, AEG has been approached by commercial partners, who may wish to acquire a territorial licence to develop CoalSwitch™ in Alberta.

AEG is examining various solutions to realise value and see the commencement of operations in Alberta and will provide the market with a further update as soon as practicable.

### Ukraine

Whilst AEG has no current active business activities in Ukraine at this time, the Group retains its supply contract granted by the Lyubomi Forestry, which is the administrator of the Lyubomi Forest in the Ukraine. Following the extension of the contract term during the 2014, the remaining useful life on contractual relationships is 45 years. AEG is currently reviewing options to utilise this asset to provide feedstock to future CoalSwitch™ operations including AEG’s proposed activities in Poland.

# ACTIVE ENERGY GROUP PLC

## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors of Active Energy Group Plc present their Strategic Report for the year ended 31 December 2018.

### OPERATING REVIEW

The Chief Executive Officer's report highlights the operational performance of the year under review and post balance sheet events.

#### Principal Activities

The Group's principal activities are the development and commercialisation of low cost biomass into renewable energy pellet products and the associated development of timber resources to work with each biomass energy project.

#### Organisation Overview

The Group's business is directed by the Board with executive management carried out through the Executive Directors.

The corporate structure of the Group reflects its two core business lines and the need, where appropriate, for operational, fiscal and other reasons, to have incorporated entities in particular territories.

Day-to-day activities are managed through offices in the United Kingdom and United States, supported by our multi-national network of professional advisors.

#### Aims, Strategy and Business Plan

The Group's aim is to develop a profitable international operation founded on Coalswitch™ technologies, underpinned, to the extent available, by a forestry management business. The Group aims to generate significant shareholder value through the enactment of its strategy, at the same time as having a positive impact on the environment and local communities in the jurisdictions in which we operate.

The Group seeks to limit country and political risk by working within diversified, lower risk territories and jurisdictions; operating in an open and transparent manner throughout all its dealings; and maintaining a zero-tolerance policy towards corruption.

The Group's business model is to establish efficient, low cost synergistic operations across all of its activities and markets. The Board seeks to run the Group with a low cost base, consistent with the nature and level of activity being undertaken. The Group engages the services of a limited number of full-time employees alongside a portfolio of carefully selected professional consultants and contractors.

The Group is financed through periodic capital raises, loan notes and by short-and medium-term borrowings. As certain of the Group's new business ventures reach maturity the board is reviewing strategic opportunities to obtain specialist development funding from future customers, governments, international investors, strategic partners, royalty and/or other market arrangements.

#### Executive Management:

Following the resignation of Richard Spinks on 31 October 2018 and the appointment of Antonio Esposito on 17 December 2018, the Group's current executive team comprises:

Michael Rowan: Executive Director and CEO; with overall responsibility for all Group activities.

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Antonio Esposito: Executive Director and COO; with overall responsibility for all Group operations.

In addition, and in order to strengthen its operational capability and overall co-ordination the Group has established an operating committee. This committee comprises other members of the executive team.

### **Corporate Responsibility**

The Board takes regular account of the significance of social, environmental and ethical matters affecting the Group wherever it operates. It has developed a specific set of policies on corporate social responsibility, which seek to protect the interests of all of its stakeholders through ethical and transparent actions and include an anti-corruption policy and code of conduct.

### **Corporate Governance:**

The Group is committed to high standards of corporate governance and seeks to continually evaluate its policies, procedures and structures to ensure that they are fit for purpose.

In order to protect the interests of its shareholders and other stakeholders the Board has chosen to adopt the Quoted Companies Alliance (QCA) Corporate Governance Code for Small and mid-size Quoted Companies (the "QCA Code"), and the Directors are always prepared, where practicable, to enter into dialogue with all such parties to promote a mutual understanding of objectives.

By complying with this code the Company ensured compliance with the new AIM Rules regarding Corporate Governance introduced September 2018.

Full details of the Company's policy on Corporate Governance can be found on the website under:

<https://www.aegplc.com/investors/corporate-governance/>

### **Composition of the Board of Directors**

The Board of Directors is currently comprised of the Chief Executive Officer (based in the UK), the Chief Operating Officer (based in the USA) and the Non-Executive Director (based in the UK). The Company acknowledges that the guidance in the QCA Code is for a company to have at least two independent non-executive directors and also that the Chairman and Chief Executive Officer roles are currently being discharged by the same person.

The Directors are, therefore currently reviewing the roles and composition of its board and to the extent additional members and independence is felt to be required on the Board, it shall be sought.

### **Role of the Board:**

The role of the Board is to agree the Group's long-term strategy and direction and to monitor achievement of its business objectives. The Board meets several times per annum, either by teleconference or in person. Furthermore, it holds additional meetings as are necessary to transact ongoing business. Meetings are attended by all board members.

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## Board Committees:

### Remuneration Committee

The Remuneration Committee is made up of Simon Melling and has access to external expertise should that be required. This committee is responsible for the scale and structure of the remuneration of the Chief Executive, the Executive Directors and reports to the Chief Executive. The recommendations of the committee must be approved by the Board of Directors. No director or manager shall be involved in decisions relating to his/her own remuneration.

### AIM Rules Compliance Committee

The AIM Rules Compliance Committee is made up of Michael Rowan and Antonio Esposito and is chaired by Michael Rowan. This committee is charged with ensuring that the Group has sufficient procedures, resources and controls in place to ensure compliance with the AIM rules for companies. Among other things, the committee shall ensure that an Executive Director is at all times able to respond to requests for information from the Nominated Adviser and that all Directors and employees are aware of their obligations with regards to the disclosure of any trading in the Group's shares.

### Audit Committee

The Audit Committee is made up of Simon Melling and Michael Rowan and is chaired by Simon Melling. This committee is required to monitor the integrity of the financial statements of the Group, including the interim and annual reports. The committee also reviews financial returns to regulators and any financial information contained in announcements of a price sensitive nature. The committee shall also consider and make recommendations to the Board regarding resolutions to be put to shareholders for approval at the Annual General Meeting, with respect to the appointment or re-appointment of the Group's external auditors. The Audit Committee, together with the external auditors, are responsible for determining the scope of the annual audit.

### Nomination Committee

The Company does not currently have a nomination committee as the Board does not consider it appropriate to establish such a committee at this stage of the Company's development. Decisions which would usually be taken by the nomination committee will be taken by the Board as a whole.

## Environment

The Board recognises that its principal activities have the potential to impact the environment and is committed to working with states and other bodies in all of the territories in which it operates to establish and follow international principles of environmental sustainability and renewability.

## Employees

The Group engages its employees in all aspects of the business and seeks to remunerate them fairly. The Group gives full and fair consideration to applications for employment regardless of age, gender, colour, ethnicity, disability, nationality, religious beliefs or sexual orientation. The Board takes employees' interest into account when making decisions. Any suggestions from employees aimed at improving the Group's performance are welcomed.

# ACTIVE ENERGY GROUP PLC

## Suppliers and Contractors

The Group recognises that the goodwill of its contractors, consultants and suppliers is crucial to the success of its business, and seeks to build and maintain this goodwill through fair and transparent business practices. The Group has a prompt payment policy and aims to settle genuine liabilities in accordance with contractual obligations.

## Health and Safety

The Board recognises that it has a responsibility to provide strategic leadership and direction in the development and maintenance of the Group's health and safety strategy, in order to protect all of its stakeholders.

## Key Performance Indicators:

The key performance indicators of the Group are set out below:

- Commercialise and develop the new CoalSwitch™ technology.
- Commercialise new derivative products which utilise the new CoalSwitch™ technology
- Conduct operations in a safe and environmentally responsible manner.
- Positively impact local communities in the jurisdictions in which we operate.
- Optimise shareholder value through targeted investment and sound project and operational management.
- Maintain sufficient capital to meet the requirements of existing and future business.
- Identify and progress other new business initiatives and bring these to fruition.
- Optimise administration expenses and operating unit costs.

Performance against these measures is discussed elsewhere in the Strategic Report and Chairman's Statement. It is likely that other KPIs will be identified as the business develops. The Board believes that the detailed information published by the Group in its Regulatory News Service (RNS) announcements or in its published financial statements provide the best guide to its progress and performance.

## Risk and Uncertainties:

A summary of the key risks and mitigation strategies is below:

	Risk	Mitigation
1.	Insufficient cash resources to meet liabilities, continue as a going concern and finance key projects.	Short term and 5 year business plans are prepared and are reviewed on an ongoing basis. This analysis provides the basis for capital raising activity.
2.	Loss of key management/staff resulting in failure to secure and meet contractual requirements.	Regular review of salaries and benefits including long term incentives. Ongoing communication with key individuals.
3.	Project execution risk associated with capital intensive activities.	Strategy is to outsource construction projects to established EPC contractors and to engage suitable engineering counterparties where possible.
4.	Health and safety risks to employees, contractors and local communities associated capital intensive operations.	Employment of experienced operational managers and contractors. Group wide HSE policies to be introduced on commencement of production.



## ACTIVE ENERGY GROUP PLC

5.	Failure to comply with law and regulations in the jurisdictions in which we operate.	Key management are professionally qualified. In addition the Company appoints relevant professional advisers (legal, tax, accounting etc) in the jurisdictions in which we operate.
6.	Failure to maintain strong and effective relations with key stakeholders in the areas in which we operate, resulting in loss of contracts.	Senior management seeks to establish and maintain an open and transparent dialogue with key stakeholders in the areas in which we operate.
7.	Significant changes in the political environment results in loss of resources/market and/or business failure.	The Company exited its Ukrainian wood fibre business in 2017 and refocused its activities in North America and Western Europe, in order to reduce the Group's country, political and trading risk profiles. Management also monitors the wider political environment on an ongoing basis.

### Internal Controls and Risk Management:

The Directors are responsible for the Group's internal financial controls. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's systems and processes are designed to provide reasonable assurance that issues are identified in a timely basis and dealt with appropriately.

The group is currently undertaking a review of its internal controls in order to optimise cost control and monitoring of on-going financial performance.

### Forward Looking Statements:

The Annual Report contains certain forward-looking statements that have been made by the Directors in good faith based upon the information at the time of the approval of the Report. By their nature, such forward-looking statements involve risks and uncertainties because they relate to events, and depend upon circumstances, that will or may occur in the future. Actual results may differ materially from those expressed in such statements.

This Strategic Report was approved by the Board of Directors on 26 June 2019 and signed on its behalf by:

**Michael Rowan**  
Chief Executive Officer



# ACTIVE ENERGY GROUP PLC

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2018

### The Report of Directors

The Directors present their report together with the audited financial statements of the Group for the year ended 31 December 2018.

In accordance with section 414C (11) of the Companies Act 2006, the Directors have chosen to include particulars of important events affecting the Group that have occurred since the end of 2018 and an indication of likely future developments in the Group's business in the Chief Executive Officer's Report, the Operations Report and the Strategic Report (on pages 11 to 15).

### Dividends:

No dividend is proposed for the year ended 31 December 2018 (2017: £nil).

### Financial Instruments and Financial Risk Management:

Details of the use of financial instruments by the Group and its subsidiary undertakings, and related matters are contained in Note 27 of the financial statements.

### Going Concern:

The Directors consideration of going concern is set out in Note 1 to the financial statements.

### Directors:

The Directors during the year under review were:

T M S Rowan

R G Spinks (resigned 31 October 2018)

B Evans-Jones (resigned 5 February 2018)

S C Melling (appointed 16 March 2018)

A Esposito (appointed 17 December 2018)

### Remuneration:

Remuneration and benefits received during the year ended 31 December 2018 for Directors, together with interests in share options and warrants at the year end, were as follows:

	2018 Gross Fees and Salary US\$	2018 Share- based Payments US\$	2017 Gross Fees and Salary US\$	2017 Share- based Payments US\$	Options / Warrants No.	Exercise Price p
T M Rowan	193,295	390,463	137,120	191,733	20,500,000	6.4
R G Spinks	178,375	467,047	255,879	-	25,000,000	6.5
M Girlanda	-	-	107,759	-	-	-
B Evans-Jones	19,996	-	218,535	56,776	-	-
S Melling	37,000	-	-	-	-	-
A Esposito	6,291	-	-	-	-	-
	<u>434,957</u>	<u>857,510</u>	<u>719,293</u>	<u>248,509</u>	<u>45,500,000</u>	

## ACTIVE ENERGY GROUP PLC

Given cash flow constraints during the period associated with the transition to a CoalSwitch™ producing business, the directors agreed to defer receipt of certain salary and expense payments. As a result of this the following monies were outstanding to existing directors at the 31 December 2018: TMS Rowan US\$115,121; A Esposito US\$101,433; and SC Melling US\$10,410. The amount due to Mr. Esposito primarily represents monies earned, prior to his appointment as a director.

In addition, the share options awarded to TMS Rowan and RG Spinks, and which generated the share based payments accounting charge, do not currently have any value based on the share price at the date of publication of this report.

### Significant Shareholders:

The Directors are aware of the following significant shareholdings of 3 per cent or more of the current Issued Ordinary Share Capital ("ISC") of 1,201,906,951 shares and Total Voting Rights ("TVR") of 1,201,906,951 shares on 31 May 2019:

	No.	ISC (%)	TVR (%)
Gravendonck Private Foundation	221,898,809	18.46	18.46
R G Spinks	54,105,333	4.50	4.50
R M Derrickson	37,457,777	3.12	3.12

### Directors' Responsibilities:

The Directors are responsible for preparing the 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 elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company for that period and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with applicable IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business

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

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 Group's website at [www.active-energy.com](http://www.active-energy.com) 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 Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

## ACTIVE ENERGY GROUP PLC

The Directors consider that the annual report and the accounts, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Report of Directors confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities and financial position;
- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Parent Company; and
- the Chairman's Statement includes a fair review of the development of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

### Statement as to Disclosure of Information to Auditors:

Each Director has confirmed that:

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

This confirmation is given in accordance with Section 418 of the Companies Act 2006.

### Auditors:

A resolution to re-appoint Jeffrey's Henry LLP as auditor for the ensuing year will be proposed at the Annual General Meeting.

By order of the Board

**Michael Rowan**  
**Chief Executive Officer**  
**Date: 26 June 2019**



Company Registration Number: 03148295

# ACTIVE ENERGY GROUP PLC

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACTIVE ENERGY GROUP PLC

### Opinion

We have audited the financial statements of Active Energy Group (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the consolidated statement of income and other comprehensive income, the consolidated and parent company statement of financial position, the consolidated and parent company statement of cash flows, the consolidated and parent company statements of changes in equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2006.

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 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union 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.

### 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 are independent of the 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which explains that the Group is dependent upon further fund raising to commercialise or develop its core businesses. These events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Our audit approach

#### Overview

#### *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) 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. This is not a complete list of all risks identified by our audit.

- Carrying value of investments and intangible assets.
- Going concern issues.
- Company only loans.

## ACTIVE ENERGY GROUP PLC

These are explained in more detail below

### Audit scope

We conducted audits of the Group and Parent Company financial information of Active Energy Group Plc. We performed specified procedures over certain account balances and transaction classes at other Group companies.

Taken together, the Group companies over which we performed our audit procedures accounted for 100% of the absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units) and 100% of revenue.

### Key audit matters

Key audit matter	How our audit addressed the key audit matter
<p><b>Carrying value of available for sale investment and intangible assets</b></p> <p>The Group had intangibles of US\$8,459,850 at the year ended 31 December 2018 (31 December 2017: US\$8,054,947).</p> <p>The Directors have a duty to confirm that all intangibles, are correctly recognised.</p> <p>IAS 36 Impairment of assets ("IAS 36") states that assets must be assessed for indicators of impairment at each reporting period, for all cash-generating units ("CGUs"). Should such indicators exist the recoverable amount of the asset will be compared to the carrying value, and if the carrying value exceeds the recoverable amount, the difference is recorded as an impairment loss.</p> <p>The investment held in Alpha Prospects has been revalued in the year to US\$752,215. The revaluation has been assessed and the reasoning behind the revaluation has been corroborated with management. The difference compared to prior year is due to forex differences.</p> <p>Refer to Note 1 and Note 15 to the Financial Statements for discussion of the related accounting policy.</p>	<p>Tested management's assessment of indicators of impairment by considering various sources of internal and external information.</p> <p>Compared management's recoverable amounts and valuation to third party valuation reports for Timberlands business.</p> <p>We considered whether the component of the Group was expected to be profit making and had an ability to trade successfully into the future.</p> <p>Confirmed whether all assets which remain capitalised are included in future budgets and, if they are not, understanding the basis by which management anticipate being able to recover the amounts that have been capitalised.</p> <p>Lyubomi Forestry CGU impairment review has been performed by management. The remaining useful life on contractual relationships is 45 years. Sensitivity analysis has been performed on the Lyubomi impairment.</p> <p>Management has prepared a financial model for CoalSwitch™. This shows positive economics of the CoalSwitch™ technology going forward. The key model inputs have been assessed.</p> <p>We tested management's assumption that no impairment existed by carrying out sensitivity analysis through changing the assumptions used and re-running the cash flow forecast.</p>
<p><b>Going concern assumption</b></p> <p>The Group is dependent upon its ability to generate sufficient cash flows to meet continued operational costs and hence continue trading.</p>	<p>Evaluated the suitability of management's model for the forecast.</p>

## ACTIVE ENERGY GROUP PLC

<p>The Directors have considered the cash requirements of the business for the following 12 months. As part of this process, they have taken into account existing liabilities, along with detailed operating cashflow requirements. The projections prepared include ongoing running costs of the Group and committed expenditure at the date of approving the financial statements.</p> <p>The Group's primary revenue generating business segment, the Ukrainian wood fibre business, was discontinued during 2017. As a result this unit has not generated any revenues in 2018. Following the discontinuance of this operating segment, the group has focused its efforts on the CoalSwitch™ and Forestry and Natural Resources business segments. Neither of these business segments have generated material revenues at the date of signing these financial statements.</p> <p>The Directors have identified a variety of potential sources of funds including issue of additional equity and/or debt, shareholder loans, tax credits and sale of investments and/or plant. In addition, the Directors have identified additional cost reductions which may be implemented if necessary.</p>	<p>The forecast includes a number of assumptions related to future cash flows and associated risks. Our audit work has focused on evaluating and challenging the reasonableness of these assumptions and their impact on the forecast period and ensuring that all key matters are correctly disclosed in the going concern note.</p> <p>Specifically we obtained, challenged and assessed managements going concern forecast and performed procedures including:</p> <ul style="list-style-type: none"> <li>• Verifying the consistency of key inputs relating to future costs to other financial and operational information obtained during the audit;</li> <li>• Assessed the reasonableness of expenses and costs established;</li> <li>• Corroborated with management relating to future cash inflows.</li> <li>• We reviewed the latest management accounts to gauge the financial position.</li> </ul> <p>We have highlighted this uncertainty to the members in this report.</p>
<p><b>Company loans to subsidiaries</b></p> <p>The Company has amounts due from group companies US\$17,752,012 (2017: US\$13,629,890).</p> <p>The directors have confirmed these loans are recoverable.</p> <p>Management have performed impairment reviews relating to the intangible assets.</p>	<p>We reviewed the carrying value of the investments and loans to fellow subsidiaries. The review considered the current position of the subsidiaries, the future outlook and forecasts prepared by management.</p> <p>We reviewed the subsidiary accounts and forecasts and have assessed the financial position of the subsidiaries.</p> <p>We have also discussed payments of the loans with the directors to confirm recoverability.</p> <p>We have also assessed the impairment reviews performed by management as set out under the impairment review work on intangibles noted above.</p>

### Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

## ACTIVE ENERGY GROUP PLC

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

	<b>Group financial statements</b>	<b>Company financial statements</b>
Overall materiality	US\$180,000 (31 December 2017: US\$400,000).	US\$163,000 (31 December 2017: US\$290,000).
How we determined it	Based on 1% of gross assets.	Based on 1% of gross assets.
Rationale for benchmark applied	We believe that gross assets is a primary measure used by shareholders in assessing the performance of the Group, as the group is at a pre-revenue stage. Whilst gross asset values and revenue are a representation of the size of the Group;	We believe that gross assets is a primary measure used by shareholders in assessing the performance of the Company, as the Company is at a pre-revenue stage. Whilst gross asset values and revenue are a representation of the size of the Company

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components is ranged from US\$700 and US\$163,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US\$9,000 (Group audit) (31 December 2017: US\$20,000) and US\$8,150 (Company audit) (31 December 2017: US\$14,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### **An overview of the scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

#### *How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of 5 reporting units, comprising the Group's operating businesses and holding companies.

We performed audits of the complete financial information of the Group and Parent Company of Active Energy Group Plc reporting units, which were individually financially significant and accounted for 100% of the Group's revenue and 100% of the Group's absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units). We also performed specified audit procedures over other intangible assets, as well as certain account balances and transaction classes that we regarded as material to the Group at the 5 reporting units.

The Group engagement team performed all audit procedures.



# ACTIVE ENERGY GROUP PLC

## 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

## Opinions on other matters prescribed by the Companies Act 2006

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.

## Matters on which we are required to report by exception

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.

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 directors' responsibilities statement set out on pages 17 and 18, 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 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.

## ACTIVE ENERGY GROUP PLC

### **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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

[www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Other matters which we are required to address**

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit. Our audit opinion is consistent with the additional report to the audit committee.

### **Use of this report**

This report is made solely to the Company's members as a body in accordance with Chapter of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters that we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, or the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Sanjay Parmar

**Senior Statutory Auditor**

For and on behalf of

**Jeffreys Henry LLP (Statutory Auditors)**

Finsgate

5-7 Cranwood Street

London EC1V 9EE

26 June 2019

# ACTIVE ENERGY GROUP PLC

## CONSOLIDATED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 US\$	2017 US\$
<b>REVENUE FROM CONTRACTS WITH CUSTOMERS</b>	3	195,000	-
<b>GROSS PROFIT</b>		195,000	-
R&D expenditure		-	(2,389,807)
Impairment charge		(950,700)	-
Administrative expenses	5	(2,982,866)	(2,870,721)
<b>OPERATING LOSS</b>		(3,738,566)	(5,260,528)
Finance costs	6	(406,929)	(3,031,054)
<b>(Loss) from continuing operations</b>		(4,145,495)	(8,291,582)
Income tax credit on continuing operations	8	1,346,010	355,491
(Loss) from discontinued operations	7	(386,994)	(7,284,981)
<b>LOSS FOR THE PERIOD</b>		(3,186,479)	(15,221,072)
(Profit)/Loss attributable to Non-controlling Interest		(69,625)	437,110
<b>(Loss) attributable to the Parent Company</b>		(3,256,104)	(14,783,962)
<b>OTHER COMPREHENSIVE INCOME/(EXPENSE):</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Exchange differences on translation of operations		(278,237)	137,734
Revaluation of assets held for resale		(34,658)	331,585
Total other comprehensive expense		(312,895)	469,319
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>		(3,568,999)	(14,314,643)
(Loss) per share (US cent) – continuing operations		(0.28)	(0.90)
(Loss) per share (US cent) – discontinued operations		(0.04)	(0.88)
Basic and Diluted (loss) per share (US cent)	9	(0.32)	(1.78)

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company income statement.

The notes on pages 30 to 70 form part of these financial statements.

# ACTIVE ENERGY GROUP PLC

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	Group 2018 US\$	Group 2017 US\$	Company 2018 US\$	Company 2017 US\$
<b>NON-CURRENT ASSETS</b>					
Intangible assets	10	8,459,850	8,054,947	-	-
Property, plant and equipment	11	5,375,888	3,791,611	-	-
Investment in subsidiaries	12	-	-	58,426	58,427
Long term loans	14	-	-	17,372,234	-
Available for sale financial assets	15	752,215	786,873	752,215	786,873
		<u>14,587,953</u>	<u>12,633,431</u>	<u>18,182,875</u>	<u>845,300</u>
<b>CURRENT ASSETS</b>					
Inventory	16	-	20,349	-	-
Trade and other receivables	17	1,704,410	517,902	784,268	13,772,668
Cash and cash equivalents	18	298,768	142,049	234	135,706
		<u>2,003,178</u>	<u>680,300</u>	<u>784,502</u>	<u>13,908,374</u>
<b>TOTAL ASSETS</b>		<u><u>16,591,131</u></u>	<u><u>13,313,731</u></u>	<u><u>18,967,377</u></u>	<u><u>14,753,674</u></u>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	19	2,851,693	1,944,676	1,469,614	1,122,458
Loans and borrowings	22	1,327,707	-	1,000,000	-
Finance leases falling due in less than one year	21	-	89,607	-	-
		<u>4,179,400</u>	<u>2,034,283</u>	<u>2,469,614</u>	<u>1,122,458</u>
<b>NON-CURRENT LIABILITIES</b>					
Deferred income tax liabilities	20	241,585	384,169	-	-
Finance leases falling due in more than one year	21	-	205,993	-	-
Loans and borrowings	22	11,672,738	13,224,252	11,672,738	13,224,252
		<u>11,914,323</u>	<u>13,814,414</u>	<u>11,672,738</u>	<u>13,224,252</u>
<b>TOTAL LIABILITIES</b>		<u><u>16,093,723</u></u>	<u><u>15,848,697</u></u>	<u><u>14,142,352</u></u>	<u><u>14,346,710</u></u>
<b>NET ASSETS</b>		<u><u>497,408</u></u>	<u><u>(2,534,966)</u></u>	<u><u>4,825,025</u></u>	<u><u>406,964</u></u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>					
Share capital	23	17,265,379	14,493,246	17,265,379	14,493,246
Share premium		17,303,159	14,740,478	17,303,159	14,740,478
Merger reserve		2,350,175	2,350,175	2,350,175	2,350,175
Foreign exchange reserve		(204,815)	108,080	(716,115)	(403,220)
Own shares held reserve		(268,442)	(779,222)	(268,442)	(779,222)
Convertible debt / warrant reserve		2,720,933	2,930,209	2,720,933	2,930,209
Retained earnings		(38,310,938)	(35,950,264)	(33,830,064)	(32,924,702)
Non-controlling Interest		(358,043)	(427,668)	-	-
<b>TOTAL EQUITY</b>		<u><u>497,408</u></u>	<u><u>(2,534,966)</u></u>	<u><u>4,825,025</u></u>	<u><u>406,964</u></u>

The financial statements were approved and authorised for issue by the Directors on 26 June 2019 and were signed on their behalf by:

**Michael Rowan**  
**Chief Executive Officer**  
 Company Number 03148295



The notes on pages 30 to 70 form part of these financial statements

# ACTIVE ENERGY GROUP PLC

## CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Group 2018 US\$	Group 2017 US\$	Company 2018 US\$	Company 2017 US\$
<b>Cash (outflow)/inflow from operations</b>	26	(1,515,299)	(5,821,095)	(4,242,757)	(13,717,090)
Income tax paid		-	(6,684)	-	-
<b>Net cash (outflow)/inflow from operating activities</b>		(1,515,299)	(5,827,779)	(4,242,757)	(13,717,090)
<b>Cash flows from investing activities</b>					
Purchase of intangible assets		(1,108,770)	(1,438,017)	-	-
Acquisition of investment		-	-	-	(58,427)
Purchase of property, plant and equipment		(1,777,388)	(3,923,481)	-	-
Sale of property, plant and equipment		123,222	221,504	-	-
<b>Net cash outflow from investing activities</b>		(2,762,936)	(5,139,994)	-	(58,427)
<b>Cash flows from financing activities</b>					
Issue of equity share capital, net of share issue costs		3,299,248	3,142,674	3,299,247	3,142,674
Loans raised		2,350,445	7,537,671	2,022,738	10,181,201
Finance expenses		(1,193,316)	(1,693,031)	(1,193,316)	(1,454,191)
<b>Net cash inflow from financing activities</b>		4,456,377	8,987,314	4,128,669	11,869,684
<b>Net increase/(decrease) in cash and cash equivalents</b>		178,142	(1,980,459)	(114,088)	(1,905,833)
<b>Cash and cash equivalents at beginning of the year</b>		142,049	2,121,841	135,706	2,041,134
Exchange (losses)/gains on cash and cash equivalents		(21,423)	667	(21,384)	405
<b>Cash and cash equivalents at end of the year</b>	18	298,768	142,049	234	135,706

The notes on pages 30 to 70 form part of these financial statement

# ACTIVE ENERGY GROUP PLC

## GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital US\$	Share premium US\$	Merger reserve US\$	Foreign exchange reserve US\$	Own shares held reserve US\$	Convertible debt and warrant reserve US\$	Retained earnings US\$	Non- controlling Interest US\$	Total equity US\$
<b>At 31 December 2016</b>	12,621,134	13,469,916	2,350,175	(29,654)	(779,222)	1,075,301	(21,805,636)	-	6,902,014
Loss for the year	-	-	-	-	-	-	(15,221,072)	-	(15,221,072)
Other comprehensive income	-	-	-	137,734	-	-	331,585	-	469,319
Issue of share capital	1,872,112	1,270,562	-	-	-	-	-	-	3,142,674
Embedded derivative on issue of CLN	-	-	-	-	-	1,854,908	-	-	1,854,908
Share based payments	-	-	-	-	-	-	307,749	-	307,749
Minority Interest	-	-	-	-	-	-	437,110	(427,668)	9,442
<b>At 31 December 2017</b>	14,493,246	14,740,478	2,350,175	108,080	(779,222)	2,930,209	(35,950,264)	(427,668)	(2,534,966)
Loss for the period	-	-	-	-	-	-	(3,186,479)	-	(3,186,479)
Other comprehensive income	-	-	-	(312,895)	-	-	-	-	(312,895)
CLN conversions	734,267	1,812,079	-	-	-	(339,081)	-	-	2,207,265
Issue of share capital	2,548,646	750,602	-	-	-	-	-	-	3,299,248
Embedded derivative on CLN issue	-	-	-	-	-	129,805	-	-	129,805
Share based payments	-	-	-	-	-	-	895,430	-	895,430
Cancellation of Treasury shares	(510,780)	-	-	-	510,780	-	-	-	-
Minority Interest	-	-	-	-	-	-	(69,625)	69,625	-
<b>At 31 December 2018</b>	<b>17,265,379</b>	<b>17,303,159</b>	<b>2,350,175</b>	<b>(204,815)</b>	<b>(268,442)</b>	<b>2,720,933</b>	<b>(38,310,938)</b>	<b>(358,043)</b>	<b>497,408</b>

The purpose and nature of each of the above reserves is described in note 25.  
The notes on pages 30 to 70 form part of these financial statements.

# ACTIVE ENERGY GROUP PLC

## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital US\$	Share premium US\$	Merger reserve US\$	Foreign exchange reserve US\$	Own shares held reserve US\$	Convertible debt and warrant reserve US\$	Retained earnings US\$	Total equity US\$
<b>At 31 December 2016</b>	12,621,134	13,469,916	2,350,175	(1,023,565)	(779,222)	1,075,301	(22,345,436)	5,368,303
Loss for the year	-	-	-	-	-	-	(11,218,600)	(11,218,600)
Other comprehensive income	-	-	-	620,345	-	-	331,585	951,930
Issue of share capital	1,872,112	1,270,562	-	-	-	-	-	3,142,674
Embedded derivative on issue of CLN	-	-	-	-	-	1,854,908	-	1,854,908
Share based payments	-	-	-	-	-	-	307,749	307,749
<b>At 31 December 2017</b>	<b>14,493,246</b>	<b>14,740,478</b>	<b>2,350,175</b>	<b>(403,220)</b>	<b>(779,222)</b>	<b>2,930,209</b>	<b>(32,924,702)</b>	<b>406,964</b>
Loss for the period	-	-	-	-	-	-	(1,800,792)	(1,800,792)
Other comprehensive income	-	-	-	(312,895)	-	-	-	(312,895)
CLN conversions	734,267	1,812,079	-	-	-	(339,081)	-	2,207,265
Issue of share capital	2,548,646	750,602	-	-	-	-	-	3,299,248
Embedded derivative on CLN issue	-	-	-	-	-	129,805	-	129,805
Share based payments	-	-	-	-	-	-	895,430	895,430
Cancellation of Treasury shares	(510,780)	-	-	-	510,780	-	-	-
<b>At 31 December 2018</b>	<b>17,265,379</b>	<b>17,303,159</b>	<b>2,350,175</b>	<b>(716,115)</b>	<b>(268,442)</b>	<b>2,720,933</b>	<b>(33,830,064)</b>	<b>4,825,025</b>

The purpose and nature of each of the above reserves is described in note 25.

The notes on pages 30 to 70 form part of these financial statements.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 1. ACCOUNTING POLICIES

#### General information

Active Energy Group plc is a company incorporated in England and Wales and quoted on the AIM market of the London Stock Exchange. The address of the registered office is disclosed on page 1 of the annual report. The principal activity of the Group is described in the Strategic Report.

#### Basis of preparation

The principal accounting policies adopted in preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Both the Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards, International Accounting Standards and IFRIC interpretations (collectively IFRS) as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of property, plant and equipment, available for sale financial assets, and financial assets and liabilities, including derivative financial instruments, at fair value through profit or loss.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in the most appropriate application in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 29.

#### Going concern

Historically, the Group's primary revenue generating business segment was the Ukrainian wood fibre business. This was discontinued during 2017 and since then the group has focused its efforts on the CoalSwitch™ business segment. This business segment had not generated significant revenues at the date of signing these financial statements.

The Directors have considered the cash requirements of the business for the following 12 months. As part of this process, they have taken into account existing liabilities, along with detailed operating cash flow requirements. The projections prepared include ongoing running costs of the Group and committed expenditure at the date of approving the financial statements.

The Directors note that the current operational plans involve commencement of production and sale of CoalSwitch™ and other biomass products in the second half of 2019. In addition the Directors have identified a variety of potential sources of funds including issue of additional equity and/or debt, tax credits, rental income, government subsidies and sale of investments. In addition, the Directors have identified additional cost reductions which may be implemented if necessary.

Taking this into account and following a detailed review by the Directors of the Group's cash flow requirements, the directors believe that the Group will have sufficient cash resources to continue to trade for a period of at least 12 months from the date that the financial statements are signed. Consequently, the financial statements have been prepared on a going concern basis.

However, as of the date of signing these financial statements, production and sale of CoalSwitch™ has not commenced and not all of the potential sources of funds have been finalised and therefore there can be no guarantee that sufficient funds will be received to secure the future of the group. These circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 1. ACCOUNTING POLICIES (continued)

#### Standards, interpretations and amendments to existing standards

The following Adopted IFRSs have been issued but have not been applied by the Group in these Financial Statements. The full impact of their adoption has not yet been fully assessed; however, management do not expect the changes to have a material effect on the Financial Statements unless otherwise indicated:

- Annual Improvements to IFRSs – 2015-2017 Cycle (1 January 2019)
- Amendments to IAS 1 and IAS 8 – on definition of materiality (1 January 2019)
- Amendments to IAS 19 – employees benefits plan amendments, curtailments or settlements
- Amendments to IAS 28 on long term interests in associates and joint ventures
- Amendments to IFRS 3 “Business combinations” on definition of a business
- Amendments to IFRS 9, financial instruments on prepayment features with negative compensation
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective date to be confirmed)
- Amendments to IAS 40 Investment Property (effective date to be confirmed)
- IFRIC 23 Uncertainty over Income Tax Treatments (1 January 2019)
- Amendments to IAS 28 Investments in Associates and Joint Ventures (effective date to be confirmed)
- IFRS 17 Insurance contracts (1 January 2021)

#### Changes in accounting standards: Standards which have been implemented in the year

*IFRS 9 ‘Financial Instruments’:* The standard replaces all phases of the financial instruments project and IAS 39 ‘Financial Instruments: Recognition and Measurement’. The standard is effective from periods beginning on or after January 2018 and introduces:

- new requirements for the classification and measurement of financial assets and financial Liabilities; and,
- a new model for recognising provisions based on expected credit Losses.

*IFRS 15 ‘Revenue from Contracts with Customers’:* IFRS 15 replaced IAS 18 ‘Revenue’ and IAS 11 ‘Construction Contracts’ for accounting periods commencing on or after 1 January 2018. The core principle of the standard is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to a customer.

The impact of IFRS 9 & 15 has been assessed at a Group level, and there is no material impact on the consolidated results of the Group.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 1. ACCOUNTING POLICIES (continued)

#### **Basis of consolidation**

The financial information incorporates the results of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Group has power over relevant activities, is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The consolidated financial statements present the financial results of the Company and its subsidiaries (the Group) as if they formed a single entity. Where necessary, adjustments are made to the results of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less provisions for any permanent diminution in value.

#### **Revenue recognition**

Revenue is recognised in accordance with the requirements of IFRS 15 'Revenue from Contracts with Customers'. The Company recognises revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework: 1. Identify the contract(s) with the customer; 2. Identify the performance obligations in the contract; 3. Determine the transaction price; 4. Allocate the transaction price to the performance obligations in the contract; and 5. Recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue is recognised when control of the products have been transferred to the customer. Control is considered to have transferred once products have been received by the customer unless shipping terms dictate otherwise. Revenues exclude intra-group sales and value added taxes and represent net invoice value less estimated rebates, returns and settlement discounts. The net invoice value is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 1. ACCOUNTING POLICIES (continued)

#### **Goodwill and business combinations**

On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition.

When the consideration transferred by the Group in a business combination includes assets or liabilities from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration paid. Changes in the fair value of the consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

Goodwill arising on consolidation is recognised as an intangible asset and reviewed for impairment at least annually by comparing the carrying value of the asset to the recoverable amount. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

#### **Associates**

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated statement of financial position at cost. Subsequently associates are accounted for using the equity method, where the Group's share of post-acquisition profits and losses and other comprehensive income is recognised in the consolidated statement of profit and loss and other comprehensive income (except for losses in excess of the Group's investment in the associate unless there is an obligation to make good those losses).

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

#### **Joint arrangements**

Profits and losses arising on transactions between the Group and its joint ventures are recognised only to the extent of unrelated investors' interests in the joint venture. The investor's share in the Joint Venture profits and losses resulting from these transactions is eliminated against the carrying value of the Joint Venture. Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 1. ACCOUNTING POLICIES (continued)

#### **Impairment of non-financial assets (excluding inventories, investment properties and deferred tax assets)**

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ("CGUs"). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill. Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

#### **Intangible assets**

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see note 29 related to critical estimates and judgements below).

Internally generated intangible fixed assets are recognised if they meet the requirements set out by international accounting standards. Specifically,

- the asset must be separately identifiable that is to say that either it is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged; or it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
- The cost of the asset can be measured reliably;
- the technical feasibility of completing the intangible asset;
- the Group intends and is able to complete the intangible asset and use or sell it;
- the intangible asset will generate probable future economic benefits;
- there are available and adequate technical, financial and other resources to complete and to use or sell the intangible asset.
- Expenditure attributable to the intangible asset is measurable.

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are disclosed in note 10.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 1. ACCOUNTING POLICIES (continued)

#### **Property, plant and equipment**

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any recognised impairment loss. Cost includes the purchase price and all directly attributable costs. Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Plant and equipment	– 2 to 10 years straight line
Furniture and office equipment	– 2 to 5 years straight line

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

#### **Inventories**

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

#### **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including Executive Directors.

#### **Financial assets and liabilities**

The Group classifies its financial assets at inception into three measurement categories; 'amortised cost', 'fair value through other comprehensive income' ('FVOCI') and 'fair value through profit and loss' ('FVTPL'). The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost. Management determines the classification of its investments at initial recognition. A financial asset or financial liability is measured initially at fair value. At inception transaction cost that are directly attributable to its acquisition or issue, for an item not at fair value through profit or loss, is added to the fair value of the financial asset and deducted from the fair value of the financial liability.

#### *Amortised cost measurement*

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and maturity amount, minus any reduction for impairment.

#### *Fair value measurement*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The fair value of assets and liabilities in active markets are based on current bid and offer prices respectively. If the market is not active the group establishes fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 1. ACCOUNTING POLICIES (continued)

#### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all of the risks and rewards of ownership. In a transaction in which the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. There have not been any instances where assets have only been partly derecognised. The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

#### *Impairment*

The Group assesses at each financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective experience (such as significant financial difficulty of obligor, breach of contract, or it becomes probable that debtor will enter bankruptcy), the asset is tested for impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of loss is recognised in the Statement of Comprehensive Income.

#### **Taxation**

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available to utilise the difference. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/assets are settled/recovered.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different Group entities which intend either to settle current tax assets/liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled/recovered.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 1. ACCOUNTING POLICIES (continued)

#### Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which they operate (their "functional currency"). The Company and Consolidated financial statements are presented in United States Dollar ("US Dollar", "US\$"), which is the Group's presentation currency as the Group's activities are ultimately linked to the US Dollar. The Company's functional currency is Pound Sterling.

Transactions entered into by Group entities in a currency other than their functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

On consolidation, the results of overseas operations are translated into the Group's presentation currency, US Dollars, at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve. Exchange differences recognised in the statement of comprehensive income of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve on consolidation. On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

#### Convertible debt

The proceeds received on issue of the Group's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost until extinguished on conversion or maturity of the bond. The remainder of the proceeds are allocated to the conversion option and are recognised in the "Convertible debt reserve" within shareholders' equity, net of income tax effects.

Where the proceeds from the convertible debt have been used to finance construction of property, plant and equipment, or to invest in intangible assets, then the associated borrowing costs are allocated to the relevant asset in accordance with the requirements of IAS23.

#### Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated income statement on a straight-line basis over the lease term.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 1. ACCOUNTING POLICIES (continued)

#### Share based payments

Where employees receive remuneration in the form of shares or share options, the fair value of the share-based employee compensation arrangement at the date of the grant is recognised as an employee benefit expense in the consolidated income statement. The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value (excluding the effect of non-market-based vesting conditions) at the date of the grant. The assumptions underlying the number of awards expected to vest are subsequently adjusted for the effects of non-market-based vesting to reflect the conditions prevailing at the year-end date. Fair value is measured by the use of a Monte Carlo (JSOP options) or Black Scholes (other options) simulations. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of the non-transferability, exercise restrictions and behavioural considerations.

Where equity instruments are granted to persons other than employees, the consolidated income statement is charged with the fair value of goods and services received; except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

#### Own shares held

Consideration paid/received for the purchase/sale of shares held in escrow or in trust for the benefit of employees is recognised directly in equity. The nominal value of such shares held is presented within the "own shares held" reserve. Any excess of the consideration received on the sale of the shares over the weighted average cost of the shares sold is credited to retained earnings.

Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group consolidated income statement.

#### Investment in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment in the Company financial statements.

### 2. SEGMENTAL INFORMATION

The Group reports two operating continuing business segments:

- "Forestry & Natural Resources" denotes the Group's initiatives to secure ownership of the entire timber supply chain from forest to finished product
- "CoalSwitch™/PeatSwitch™" denotes the Group's renewable wood pellet and soil replacement business.

Revenues and costs associated with the Ukrainian Wood Fibre business were reclassified as discontinued operations in 2017.

#### *Factors that management used to identify the Group's reportable segments*

The Group's reportable segments are strategic business units that offer different products. During the business development stage they are managed separately because each business operates in different markets and locations. In future it is likely that these business segments may be combined into single operations and reporting structures will be revisited accordingly.



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 2. SEGMENTAL INFORMATION (continued)

#### 3. Measurement of operating segment profit or loss

The Group evaluates segmental performance on the basis of profit or loss from operations calculated in accordance with IFRS but excluding corporate overheads, non-recurring losses, such as goodwill impairment, the effects of share-based payments, and joint venture profit and losses.

	<b>2018</b>	<b>2018</b>	<b>2018</b>
	<b>Forestry &amp; Natural Resources US\$</b>	<b>CoalSwitch™/ PeatSwitch™ US\$</b>	<b>Total US\$</b>
Total Revenue	-	195,000	195,000
Operating segment (loss)	(995,545)	(407,323)	(1,402,868)
Segment (loss) before tax	(995,545)	(407,323)	(1,402,868)
Tax charge	142,584	1,203,426	1,346,010
Segment (loss) for the year	(852,961)	796,103	(56,858)

	<b>2017</b>	<b>2017</b>	<b>2017</b>
	<b>Forestry &amp; Natural Resources US\$</b>	<b>CoalSwitch™/ PeatSwitch™ US\$</b>	<b>Total US\$</b>
Total Revenue	-	-	-
Operating segment (loss)	-	(3,260,588)	(3,260,588)
Segment (loss) before tax	-	(3,260,588)	(3,260,588)
Tax charge	-	346,522	346,522
Segment (loss) for the year	-	(2,914,066)	(2,914,066)

Profits and losses associated with the Ukrainian wood fibre business were reclassified as discontinuing in 2017 and have therefore be excluded from the above analysis. All other finance costs relate to Group funding and are not allocated to an individual segment.

Capital expenditure relating to the CoalSwitch™/PeatSwitch™ segment was US\$2,666,222 (2017: US\$3,877,226) and capital expenditure relating to the Forestry and natural resource segment was US\$804,103 (2017: US\$896,957).

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 2. SEGMENTAL INFORMATION (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities to the Group's corresponding amounts are as follows:

	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
Total (loss) from reportable segments	(56,858)	(2,914,066)
Unallocated amount - corporate expenses	(1,440,268)	(1,683,222)
Unallocated amount - finance income	-	-
Unallocated amount - finance expense	(406,929)	(3,031,054)
Share based payments	(895,430)	(307,749)
Discontinued operations	(386,994)	(7,284,981)
Loss for the period	<u>(3,186,479)</u>	<u>(15,221,072)</u>

An analysis of non-current assets by location of assets is given below:

	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
United Kingdom	5,303,081	4,741,653
Ukraine	1,267,925	2,170,583
Canada	2,701,058	2,179,584
United States	5,315,889	3,541,611
	<u>14,587,953</u>	<u>12,633,431</u>

### 3. REVENUE

All revenues in 2017 relating to the Ukrainian wood fibre business (shown below as sale of goods) have been reclassified as discontinued and therefore are not shown on the face of the income statement.

<b>Group</b>	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
Sale of goods	-	1,323,200
Engineering services	195,000	-
	<u>195,000</u>	<u>1,323,200</u>

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 3. REVENUE (continued)

The following table analyses revenue by location of customer. Revenues in 2017 relate to the Ukrainian wood fibre business and was therefore reclassified as discontinued in the 2017 financial statements.

	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
Switzerland	25,000	-
USA	170,000	-
Turkey	-	856,869
Ukraine	-	466,331
	<u>195,000</u>	<u>1,323,200</u>

Revenue derived from a single external customer amounted to US\$170,000 (2017: US\$856,869).

### 4. EMPLOYEE COSTS AND DIRECTORS

The following table analyses group wages and salaries before any allocations to property, plant and equipment or intangible assets.

	<b>2018</b>	<b>2017</b>
<b>Group</b>	<b>US\$</b>	<b>US\$</b>
Wages and salaries	2,021,959	2,068,200
Social security costs	177,463	183,631
	<u>2,199,422</u>	<u>2,251,831</u>
Share based payments – others	37,920	59,240
Share based payments – directors	857,510	248,509
	<u>3,094,852</u>	<u>2,559,580</u>

The average monthly number of employees during the year was as follows:

	<b>2018</b>	<b>2017</b>
Directors	3	3
Administration	6	11
Production	10	25
	<u>19</u>	<u>39</u>

#### Directors' and key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. During the period these were considered to be the Directors of the Company listed on page 16.

	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
Directors' emoluments	434,957	719,293
Share based payments (note 24)	857,510	248,509
	<u>1,292,467</u>	<u>967,802</u>

The emoluments of the highest paid Director for the year, excluding non-cash share based payments, were US\$193,295 (2017: US\$255,879).

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 5. OPERATING LOSS

<b>Group</b>	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
The loss before income tax is stated after charging/(crediting):		
Operating leases - premises	33,596	26,807
Operating leases - vehicles	-	2,886
Operating leases - equipment	-	29,045
Amortisation of intangible assets	44,845	44,845
Depreciation and impairment	950,700	280,473
Loss / (profit) on disposal of fixed assets/discontinued operations	1,778	5,600,464
Auditors' remuneration - parent company and consolidation	40,830	34,000
Auditors' remuneration - subsidiaries	23,605	20,500
Auditors' remuneration - taxation services	4,466	9,400
Auditors' remuneration - other services	14,035	-
Share based payments	895,430	307,749
Foreign exchange (gains)/loss	(640,353)	(754,703)

### 6. FINANCE INCOME AND COSTS

<b>Group</b>	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
<b>Finance costs</b>		
Interest on convertible loan	1,003,213	958,299
Other loan interest and charges	44,070	929,083
Foreign exchange losses	(640,354)	1,143,672
Net finance (credit)/costs	406,929	3,031,054

Foreign exchanges movements primarily relate to movements in US\$/Sterling exchange rates and resulting movements in intercompany balances.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 7. LOSS FROM DISCONTINUED OPERATIONS

During 2017 AEG plc discontinued its Wood fibre business in Ukraine. The results of this business are disclosed as a single line item in the Group Income and Expenditure Statement in accordance with IFRS5. Details of the results of these operations are shown below.

	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
<b>REVENUE</b>	-	1,323,200
Cost of sales	(265,006)	(2,925,138)
<b>GROSS PROFIT</b>	(265,006)	(1,601,938)
Administrative expenses	(120,210)	(719,519)
<b>OPERATING (LOSS)/PROFIT</b>	(385,216)	(2,321,457)
Finance income	-	641,126
(Loss)/profit for the Period	(385,216)	(1,680,331)
Loss on sale of discontinued operations	(1,778)	(5,600,464)
Income tax	-	(4,186)
<b>(Loss)/profit attributable to the Parent Company</b>	(386,994)	(7,284,981)

Discontinued operations cashflows from operating activities were US\$1,135,216 outflow (2017: US\$124,081 outflow); cash flows from investing activities were US\$123,222 inflow (2017: US\$221,504 inflow); and cashflows arising from financing activities were US\$200,000 (2017: US\$nil).

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 8. TAXATION

Group	2018 US\$	2017 US\$
<b>Current tax</b>		
Overseas tax charge on discontinued operations	-	4,187
R&D tax credit	(1,203,426)	(346,522)
<b>Deferred tax</b>		
Reversal of temporary differences	(142,584)	(8,969)
Total income tax (credit)/charge	<u>(1,346,010)</u>	<u>(351,304)</u>
Breakdown between continuing and discontinuing operations		
Tax charge relating to discontinued operations	-	4,187
Tax (credit)/charge relating to continued operations	(1,346,010)	(355,491)
	<u>(1,346,010)</u>	<u>(351,304)</u>

#### Factors affecting the tax charge

The tax on the Group assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2018 US\$	2017 US\$
Loss before income tax	(4,532,489)	(15,572,377)
Standard rate of corporation tax	19%	19.25%
Loss before tax multiplied by standard rate of corporation tax	(861,173)	(2,997,683)
Effects of:		
R&D tax credit rate	(1,203,426)	113,516
Non-deductible expenses	187,707	1,553,856
Overseas tax rate difference from UK rate	(25)	4,883
Income not taxable	(81,940)	(264,739)
Accelerated depreciation	-	15,839
Revenue items capitalised	(110,991)	-
Losses carried forward	723,838	1,223,022
Current tax (credit)/charge	<u>(1,346,010)</u>	<u>(351,306)</u>
Tax charge relating to discontinued operations	<u>4,187</u>	<u>4,187</u>
Tax (credit) relating to continued operations	<u>(1,346,010)</u>	<u>(355,491)</u>

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 8. TAXATION (continued)

The Finance Act 2017 confirmed that the main rate of corporation tax, which applies to most companies subject to UK tax, will be reduced from the 19% rate applying from 1 April 2017 to 17% from 1 April 2020.

**Movements in the groups tax loss position can be summarised as follows:**

	US\$
Tax losses brought forward at 1 January 2018	22,614,986
Adjusted Loss per A/c's	4,668,938
Surrendered for R&D tax credit	<u>(8,299,489)</u>
Tax losses carried forward at 31 December 2018	<u>18,984,435</u>

This equates to a potential deferred tax asset at 17% of US\$3,227,354 at the year-end 2018 (2017: US\$4,296,847), which has not been recognised due to uncertainties regarding the recoverability of this balance.

Tax effects of amounts which are not deductible/(taxable) in calculating taxable income are as follows:

	2018 US\$	2017 US\$
Intercompany loan written off	-	399,295
Loss on disposal of investments	-	184,206
Impairment of investment	-	848,402
Share based payments	170,132	59,242
Legal and professional fees	14,804	70,556
Revaluation of assets held for sale	-	63,830
Revaluation gains	-	(62,937)
Investor relations	2,470	-
Sundry items	301	(8,738)
	<u>187,707</u>	<u>1,553,856</u>

### 9. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss attributable to equity holders of the company of US\$3,256,104 (2017: US\$14,783,962) by the weighted average number of Ordinary Shares in issue during the year, excluding own shares held, of 1,013,575,699 (2017: 829,908,445).

At 31 December 2018, there were no own shares held (2017:33,212,841) Ordinary Shares. The weighted average number of own shares held by the company during the year are not included in the weighted average Ordinary Shares in issue during the financial year.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 10. INTANGIBLE ASSETS

Group	Goodwill US\$	Other intellectual property US\$	Development US\$	Total US\$
<b>Cost</b>				
At 31 December 2016	2,212,930	2,746,747	2,936,252	7,895,929
Additions	-	541,060	896,957	1,438,017
Disposals	(2,212,930)	-	-	(2,212,930)
Costs incurred by JV partner	-	1,911,121	-	1,911,121
Transfers from investment in associate	-	-	1,282,627	1,282,627
R&D costs transferred to income statement	-	(1,244,045)	-	(1,244,045)
At 31 December 2017	-	3,954,883	5,115,836	9,070,719
Additions	-	596,345	804,103	1,400,448
At 31 December 2018	-	4,551,228	5,919,939	10,471,167
<b>Accumulated amortisation</b>				
At 31 December 2016	-	362	970,565	970,927
Charge for year	-	-	44,845	44,845
At 31 December 2017	-	362	1,015,410	1,015,772
Impairment charge	-	-	950,700	950,700
Amortisation charge for year	-	-	44,845	44,845
At 31 December 2018	-	362	2,010,955	2,011,317
<b>Net book value</b>				
At 31 December 2018	-	4,550,866	3,908,984	8,459,850
At 31 December 2017	-	3,954,521	4,100,426	8,054,947



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 10. INTANGIBLE ASSETS (continued)

Company	Intellectual property US\$
At 31 December 2016	2,746,396
Transfers to other group companies	<u>(2,746,396)</u>
At 31 December 2017	<u>-</u>
At 31 December 2018	<u>-</u>
<b>Accumulated amortisation</b>	
At 31 December 2016, 2017 and 2018	<u>-</u>
<b>Net book value</b>	
At 31 December 2017 & 2018	<u>-</u>

#### Goodwill

Goodwill arose from the acquisition of Nikofeso and was considered to relate solely to the underlying business acquired which is a single cash generating unit ("CGU"). The asset was reviewed at each balance sheet dates to assess if it had been impaired. This Company was sold at the end of 2017 and therefore the associated goodwill was included in loss on sale of discontinued operations in the Income and Expenditure Statement for that year.

#### Other intellectual property

Other intellectual property comprises costs incurred to secure the rights and knowledge associated with the CoalSwitch™ and PeatSwitch™ technology.

In 2015 the Group entered into a joint venture agreement with Biomass Energy Enhancements LLC ("BEE"), incorporated in the United States, for the joint commercial development and exploitation of intellectual property assets held by BEE in connection with biomass technologies. A long term loan to BEE was recognised in the accounts to reflect monies loaned by AEG to the joint venture. An agreement was later reached with the other joint venture partners whereby AEG became the sole proprietor of this technology and as a result the loan balance was transferred to intangible fixed assets during 2017.

Costs which specifically relate to future plant design have been capitalised an intangible fixed assets.

#### Development assets

Development assets relate to the following:

*Ukraine:* The Group is party to a supply contract granted by the Lyubomi Forestry, which is the administrator of the Lyubomi Forest in the Ukraine. This contract was extended to October 2060 from 1 January 2015 and the Company is currently reviewing options to develop this asset as feedstock for CoalSwitch™ plants in Eastern Europe. The remaining useful life on the Ukrainian assets is assessed to be 41 years and the asset is being amortised over this period. Management undertakes a review at each balance sheet date to assess whether these balances need to be impaired. As a result of this review the group recorded an impairment charge of US\$668,073 for the year ended 31 December 2018.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 10. INTANGIBLE ASSETS (continued)

*Northern Alberta:* During 2014 the Group acquired a 45% interest in a joint venture, KAQUO Forestry & Natural Resources Development Corporation, incorporated in Canada, to exclusively commercialise forestry and agricultural land holdings belonging to the indigenous Métis Settlements of Alberta in Western Canada. Cost associated with this activity were originally recorded as Investments in Associates. This Joint Venture is no longer operational. However, AEG is continuing to work with the Canadian authorities and its partners in Northern Alberta to develop and secure title to and monetise these assets. As a result the costs incurred on the joint venture were transferred to intangible fixed assets during 2017, on the basis that these costs fulfil the definition of an internally generated intangible fixed asset under IAS38.

These costs will be amortised over the period of awarded licences. No amortisation has been recognised in the current accounting period pending licence awards and commencement of production. In addition, management undertakes a review at each balance sheet date to assess whether these balances need to be impaired. As a result of this review the group recorded an impairment charge of US\$282,627 for the year ended 31 December 2018.

*Newfoundland:* On 29 November 2018 the Provincial Government of Newfoundland & Labrador announced that it had issued two five-year commercial cutting permits to Timberlands International (Newfoundland and Labrador) Inc., a subsidiary of Active Energy Group (AEG) Plc, totalling 100,000 m<sup>3</sup> annually (500,000 m<sup>3</sup> over five years) in Forest Management Districts 17 and 18 on the Great Northern Peninsula. Prior to this date AEG invested significant time and resources in developing management and supplier capability as well as government relations in order to not only secure the licences, but also to develop the business model and capabilities to monetise the permits once awarded.

Costs incurred in acquiring these licences have been recorded as additions to intangible fixed assets. These costs will be amortised over the period of awarded licences. No amortisation has been recognised in the current accounting period as the licence awards occurred at the end of 2018 and commencement of production had not occurred at the balance sheet date. Management undertakes a review at each balance sheet date to assess whether these balances need to be impaired. No impairment was recorded for the year ended 31 December 2018.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 11. PROPERTY, PLANT AND EQUIPMENT

#### Group

	Plant and equipment US\$	Furniture and office equipment US\$	Total US\$
<b>Cost</b>			
At 31 December 2016	3,187,609	32,346	3,219,955
Foreign exchange difference	(534,717)	768	(533,949)
Additions	4,219,081	-	4,219,081
Disposals	(3,080,362)	(24,154)	(3,104,516)
At 31 December 2017	3,791,611	8,960	3,800,571
Additions	2,069,877	-	2,069,877
Disposals	(420,600)	-	(420,600)
At 31 December 2018	5,440,888	8,960	5,449,848
<b>Accumulated depreciation</b>			
At 31 December 2016	628,633	29,177	657,810
Foreign exchange difference	(155,592)	(20,737)	(176,329)
Elimination on disposal	(752,588)	(406)	(752,994)
Charge for year	279,547	926	280,473
At 31 December 2017	-	8,960	8,960
Impairment charge	65,000	-	65,000
At 31 December 2018	65,000	8,960	73,960
<b>Net book value</b>			
At 31 December 2018	5,375,888	-	5,375,888
At 31 December 2017	3,791,611	-	3,791,611

The net book value of asset held under finance leases included within Property, Plant & Equipment above are US\$nil (2017: US\$345,600). No depreciation (2017:nil) has been charged on these assets as the machinery had not been brought into use at the balance sheet dates.

Additions in the year primarily relate to the construction of the inaugural CoalSwitch™ plant in Utah. The exchange rates movements in 2017 relate to the reduction in value of the Ukrainian Wood Fibre business, which was denominated in Ukrainian Hryvnia. This business was discontinued during 2017.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 11. PROPERTY, PLANT AND EQUIPMENT (continued)

	US\$
<b>Cost</b>	
At 31 December 2016	8,193
Foreign exchange difference	767
At 31 December 2017 & 2018	<u>8,960</u>
 <b>Accumulated depreciation</b>	
At 31 December 2016	7,931
Charge for year	755
Foreign exchange difference	274
At 31 December 2017 & 2018	<u>8,960</u>
 <b>Net book value</b>	
At 31 December 2017 & 2018	<u>-</u>

### 12. INVESTMENTS IN SUBSIDIARIES

<b>Company</b>	
<b>Cost</b>	US\$
At 31 December 2016	4,611,570
Additions	58,431
Disposals	(546,804)
Foreign exchange translation difference	431,848
At 31 December 2017 & 2018	<u>4,555,045</u>
 <b>Provision for impairment</b>	
At 31 December 2016	2,571,278
Charge for the period	1,684,557
Foreign exchange translation difference	240,783
At 31 December 2017 & 2018	<u>4,496,618</u>
 <b>Net book value</b>	
At 31 December 2017 & 2018	<u>58,427</u>

## ACTIVE ENERGY GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### 12. INVESTMENTS IN SUBSIDIARIES (continued)

At 31 December 2018 the Group held share capital of the following companies:

Subsidiary undertaking	Country of incorporation	Nature of business	Percentage Holding	
			2018	2017
AE Ukraine Nikofeso Holdings Limited	Ukraine	Woodchip processing and distribution	100	100
AETrading (EMEA) SarL	Cyprus	Wood chip distribution	100	100
	Switzerland	Wood chip distribution	100	100
AEG Trading Limited	United Kingdom	Wood chip distribution	100	100
AEG Pelleting Limited	United Kingdom	Biomass for energy development	100	100
AEG Biopower Limited	United Kingdom	Biomass for energy development	100	100
AEG Coalswitch Limited	United Kingdom	Biomass for energy development	100	100
ABS plc	United Kingdom	Biomass for energy development	85	85
Timberlands Int. Ltd	United Kingdom	Biomass for energy development	81	95
Alpha Prospects Ltd	United Kingdom	Energy investments holding company	4.2	4.2
AEG CoalSwitch USA LLC	United States	Biomass for energy development	100	-
Timberlands Newfoundland & Labrador Inc	Canada	Biomass for energy development	81	-

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 13. INVESTMENT IN ASSOCIATE

	Group 2018 US\$	Group 2017 US\$	Company 2018 US\$	Company 2017 US\$
Carrying value at beginning of the year	-	1,282,627	-	2,333,176
Transfer to intangible fixed assets	-	(1,282,627)	-	-
Transfer to other group companies	-	-	-	(2,333,176)
Carrying value at end of the year	-	-	-	-

During 2014 the Group acquired a 45% interest in a joint venture, KAQUO Forestry & Natural Resources Development Corporation (KAQUO), incorporated in Canada, to exclusively commercialise forestry and agricultural land holdings belonging to the indigenous Métis Settlements of Alberta in Western Canada.

This joint venture is no longer operational and the licences were not awarded as anticipated. However, AEG is continuing to work with the Canadian authorities and its partners in Alberta to develop and secure title to these assets. As a result the costs incurred on the joint venture were transferred to intangible fixed assets during 2017

Summarised financial information in relation to the joint venture is presented below:

	2018 US\$	2017 US\$
<b>At 31 December</b>		
Current assets	-	-
Current liabilities	-	-
<b>Period ended 31 December</b>		
Revenues	-	-
Loss for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 14. LONG TERM LOANS

	<b>Group 2018 US\$</b>	<b>Group 2017 US\$</b>	<b>Company 2018 US\$</b>	<b>Company 2017 US\$</b>
Carrying value at beginning of the year	-	1,911,121	-	1,911,121
Transfer to intangible fixed assets	-	(1,911,121)	-	-
Transfer to other group companies	-	-	-	(1,911,121)
Transfer from current assets	-	-	15,577,661	-
Accrued interest	-	-	1,794,573	-
Carrying value at end of the year	-	-	17,372,234	-

In September 2015 the Group entered into a joint venture agreement with Biomass Energy Enhancements LLC (“BEE”), incorporated in the United States, for the joint commercial development and exploitation of intellectual property assets held by BEE in connection with biomass technologies.

A long term loan to BEE was recognised in the accounts to reflect monies loaned by AEG to the joint venture. An agreement was later reached with the other joint venture partners whereby AEG became the sole proprietor of this technology and as a result the loan balance was transferred to intangible fixed assets during 2017.

During 2018 certain intercompany debts were reclassified as long term to reflect the commercial reality of the likely repayment schedule of these loans. Interest was accrued at a rate of 12 % which is considered to be a market rate.

### 15. AVAILABLE FOR SALE FINANCIAL ASSET

	<b>Group 2018 US\$</b>	<b>Group 2017 US\$</b>	<b>Company 2018 US\$</b>	<b>Company 2017 US\$</b>
Fair value at beginning of the year	786,873	83,455	786,873	83,455
Revaluation to market value	-	786,483	-	786,393
Foreign exchange translation	(34,658)	(83,065)	(34,658)	(83,065)
Fair value at end of the year	752,215	786,873	752,215	786,873

Available for sale assets consist of an unquoted equity instrument which is classified as non-current assets. The asset was revalued in 2017 based on the proceeds received from issue of shares by this entity, less a discount to reflect the absence of a liquid market for these shares. This revaluation was reperformed in 2018 and based on that assessment management concluded that the 2017 valuation remained valid. The available-for-sale financial asset is denominated in Pound Sterling.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 16. INVENTORIES

Group	2018 US\$	2017 US\$
Raw materials	-	20,349
Total inventories	-	20,349

### 17. TRADE AND OTHER RECEIVABLES

In the Directors' opinion the carrying values of trade and other receivables are stated at their fair value, after deduction of appropriate allowances for irrecoverable amounts as these assets are not interest bearing and receipts occur over a short period and are subject to an insignificant risk of changes in value.

	Group 2018 US\$	Group 2017 US\$	Company 2018 US\$	Company 2017 US\$
<b>Current</b>				
Trade receivables	-	128,136	-	128,136
Amounts due from group companies	-	-	379,778	13,629,890
Other receivables		1,198	-	-
VAT	77,212	42,046	77,212	14,642
Prepayments	-	-	-	-
Corporation tax credit receivable	1,627,198	346,522	327,278	-
Total	1,704,410	517,902	784,268	13,772,668

Trade and other receivables that have not been received within the payment terms are classified as overdue. As at 31 December 2018 trade receivables of US\$Nil (2017: US\$Nil) were overdue.



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 17. TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2018, Group trade receivables of US\$NIL (2017: US\$NIL and 2016: US\$NIL) were overdue and impaired. An analysis of the Group's trade and other receivables classified as financial assets by currency is provided in note 27.

### 18. CASH AND CASH EQUIVALENTS

	<b>Group 2018 US\$</b>	<b>Group 2017 US\$</b>	<b>Company 2018 US\$</b>	<b>Company 2017 US\$</b>
Bank accounts	298,768	142,049	234	135,706
	<u>298,768</u>	<u>142,049</u>	<u>234</u>	<u>135,706</u>

### 19. TRADE AND OTHER PAYABLES

	<b>Group 2018 US\$</b>	<b>Group 2017 US\$</b>	<b>Company 2018 US\$</b>	<b>Company 2017 US\$</b>
<b>Current</b>				
Trade payables	2,038,818	936,111	798,603	200,512
Social security and other taxes	3,122	45,902	3,122	41,598
Accruals and deferred income	809,753	866,594	667,889	859,279
Other payables	-	96,069	-	21,069
	<u>2,851,693</u>	<u>1,944,676</u>	<u>1,469,614</u>	<u>1,122,458</u>

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 19. TRADE AND OTHER PAYABLES (continued)

The carrying values of trade and other payables approximate their fair value as payments occur over a short period and the risk of material changes in value is insignificant. The following table analyses the maturity of the trade and other payables, excluding borrowings. These are classified as financial liabilities on the balance sheet and they are measured at amortised cost.

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Less than three months	2,851,693	1,944,676	1,469,614	372,458
Three to 12 months	-	-	-	750,000
	<u>2,851,693</u>	<u>1,944,676</u>	<u>1,469,614</u>	<u>1,122,458</u>

The amounts shown are undiscounted and represent the contractual cash-flows. An analysis of the Group's trade and other payables classified as financial liabilities by currency is provided in note 27.

### 20. DEFERRED TAXATION

Deferred tax is calculated on temporary differences under the liability method using tax rates applicable in the respective Group entities' jurisdiction. The movement on the deferred tax account is shown below and the balance relates to deferred tax on fair value adjustments related to intangibles:

<b>Group</b>	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
At beginning of the period	384,169	393,137
Reversal of temporary differences	(8,968)	(8,968)
Impairment charge	(133,616)	-
At the end of the period	<u>241,585</u>	<u>384,169</u>

The deferred tax liability relates to temporary differences arising on the fair valuation of intangible assets acquired in 2011.

No provision for the deferred tax asset in respect of tax losses has been made in the Group or Company due to the uncertainty of the Group or Company being able to generate sufficient future taxable profits from which the future reversal of the timing difference can be deducted. See note 8 for further details of this balance.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 21. FINANCE LEASES

The future minimum finance lease payments are as follows:

	<b>Group 2018 US\$</b>	<b>Group 2017 US\$</b>	<b>Company 2018 US\$</b>	<b>Company 2017 US\$</b>
Less than 1 year	-	89,607	-	-
Between 1 and 3 years	-	205,993	-	-
	-	295,600	-	-

The finance lease related to a Pellet Mill leased from the manufacturer for use at the Utah CoalSwitch™ plant. The lease term is 3 years. At the end of the lease term the company had the option to purchase the asset for \$1. This piece of machinery was returned to the supplier during 2018.

### 22. LOANS AND BORROWINGS

The book value and fair value of loans and borrowings are as follows:

<b>Group</b>	<b>Book value 2018 US\$</b>	<b>Fair value 2018 US\$</b>	<b>Book value 2017 US\$</b>	<b>Fair value 2017 US\$</b>
<b>Non-Current</b>				
Convertible debt	11,672,738	11,672,738	13,224,252	13,224,252
Unsecured loans	-	-	-	-
	11,672,738	11,672,738	13,224,252	13,224,252
<b>Current</b>				
Unsecured loans	1,327,707	1,327,707	-	-
	1,327,707	1,327,707	-	-
Total loans and borrowings	13,000,445	13,000,445	13,224,252	13,224,252
<b>Company</b>				
<b>Non-Current</b>				
Convertible debt	11,672,738	11,672,738	13,224,252	13,224,252
Unsecured loans	-	-	-	-
	11,672,738	11,672,738	13,224,252	13,224,252
<b>Current</b>				
Unsecured loans	1,000,000	1,000,000	-	-
	1,000,000	1,000,000	-	-
Total loans and borrowings	12,672,738	12,672,738	13,224,252	13,224,252

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 22. LOANS AND BORROWINGS (continued)

#### Unsecured loans

During the year the Group obtained \$1.3m of unsecured loans.

#### Convertible debt

On the 14 March 2017 the company successfully completed a fund raising of £11.57 million before expenses (or \$14.15 million) through the issue of convertible loan notes ('CLNs') to new and existing investors. The CLNs have a maturity date of 14 March 2022 and have been listed on the International Securities Exchange. The CLN can be converted into Ordinary Shares of AEG plc, at any time prior to the Maturity Date, at a 30% premium to 2.535p, being the Company's 10 day Volume Weighted Average Price immediately prior to the issue date. The fair value of the liability component at inception was calculated using a market interest rate for an equivalent instrument without conversion option. The CLN has a coupon rate of 8% and the imputed interest rate applied was 12%.

During 2018 certain note holders took the opportunity to convert their CLN's into AEG Ordinary Shares. Details of these transactions are disclosed below in note 23. During 2018 certain note holders took the opportunity to convert their CLN's into AEG Ordinary Shares. Details of these transactions are disclosed below in note 23. On 15 March 2017 the Convertible Loan Note to Brahma Finance for £1,000,000 was repaid in full and settled. The following table analyses the maturity of loan and borrowings. The amounts shown are undiscounted and represent contractual cash-flows.

Group	Between 3				Total
	Up to 3 months	and 12 months	Between 1 and 2 years	Between 2 and 5 years	
	US\$	US\$	US\$	US\$	US\$
<b>At 31 December 2018</b>					
Convertible debt	-	-	-	11,672,738	11,672,738
Unsecured loans	1,327,707	-	-	-	1,327,707
	1,327,707	-	-	11,672,738	13,000,445
	US\$	US\$	US\$	US\$	US\$
<b>At 31 December 2017</b>					
Convertible debt	-	-	-	13,224,252	13,224,252
	-	-	-	13,224,252	13,224,252
Company	Between 3				Total
	Up to 3 months	and 12 months	Between 1 and 2 years	Between 2 and 5 years	
	US\$	US\$	US\$	US\$	US\$
<b>At 31 December 2018</b>					
Convertible debt	-	-	-	11,672,738	11,672,738
Unsecured loans	1,000,000	-	-	-	1,000,000
	1,000,000	-	-	11,672,738	12,672,738
	US\$	US\$	US\$	US\$	US\$
<b>At 31 December 2017</b>					
Convertible debt	-	-	-	13,224,252	13,224,252
	-	-	-	13,224,252	13,224,252

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 23. CALLED UP SHARE CAPITAL

	2018 Number	2018 US\$	2017 Number	2017 US\$
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 1p each				
At 1 January	983,071,276	14,493,246	840,381,500	12,621,134
Issue of shares	252,048,515	3,282,913	142,689,776	1,872,112
Cancellation of treasury shares	(33,212,840)	(510,780)	-	-
As at 31 December	<u>1,201,906,951</u>	<u>17,265,379</u>	<u>983,071,276</u>	<u>14,493,246</u>

During 2018 the Company issued 252,048,515 Ordinary Shares for a total consideration of US\$5.6m as follows:

- On 28 March 2018 the Company announced the issue of 13,792,164 at 4.9 cents satisfying exercise notices over CLN's.
- On 20 April 2018 the Company announced the issue of 4,855,105 at 4.6 cents satisfying exercise notices over CLN's.
- On 4 May 2018 the Company announced the issue of 11,565,537 at 5.0 cents satisfying exercise notices over CLN's.
- On 10 May 2018 the Company announced the issue of 7,282,658 at 4.5 cents satisfying exercise notices over CLN's.
- On 30 May 2018 the Company announced the issue of 12,137,763 at 4.4 cents satisfying exercise notices over CLN's.
- On 26 June 2018 the Company announced the issue of 33,333,333 at 4.0 cents following a new share placement.
- On 5 October 2018 the Company announced the issue of 4,081,955 at 4.8 cents satisfying exercise notices over CLN's.
- On 30 November 2018 the Company announced the issue of 165,000,000 at 1.27 cents following a new share placement.

During 2017 the Company issued 142,689,776 ordinary shares for a total consideration of US\$3.3m as follows:

- On 27 June 2017 the company issued 17,623,110 Ordinary Shares at 1.6 US cents satisfying exercise notices over warrants in issue.
- On 6 November 2017 the company issued 83,333,333 Ordinary Shares at 2.7 US cents following a new share placement.
- On 21 December 2017 the company issued 40,000,000 Ordinary Shares at 1.6 US cents satisfying exercise notices over share options in issue.
- On 21 December 2017 the company issued 1,733,333 Ordinary Shares at 1.6 US cents satisfying exercise notices over warrants in issue.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. SHARE OPTIONS AND WARRANTS

From time to time the Company has entered into share option arrangements under which the holders are entitled to subscribe for a percentage of the Company's ordinary share capital. All options vest immediately with the exception of 41,000,000 (2017: 14,166,667) options which are based on various market, service and performance conditions. The number of warrants and share options exercisable at 31 December 2018 was 124,825,099 (2017: 127,325,099).

The movements of warrants and share options during the period were as follows:

	<b>Weighted average exercise price (UK pence)</b>	<b>Number of Warrants and Share Options</b>	<b>Weighted average exercise price (UK pence)</b>	<b>Number of Warrants and Share Options</b>
Outstanding at beginning of the period	2.72	127,325,099	1.96	239,655,831
Cancelled	2.59	(78,500,000)	1.09	(54,707,622)
Granted	-	-	-	-
Exercised	4.31	76,000,000	1.25	(57,623,110)
Outstanding at end of the period	<u>3.77</u>	<u>124,825,099</u>	<u>2.72</u>	<u>127,325,099</u>

At 31 December 2018, the weighted average remaining contractual life of warrants and share options exercisable was 4.55 years (2017 – 4.02 years). Total share option of 41,000,000 (2017: nil) were granted during the year at a weighted average exercise price of 6.5 pence.

There was charge for equity settled share based payments of US\$895,430 (2017: US\$307,749) in the income statement for the year ended 31 December 2018. In addition, during the year ended 31 December 2018 certain share options were cancelled. This resulted in a credit to equity settled share based payments of US\$810,109 (2017: US\$1,044,450). This was not shown in the income statement for the year ended 31 December 2018, but was recorded as a reserve transfer.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. SHARE OPTIONS AND WARRANTS (continued)

Options and warrants outstanding at 31 December 2018 were exercisable as follows:

Exercise price range (Pence, US cents in brackets)	2018	2017
	Number	Number
1.250p (1.686 cent)	-	56,500,000
1.500p (2.023 cent)	7,500,000	7,500,000
1.750p (2.360 cent)	19,047,619	19,047,619
1.750p (2.2341 cent)	35,000,000	-
3.000p (4.047cent)	13,450,000	13,450,000
4.500p (6,281 cent)	20,500,000	-
5.000p (6.745 cent)	2,000,000	15,000,000
6.000p (8.094 cent)	4,500,000	4,500,000
6.375p (8.600 cent)	1,823,480	1,823,480
7.500p (10.118 cent)	-	9,000,000
8.500p (11.863 cent)	20,500,000	-
20.000p (26.982 cent)	504,000	504,000
At the end of the period	124,825,099	127,325,099

The above disclosures apply to both the Company and the Group.

#### JSOP awards

Under the JSOP, shares in the Company are jointly purchased at fair market value by the participating employee and the trustees of the JSOP trust, with such shares held in the JSOP trust. For accounting purposes the awards are valued as employee share options.

The JSOP trust holds the shares of the JSOP until such time as the JSOP shares are vested and the participating employee exercises their rights under the JSOP. The JSOP trust is granted an interest bearing loan by the Company in order to fund the purchase of its interest in the JSOP shares. The loan held by the trust is eliminated on consolidation in the financial statements of the Group. The Company funded portion of the share purchase price is deemed to be held in treasury until such time as the shares are transferred to the employee and is recorded as a reduction in equity in both the Group and Company financial statements.

The exercise price of the "option" is deemed to be the issue price of the shares. The awards vest based on a market condition, which requires the shares to meet a specific share price hurdle, or a change in control condition, as defined by the plan. Under the JSOP and subject to the vesting of the employee's interest, the participating employee will, when the JSOP shares are sold, be entitled to a share of the proceeds of sale equal to the growth in market value of the JSOP shares versus the exercise price, less simple interest on the original share purchase price, net of executives' cash contribution at inception, as agreed for each grant (the "Carry Charge"). The balance of proceeds will remain to the benefit of the JSOP trust and be applied to the repayment of the loan originally made by the Company to the JSOP trust. Any funds remaining in the JSOP trust after settlement of the loan and any expenses of the JSOP trust are for the benefit of the Company.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. SHARE OPTIONS AND WARRANTS (continued)

The Group measures the fair value of the awards using the Monte Carlo (JSOP options) the share based payment expense is recorded over the expected life of the option. Share based payment expenses are recognised in the income statement in accordance with the provisions of IFRS2.

The Group granted 15,000,000 JSOP awards on 4 July 2013. The JSOP awards granted during 2013 contained a share price hurdle of 3p per share. The awards vested in 2015, but all remain outstanding at year end. These disclosures apply to both the Company and the Group. No awards were made in 2018 (2017:Nil). The share based payment charge for the year is US \$Nil (2017: US\$Nil) related to the JSOP awards.

### 25. RESERVES

The following describes the nature and purpose of each reserve within equity:

<b>Reserve</b>	<b>Description and purpose</b>
Share premium	Amounts subscribed for share capital in excess of nominal value.
Merger reserve	Difference between fair value and nominal value of shares issued to acquire 90% or more interest in subsidiaries.
Foreign exchange reserve	Gains/losses arising on retranslating the net assets of overseas operations into US Dollars.
Own shares held reserve	Cost of own shares held by the employee benefit trust, the JSOP trust or the company as shares held in escrow.
Convertible debt and warrant reserve	Equity component of the convertible loan and the fair value of equity component of warrants issued that do not form part of a share based payment.
Retained earnings/ Accumulated loss	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 26. NOTES SUPPORTING THE STATEMENT OF CASH FLOWS

Reconciliation of loss before taxation to cash outflows from operating activities

<b>Group</b>	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
Loss for the period	(3,186,479)	(15,221,072)
<b>Adjustments for:</b>		
Share based payment expense	895,430	307,749
Depreciation	-	280,473
Amortisation of intangibles	44,845	44,835
R&D expensed to income statement	-	1,244,045
Impairment of property plant & equipment	65,000	-
Impairment of intangible assets	950,700	2,212,930
Loss/ (profit) on disposal of PP&E	1,778	2,130,018
Revaluation of investments for resale	34,658	(454,928)
Foreign currency translations	(966,788)	(556,421)
Finance expenses	1,047,283	3,031,054
Income tax	(142,584)	(4,781)
	<b>(1,256,157)</b>	<b>(6,986,098)</b>
(Increase)/decrease in inventories	20,349	404,649
(Increase)/decrease in trade and other receivables	(1,186,508)	2,132,430
(Decrease)/increase in trade and other payables	907,017	(1,372,076)
<b>Net cash outflow from operating activities</b>	<b>(1,515,299)</b>	<b>(5,821,095)</b>

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 26. NOTES SUPPORTING THE STATEMENT OF CASH FLOWS (continued)

<b>Company</b>	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
Loss for the period	(1,800,792)	(11,218,600)
<b>Adjustments for:</b>		
Share based payment expense	895,430	307,749
Depreciation	-	755
Impairment of investments / intercompany debtors	-	2,040,292
Revaluation of investments	-	(454,928)
Foreign currency translations	(932,168)	702,918
Finance expenses	1,047,283	1,648,174
	(790,247)	(6,973,640)
Decrease in trade and other receivables	(3,799,666)	(6,457,872)
Increase/(decrease) in trade and other payables	347,156	(285,578)
Net cash inflow/(outflow) from operating activities	(4,242,757)	(13,717,090)

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 27. FINANCIAL INSTRUMENTS

The Group's treasury policy is to avoid transactions of a speculative nature. In the course of trade the Group is exposed to a number of financial risks that can be categorised as market, credit and liquidity risks. The board reviews these risks and their impact on the activities of the Group on an ongoing basis.

#### *Principal financial instruments*

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Available-for-sale financial assets
- Loans and borrowings

A summary of the financial instruments held by category is provided below:

<b>Financial assets</b>	<b>Group 2018 US\$</b>	<b>Group 2017 US\$</b>	<b>Company 2018 US\$</b>	<b>Company 2017 US\$</b>
<i>Loans and receivables</i>				
Cash and cash equivalents	298,768	142,049	234	135,706
Trade and other receivables	1,704,410	517,902	18,156,502	13,772,668
	<u>2,003,178</u>	<u>659,951</u>	<u>18,156,736</u>	<u>13,908,374</u>
Available-for-sale financial asset	752,215	786,873	752,215	786,873
Total financial assets	<u>2,755,393</u>	<u>1,446,824</u>	<u>18,908,951</u>	<u>14,695,247</u>
<b>Financial liabilities</b>	<b>Group 2018 US\$</b>	<b>Group 2017 US\$</b>	<b>Company 2018 US\$</b>	<b>Company 2017 US\$</b>
<i>Financial liabilities at amortised cost</i>				
Trade and other payables	2,851,693	2,240,276	1,469,614	1,122,458
Loans and Borrowings	13,000,445	13,224,252	12,672,738	13,224,252
	<u>15,852,138</u>	<u>15,464,528</u>	<u>14,142,352</u>	<u>14,346,710</u>

#### **Fair value measurement**

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted)

Level 2: Observable direct or indirect inputs other than Level 1 inputs

Level 3: Unobservable inputs (i.e. not derived from market data).

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 27. FINANCIAL INSTRUMENTS (continued)

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item.

Transfers of items between levels are recognised in the period they occur.

The only financial asset carried at fair value consists of the available for sale financial asset, which is classified as level 3.

#### Market Risk

##### Currency risk

The Group's financial risk management objective is broadly to seek to make neither profit nor loss from exposure to currency or interest rate risks. The Group is exposed to transactional foreign exchange risk and takes profits and losses as they arise, as in the opinion of the directors, the cost of hedging against fluctuations would be greater than the potential benefits.

The carrying amounts of the group's trade and other receivable financial instruments are denominated in the following currencies:

	<b>Group 2018 US\$</b>	<b>Group 2017 US\$</b>	<b>Company 2018 US\$</b>	<b>Company 2017 US\$</b>
US Dollar	-	-	17,752,012	13,629,890
UK Pound sterling	1,704,410	517,902	404,490	14,642
Euro	-	-	-	128,136
	<u>1,704,410</u>	<u>517,902</u>	<u>18,156,502</u>	<u>13,772,668</u>

The carrying amounts of the group's cash and cash equivalents are denominated in the following currencies:

	<b>Group 2018 US\$</b>	<b>Group 2017 US\$</b>	<b>Company 2018 US\$</b>	<b>Company 2017 US\$</b>
US Dollar	2,397	134,510	-	132,262
UK Pound sterling	296,371	3,945	234	3,244
Euro	-	2,214	-	200
Ukrainian Hryvnia	-	1,380	-	-
	<u>298,768</u>	<u>142,049</u>	<u>234</u>	<u>135,706</u>

Information about the Group's loans and borrowings are provided in note 22.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 27. FINANCIAL INSTRUMENTS (continued)

The carrying amounts of the group's trade and other payable financial instruments are denominated in the following currencies:

	<b>Group 2018 US\$</b>	<b>Group 2017 US\$</b>	<b>Company 2018 US\$</b>	<b>Company 2017 US\$</b>
US Dollar	1,371,978	1,106,200	-	-
UK Pound sterling	1,469,614	1,122,457	1,469,614	1,122,458
Euro	-	4,304	-	-
Ukrainian Hryvnia	10,101	7,315	-	-
	<b>2,851,693</b>	<b>2,240,276</b>	<b>1,469,614</b>	<b>1,122,458</b>

The effect of a 5 per cent strengthening of the US Dollar at the reporting date on the foreign denominated financial instruments carried at that date would, all variables held constant, would have resulted in a decrease in net assets by US\$46,713 (2017: increased in net assets US\$7,107). A 5 per cent weakening in the exchange rate would, on the same basis, have increased the net loss and decreased net assets by the same amount.

#### **Interest rate risk**

The Group and Company finances its operations through a mixture of equity and loans. The Group and Company exposure to interest rate fluctuations on its borrowings has been limited by the terms of the Convertible Loan Notes described in note 22.

#### **Credit risk**

##### Operational

The Group is mainly exposed to credit risk from credit agreements and sales. It is the Group's policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings, taking into account local business practices are then factored into trading decisions. The Group does not enter into any derivatives to manage credit risk. Further information on Trade and other receivables are presented in note 17.

##### Financial

Financial risk relates to non-performance by banks in respect of cash deposits and is mitigated by the selection of institutions with a strong credit rating.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 27. FINANCIAL INSTRUMENTS (continued)

#### Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The Group finances its operations through a mix of equity and borrowings. The Group's objective is to provide funding for future growth. The Group's policies aim to ensure sufficient liquidity is available to meet foreseeable needs through the preparation of short and long term forecasts. Further disclosure of the Directors' consideration of going concern is included in note 1.

The Group had no bank loans or invoice finance facilities at 31 December 2018 (2017: Nil). The Group had an overdraft at 31 December 2018 of \$843 (2017: Nil) which is disclosed within other payables as a liability on the balance sheet. No personal guarantees were in place.

#### Capital risk management

The Group's objective when managing capital is to establish and maintain a capital structure that safeguards the Group as a going concern and provides a return to shareholders.

### 28. RELATED PARTY DISCLOSURES

Details of Director's remuneration are given in the Report of the Directors.

Transactions between the Company and its subsidiaries, which are related parties to the Company, have been eliminated on consolidation. During the year in the Company's financial statements, the Company made net cash recoveries from fellow Group companies of US\$nil (2017: US\$nil).

The Company's intercompany receivable balances at the year-end were as follows:

	2018	2017
	US\$	US\$
Amounts due from Group companies	17,752,012	13,629,890

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 29. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial information in conformity with International Financial Reporting Standards requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the year-end date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were as follows:

#### **Impairment of goodwill, intangible fixed assets and other assets**

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount of cash generating units is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary. Intangible fixed assets and other assets are considered for impairment where such indicators exist using value in use calculations or fair value and recoverability estimates. The use of these methods similarly requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows.

#### **Share based payments**

In determining the fair value of equity settled share based payments and the related charge to the income statement, the Group makes assumptions about future events and market conditions. In particular, judgements must be made as to the fair value of each award granted. The fair value is determined using a valuation model which is dependent on further estimates, including the Group's future dividend policy, the timing with which options will be exercised and the future volatility in the price of the Group's shares. Such assumptions are based on publicly available information and reflect market expectations and advice taken from qualified personnel. Different assumptions about these factors to those made by the Group could materially affect the reported value of share based payments.

#### **Useful lives of intangible assets and property, plant and equipment**

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.

#### **Recognition of development costs within intangible fixed assets**

The Group undertakes certain development activity which is recognised within intangible fixed assets, if it meets certain criteria laid down by international accounting standards. This means that management is required to assess various factors associated with these assets to determine whether the asset is separately identifiable, that it is probable that future economic benefits attributable to will arise; the technical feasibility of completing the asset; that the Group intends and is able to complete the asset; and there are available and adequate technical, financial and other resources to complete the asset. All these matters involve technical and economic judgement and changes to these assessment can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 30. CAPITAL AND OPERATING COMMITMENTS

Capital commitments at the 31 December 2018 were US\$nil (2017: US\$408,908). Operating lease commitments at the 31 December 2018 were US\$nil (2017: US\$11,142). All amounts were due within one year.

### 31. SUBSEQUENT EVENTS

The key business developments since 31 December 2018 were as follows:

- On 4 March 2019 AEG announced that it had entered into an agreement with Alamac Holdings LLC to acquire an industrial site in Lumberton, North Carolina for US\$3.3m. The acquisition was funded by the issue of CLNs to new and existing institutional investors. The acquisition was completed on 27 March 2019.
- On 23 April 2019 AEG announced that it has been awarded a US\$500,000 building re-use and renovation grant for the Lumberton site.
- On 4 June 2019 AEG provided a progress update regarding the next stage of development at its industrial site in Lumberton. The update noted that the team was making rapid progress advancing construction of new CoalSwitch™ operation at Lumberton, U.S, that the test reactor were operational and that a five-year contract had been signed for the supply of up to 800,000 tonnes per annum of feedstock to Lumberton.
- Management continues to actively discuss opportunities with existing and prospective partners and potential providers of project finance, in order execute Active Energy's business plan following the acquisition of the Lumberton Site.

Further details are provided in the Chief Executive Officer's statement.

### 32. ULTIMATE CONTROLLING PARTY

In the opinion of the directors there is no one ultimate controlling party.