Company Number SC491828

LAKE DISTRICT BIOGAS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

Contents | **Page**

DIRECTORS

Shelagh Hancock
Greg Jardine

COMPANY SECRETARY

Angus Waugh Appointed 9 April 2021

REGISTERED OFFICE

9 Marchburn Road
Glasgow Airport Business Park
Paisley
PA3 2SJ

INDEPENDENT AUDITOR

Deloitte LLP
Statutory Auditor
110 Queen Street
Glasgow
United Kingdom
G1 3BX

SOLICITORS

Dentons UK and Middle East LLP
1 George Square
Glasgow
G2 1AL

PRINCIPAL BANKERS

Lloyds Banking Group
Level 6
110 St Vincent St
Glasgow
G2 5ER

The directors of Lake District Biogas Limited (the "Company") present their strategic report for the year ended 31 March 2022. The Company's registered number is SC491828.

THE BUSINESS AND PRINCIPAL ACTIVITIES

The Company is a subsidiary undertaking of The First Milk Cheese Company Limited.

The principal activity of the Company is the manufacture and sale of biogas generated from anaerobic digestion.

RESULTS

The financial statements on pages 11 to 22 detail the trading results of the Company for the year ended 31 March 2022 and the financial position as at that date.

The Company's turnover for the year ended 31 March 2022 was £3,328k (11 month period ended 31 March 2021: £2,150k). The result for the year before taxation (excluding exceptional costs) was a loss of £(1,328)k (11 month period ended 31 March 2021: £(1,251)k).

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The First Milk Cheese Company Limited completed the acquisition of Lake District Biogas out of administration in April 2020. The business operates an anaerobic digester supplying gas to the national grid, located at the Lake District Creamery (LDC). It manages the creamery effluent facilities and uses whey permeate from the creamery as the feedstock for biogas production. Ownership of Lake District Biogas safeguards the ongoing treatment of the effluent at LDC, as well as securing the opportunity to leverage the environmental benefits of a large-scale anaerobic digestion plant at the creamery. While the business continues to be loss-making, operational performance has improved and the site produced and exported record gas volumes in the second half of the year benefiting from higher gas prices. However, during the summer of 2021 a site breakdown meant no gas was produced or exported to the national grid for several weeks resulting in financial losses for that period. Capital investment of £2.5m has been made in the year that will bring further operational stability and support the future improvement of financial performance.

PRINCIPAL RISKS AND UNCERTAINTIES

Market conditions and commodity prices
A proportion of the Company's income comes from the sale of biogas. The price the Company receives for the biogas it produces fluctuates according to energy markets. The impact of this risk is mitigated to an extent by the Company's other income from the renewable heat incentive, Feed in Tariff scheme and green gas certificates.

Regulatory risk
The Company is required to comply with various regulatory regimes in areas such as health and safety and environmental legislation. This is achieved through the adoption of appropriate polices and structures, risk assessments, monitoring and reviewing performance, appointment of a suitably qualified and experienced operator and support from external consultants, including legal advisers, where appropriate. Regulatory risks are also considered on a regular basis as part of the Group's risk management process.

Input cost risk
The Company faces the prospect of paying higher prices for vital commodities, including electricity and chemicals. This risk is mitigated in relation to many input costs by maintaining awareness of markets and by forward buying where this is appropriate. In addition, the use of such commodities is kept to a minimum and reduced where possible. The business addresses electricity costs by buying electricity in the wholesale market, with expert assistance from energy consultants.

Credit risk
The Company's principal financial assets are trade and other receivables.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. A provision is made where there is an identified triggering event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Fraud risk
The Company recognises the risk of fraud. This risk is mitigated through reviews of controls within systems conducted, where appropriate, with the assistance of internal auditors, and by the operation of an Anti-bribery and Corruption Policy.

COVID-19
The Company's performance is closely linked to that of its immediate parent, The First Milk Cheese Company Limited, and its ultimate parent, First Milk Limited. During the financial year to 31 March 2022, the COVID-19 pandemic did not have a material effect on First Milk's operational or financial performance. We maintained operational continuity throughout the year while ensuring our colleagues and members were safe and we continued to perform in line with expectations, delivering solid financial progress for our members.

The long-term economic impact of the pandemic is not known. Undoubtedly, we face the same global challenges as all other organisations but the Board will address these risks by monitoring developments and will factor potential impacts into its decision making working together to adapt and decarbonise our supply chain, leveraging our co-operative values and exploring new opportunities to continue to deliver value for our members.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a number of financial risks including price, credit, interest rate, liquidity and fraud risk. The use of financial derivatives is governed by the Group's risk management framework as approved by the Board of Directors. The Company does not use derivative financial instruments for speculative purposes.

Price risk
The risk of the Company receiving low prices compared to market levels is mitigated by the use of up-to-date market intelligence.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. A provision is made where there is an identified triggering event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Interest rate risk
The Company's activities expose it to the financial risks of changes in interest rates. The parent company, First Milk Limited, uses interest rate swap contracts, where appropriate, to hedge the exposures for the Group.

Liquidity risk
In order to maintain liquidity to ensure that sufficient funds are available for on-going operations and future developments, the Group aims to use a mixture of long-term and short-term debt finance. Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flows. Further information with regard to the management of current liquidity risk is contained in note 1 to the financial statements.

Cyber risk and risk of data breach
The Company recognises the risks to IT systems and data from cyber-attacks. These risks are mitigated by the use of up-to-date anti-virus software, regular back-up of data and use of cloud-based storage. The board has addressed the risk of personal data breaches by staff training and the adoption of policies on privacy and acceptable use of IT equipment.

Approved by the Board of Directors

Angus Waugh

Angus Waugh
Company Secretary
23 June 2022

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2022.

FUTURE DEVELOPMENTS

The future developments of the Company are contained in the strategic report.

DIVIDENDS

No dividends were paid during the year (2021: £Nil) and no recommendation is made in respect of dividends to be paid (2021: £Nil).

FINANCIAL RISK MANAGEMENT

The financial risk management of the Company is contained in the strategic report.

COMPANY'S POLICY FOR PAYMENT OF CREDITORS

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

DONATIONS

The Company made no political or charitable donations during the year (2021: £Nil).

EMPLOYEES

The Company has no direct employees. Staff working at the Company's site are employed by the operator that has been appointed to operate the site.

DIRECTORS

The directors who held office during the year and up to the date of signing the financial statements were:

Shelagh Hancock
Greg Jardine

DIRECTORS INDEMNITIES

The company has not made qualifying third-party indemnity provisions for the benefit of its directors.

GOING CONCERN

The financial statements have been prepared on a going concern basis. The Company is dependent on its ultimate parent company, First Milk Limited ("the Group") for financial support and funding. The information presented below is in respect of the going concern of the Group and is included here as the going concern of the Company and is dependent upon the Group's ability to continue as a going concern.

The directors of the Company have received a letter of formal support from First Milk Limited stating that they will continue to provide financial support to the Company to enable it to meet its liabilities as they fall due until at least one year from date of approval of the financial statements.

Current Trading and Borrowings
The year to 31 March 2022 saw a sixth consecutive profitable year at both the Operating Profit and Net Profit levels. The Group's operating profit before exceptional items was £5.1m (2021: £8.1m). Net profit for the year was £2.3m, compared to a profit of £5.6m in 2021.

GOING CONCERN (CONTINUED)

Over the last few years, we have worked hard to build strong, stable relationships with our customers to deliver long term stability to our members. As part of this, we've built secure, profitable contracts with our customers where we can recover market movements and, in many cases inflationary increases in our costs. In recent months we have seen significant changes in inflationary costs and in market movements, due to the speed of change we are managing working capital appropriately and only paying out to members, in milk price, what is affordable.

The Group's net bank debt increased to £43m as of 31 March 2022 as we invest for the future with higher capital spend. Borrowings have increased since year-end, due to the normal seasonal flow of funds, and as milk price increases translate into increased working capital. Net debt and facility headroom remains in line with expectations.

Funding
The business is financed through a combination of members' capital contributions and debt facilities. Members' capital contributions are collected through the retention of 0.5 pence per litre from each member's milk payment until they reach their capital target. In the financial year members' capital contributions totalled £0.7m.

On 29 April 2022, we amended and extended our long-term debt arrangement with Wells Fargo, extending the facility through to 31 July 2026 and increasing the maximum facility available from £74m to £90m. The amount available is dependent on the value of stock and debtors, based on a percentage draw-down specified in the facility agreement, and a term loan on our fixed assets. These facilities are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited, The First Milk Cheese Company Limited, Fast Forward FFW Limited and Lake District Biogas Limited. There are financial covenants applicable to the facilities, with which we have been complying since inception and we continue to comply with throughout the forecast period, that ensure there is a specified minimum level of headroom with the facility on any business day. The amount available from the revolving facility at 23 June 2022 was £71.7m (31 March 2022: £59.1m). The term loan is based on fixed asset values and at 23 June 2022 was £6.2m (31 March 2022: £6.5m). The Board's forecasts show that there is adequate headroom within the facilities over the next year.

Forecasts
The Board has undertaken a thorough review of the Group's forecasts and associated risks. These forecasts extend for a period beyond one year from the date of approval of these financial statements. The forecasts make key assumptions based on information available to the directors at the time of the approval of these financial statements that:

- the business will ensure profitability is achieved and returns to members, through milk price and net asset value, are maximised whilst also retaining sufficient profits to meet our business obligations and commitments;
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods; and
- there is no material adverse impact in the bank facilities available to the Group or other adverse working capital movements. Stock and debtors provide additional collateral against which we can draw down further loans from our facilities with Wells Fargo, increases in working capital are supported by the amended facility signed in April 2022 that increased the facility from £74m to £90m.

The directors have based their conclusions regarding going concern upon these forecasts.

Conclusion on going concern
At the date of these financial statements, the directors consider that, based upon the information available, financial projections and the existence of debt facilities available through to 31 July 2026, the Group will have adequate resources to continue in operational existence for the foreseeable future (being at least twelve months from the approval of these accounts) and consider it appropriate to adopt the going concern basis in preparing the financial statements.

DIRECTORS' RESPONSIBILITIES STATEMENT

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that year. 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 applicable accounting standards have been followed subject to any 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 Company will continue in business.

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

The directors confirm that they have complied with these requirements and having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, have adopted the going concern basis for preparing the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risks and uncertainties are detailed in the Strategic Report on pages 2 and 3.

DISCLOSURE OF INFORMATION TO AUDITOR

In the case of each of the persons who are directors of the Company at the date when this report was approved:

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

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

INDEPENDENT AUDITOR

The Audit Committee of the Company's parent, First Milk Limited, makes recommendations on the appointment of the external auditors for the Group, the fees payable for work carried out by the audit firm and reports to the Board in respect of non-audit services carried out by the auditors. In considering all of the above, the Committee has due regard to the cost effectiveness, independence and objectivity of the audit function.

A resolution to reappoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting. Their report on the financial statements can be found on pages 8 to 10.

POST BALANCE SHEET EVENTS

There were no events after the balance sheet date that require disclosure in these financial statements.

Approved by the Directors
and signed by order of the Board

Angus Waugh

Angus Waugh
Company Secretary
23 June 2022

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion
In our opinion the financial statements of Lake District Biogas Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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 Financial Reporting Council's (the 'FRC's') Ethical Standard, 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.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, 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 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 company or to cease operations, or have no realistic alternative but to do so.

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework[s] that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address it are described below:

- Revenue recorded around year-end when the contractual obligations may not be met, in particular the year end accrued income balance. For the selected sample we have recalculated revenue based on customer meter readings and rates, agreed to post year end invoice and receipt.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Other matter
As the company was exempt from audit under section 477 of the Companies Act 2006 in the prior year we have not audited the corresponding amounts for that year.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

P Hazelton

Paul Hazelton, CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow
23 June 2022

	Note	Year ended 31 March 2022 £'000	11 months to 31 March 2021 £'000
Turnover	2	**3,328**	2,150
Cost of sales		**(4,635)**	(3,287)
Gross loss		**(1,307)**	(1,137)
Administrative expenses: Recurring		**(20)**	(105)
Operating loss	3	**(1,327)**	(1,242)
Finance costs	6	**(1)**	(9)
Loss on ordinary activities before taxation		**(1,328)**	(1,251)
Taxation	7	**-**	-
Loss for the year / period		**(1,328)**	(1,251)

There were no recognised gains or losses other than those shown in the profit and loss account for the current period and prior period. Accordingly, no statement of other comprehensive income is provided.

All results relate to continuing operations.

LAKE DISTRICT BIOGAS LIMITED
BALANCE SHEET
AS AT 31 MARCH 2022
COMPANY NUMBER SC491828

	Note	**31 March 2022**	31 March 2021
		£'000	£'000
Fixed assets			
Property, plant and equipment	8	**5,018**	2,704
Current assets			
Inventories	9	**177**	75
Trade and other receivables	10	**1,345**	1,069
Cash at bank and in hand		**615**	203
		2,137	1,347
Trade and other payables: amounts falling due within one year	11	**(7,550)**	(3,118)
Net current liabilities		**(5,413)**	(1,771)
Net (liabilities) / assets		**(395)**	933
Capital and reserves			
Share capital	13	**7,539**	7,539
Profit and loss account		**(7,934)**	(6,606)
		(395)	933

The accounting policies and notes on pages 14 to 22 are an integral part of these financial statements.

The financial statements on pages 11 to 22 were approved by the Board of Directors on 23 June 2022 and signed on its behalf by:

Greg Jardine

Greg Jardine
Director

	Called up share capital £'000	Profit and loss account £'000	Total £'000
Balance at 29 April 2020 (unaudited)	4,999	(5,355)	(356)
Shares issued	2,540	-	2,540
Loss from total comprehensive income for the period	-	(1,251)	(1,251)
Balance at 31 March 2021	7,539	(6,606)	933
Loss from total comprehensive income for the year	-	(1,328)	(1,328)
Balance at 31 March 2022	**7,539**	**(7,934)**	**(395)**

1. ACCOUNTING POLICIES

General information
The Company is a private Company, limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and is registered in Scotland. The registered office is Glasgow Airport Business Park, 9 Marchburn Drive, Paisley, PA3 2SJ.

The principal activity of the Company is the manufacture and sale of biogas generated from anaerobic digestion.

Statement of compliance
The Company's financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and in accordance with the Companies Act 2006.

Summary of significant accounting policies
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation
The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards. The financial statements have been prepared in accordance with the Companies Act 2006 and FRS 102.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in 'Critical accounting judgements and key source of estimation uncertainty' section of this note.

Exemptions for qualifying entities under FRS 102
FRS 102 allows a qualifying entity certain disclosure exemptions if certain conditions have been complied with. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. Lake District Biogas Limited is a qualifying entity as its results are consolidated into the consolidated financial statements of First Milk Limited which are available from the Company Secretary, First Milk Limited, Glasgow Airport Business Park, 9 Marchburn Drive, Paisley, PA3 2SJ.

As a qualifying entity, the Company has taken advantage of the following exemptions:

i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
ii) from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
iii) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102; and
iv) from the requirement to provide certain related party transactions between group members who are wholly owned by a group member as required by paragraph 31.1A of FRS 102.

Going concern
The financial statements have been prepared on a going concern basis. The Company is dependent on its ultimate parent company, First Milk Limited ("the Group") for financial support and funding. The information presented below is in respect of the going concern of the Group and is included here as the going concern of the Company and is dependent upon the Group's ability to continue as a going concern.

The directors of the Company have received a letter of formal support from First Milk Limited stating that they will continue to provide financial support to the Company to enable it to meet its liabilities as they fall due until at least one year from date of approval of the financial statements.

1. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

Current Trading and Borrowings
The year to 31 March 2022 saw a sixth consecutive profitable year at both the Operating Profit and Net Profit levels. The Group's operating profit before exceptional items was £5.1m (2021: £8.1m). Net profit for the year was £2.3m, compared to a profit of £5.6m in 2021.

Over the last few years, we have worked hard to build strong, stable relationships with our customers to deliver long term stability to our members. As part of this, we've built secure, profitable contracts with our customers where we can recover market movements and, in many cases inflationary increases in our costs. In recent months we have seen significant changes in inflationary costs and in market movements, due to the speed of change we are managing working capital appropriately and only paying out to members, in milk price, what is affordable.

The Group's net bank debt increased to £43m as of 31 March 2022 as we invest for the future with higher capital spend. Borrowings have increased since year-end, due to the normal seasonal flow of funds, and as milk price increases translate into increased working capital. Net debt and facility headroom remains in line with expectations.

Funding
The business is financed through a combination of members' capital contributions and debt facilities. Members' capital contributions are collected through the retention of 0.5 pence per litre from each member's milk payment until they reach their capital target. In the financial year members' capital contributions totalled £0.7m.

On 29 April 2022, we amended and extended our long-term debt arrangement with Wells Fargo, extending the facility through to 31 July 2026 and increasing the maximum facility available from £74m to £90m. The amount available is dependent on the value of stock and debtors, based on a percentage draw-down specified in the facility agreement, and a term loan on our fixed assets. These facilities are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited, The First Milk Cheese Company Limited, Fast Forward FFW Limited and Lake District Biogas Limited. There are financial covenants applicable to the facilities, with which we have been complying since inception and we continue to comply with throughout the forecast period, that ensure there is a specified minimum level of headroom with the facility on any business day. The amount available from the revolving facility at 23 June 2022 was £71.7m (31 March 2022: £59.1m). The term loan is based on fixed asset values and at 23 June 2022 was £6.2m (31 March 2022: £6.5m). The Board's forecasts show that there is adequate headroom within the facilities over the next year.

Forecasts
The Board has undertaken a thorough review of the Group's forecasts and associated risks. These forecasts extend for a period beyond one year from the date of approval of these financial statements. The forecasts make key assumptions based on information available to the directors at the time of the approval of these financial statements that:

- the business will ensure profitability is achieved and returns to members, through milk price and net asset value, are maximised whilst also retaining sufficient profits to meet our business obligations and commitments;
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods; and
- there is no material adverse impact in the bank facilities available to the Group or other adverse working capital movements. Stock and debtors provide additional collateral against which we can draw down further loans from our facilities with Wells Fargo, increases in working capital are supported by the amended facility signed in April 2022 that increased the facility from £74m to £90m.

1. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

The directors have based their conclusions regarding going concern upon these forecasts.

Conclusion on going concern
At the date of these financial statements, the directors consider that, based upon the information available, financial projections and the existence of debt facilities available through to 31 July 2026, the Group will have adequate resources to continue in operational existence for the foreseeable future (being at least twelve months from the approval of these accounts) and consider it appropriate to adopt the going concern basis in preparing the financial statements.

Foreign Currencies
i) Functional and presentation currency

The Company's financial statements are presented in pounds sterling and rounded to thousands.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance (expense) / income'. All other foreign exchange gains and losses are presented in the income statement within 'Other operating (losses) / gains'.

iii) Translations

The trading results of Company undertakings are translated into sterling at the average exchange rates for the period.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates and value added tax.

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

1. ACCOUNTING POLICIES (CONTINUED)

Taxation
Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement.

Current or deferred taxation assets and liabilities are not discounted.

i) Current tax
Current tax is the amount of income tax payable in respect of the taxable profit for the period or prior periods. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. The standard rate of tax for the period, based on the UK standard rate of corporation tax, is 19% (2021: 19%).

ii) Deferred tax
Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Property, plant and equipment
All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to the income statement during the financial year in which they are incurred.

Depreciation is calculated to write off the cost or valuation of property, plant and equipment by equal annual instalments over their estimated useful lives.

The useful lives assumed for buildings vary between 20 and 50 years and for plant, equipment and vehicles between 4 and 15 years. Land is not depreciated.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Other operating (losses) / gains'.

Leases
At inception the company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

i) Operating leased assets
Leases that do not transfer all the risk and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

ii) Lease incentives
Incentives received to enter into an operating lease are credited to the income statement, to reduce the lease expense, on a straight-line basis over the period of the lease.

1. ACCOUNTING POLICIES (CONTINUED)

Inventories
Inventories of propane and chemicals are valued at the lower of cost and estimated selling price less cost to sell. Provision is made for obsolete, slow moving or defective items where appropriate.

Cost is determined on the first-in, first-out (FIFO) method.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the income statement. Where a reversal of the impairment is required the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the income statement.

Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Provisions
A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably. If the effect is material, expected future cash flows are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

Financial instruments
The Company has chosen to adopt sections 11 and 12 of FRS 102 in respect of financial instruments.

i) Financial assets

Basic financial assets, including trade and other receivables and cash and bank balances, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method where applicable.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

1. ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

i) Financial assets (continued)

Financial assets are derecognised when (i) the contractual rights to the cash flows from the asset expire or are settled, or (ii) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (iii) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions

ii) Financial Liabilities

Basic financial liabilities, including trade and other payables and loans from fellow Group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate.

The Group does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

iii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Critical accounting judgements and key source of estimation uncertainty
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. However, the nature of the estimation means that actual outcomes could differ from those estimates. There were no critical judgements or key sources of estimation uncertainty made by the directors in applying the company's accounting policies in the current period.

2. TURNOVER

Turnover, which is stated net of value added tax, represents the invoiced amount for goods or services supplied during the year. Turnover and operating surplus relates to the continuing operations of the Company and are attributable to the principal business activity, being the production and sale of biogas.

All turnover relates to the sale of biogas and related environmental incentives. All turnover arose within the United Kingdom.

3. OPERATING LOSS

Operating loss is stated after charging:

	Year ended 31 March 2022 £'000	11 months to 31 March 2021 £'000
Depreciation of property, plant and equipment	**182**	132
Auditor's remuneration:		
Audit services - audit of financial statements	**20**	-
Non-audit services - tax services	**1**	-

4. DIRECTORS' REMUNERATION

All directors receive remuneration for services to the First Milk Limited Group (of which Lake District Biogas Limited is a member) but the proportion attributable to Lake District Biogas Limited is not separately identifiable. Full disclosure is made in the financial statements of First Milk Limited.

5. STAFF COSTS

The Company had no employees during the year ended 31 March 2022. A management fee is paid to Biogest Limited who operate the site and provide all staff required.

6. FINANCE COSTS

	Year ended 31 March 2022 £'000	11 months to 31 March 2021 £'000
Bank loans and overdraft	**(1)**	(9)

7. TAX ON LOSS

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 19% (2021: 19%). The actual tax charge for the current and previous year differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 March 2022 £'000	11 months to 31 March 2021 £'000
Loss before taxation	**(1,328)**	(1,251)
Tax on loss at standard rate of 19% (2021: 19%)	**(252)**	(238)
Factors affecting the charge for the period:		
Expenses not deductible	**19**	-
Effects of group relief / other reliefs	**219**	-
Movement in deferred tax not recognised	**14**	238
Total tax charge	**-**	-

The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from April 2023. This rate had been substantively enacted at the balance sheet date and as a result, deferred tax balances as at 31 March 2022 are measured at 25%.

8. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Plant and equipment £'000	Assets in the course of construction £'000	Total £'000
Cost:				
At 31 March 2021	-	10,839	606	11,445
Additions	266	614	1,616	2,496
At 31 March 2022	266	11,453	2,222	13,941
Accumulated depreciation:				
At 31 March 2021	-	8,741	-	8,741
Charge for the period	4	178	-	182
At 31 March 2022	4	8,919	-	8,923
Net book value:				
At 31 March 2022	**262**	**2,534**	**2,222**	**5,018**
At 31 March 2021	-	2,098	606	2,704

9. INVENTORIES

	31 March 2022 £'000	31 March 2021 £'000
Raw materials and consumables	**177**	75

The amount of inventories recognised as an expense during the year was £1,124k (2021: £984k).

10. TRADE AND OTHER RECEIVABLES

	31 March 2022 £'000	31 March 2021 £'000
Accrued income	**1,279**	826
VAT	**43**	225
Prepayments	**23**	18
	1,345	1,069

11. TRADE AND OTHER PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2022 £'000	31 March 2021 £'000
Trade payables	**(922)**	(583)
Amounts owed to group undertakings	**(6,514)**	(2,406)
Accruals and deferred income	**(114)**	(129)
	(7,550)	(3,118)

Amounts owed to group undertakings are unsecured, bear no interest and are repayable on demand.

12. DEFERRED TAX ASSETS NOT RECOGNISED

	31 March 2022 £'000	31 March 2021 £'000
Deferred tax assets not recognised at the closing rate of 25% (2021: 19%)		
Fixed assets	**(651)**	(488)
Losses	**(4,115)**	(3,135)
	(4,766)	(3,623)

At 31 March 2022, a deferred tax asset of £4,766k was not recognised due to the uncertainty of the timing of the recoverability of this balance. At 31 March 2021, a deferred tax asset of £3,623k was not recognised due to the uncertainty of the timing of the recoverability of this balance.

The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from April 2023. This rate had been substantively enacted at the balance sheet date and as a result, deferred tax balances as at 31 March 2022 are measured at 25%.

13. CALLED UP SHARE CAPITAL

	31 March 2022 £'000	31 March 2021 £'000
Authorised:		
4,999,001 ordinary shares of £1	**4,999**	4,999
2,540,342 redeemable shares of £1	**2,540**	2,540
	7,539	7,539
Allotted and fully paid:		
4,999,001 ordinary shares of £1	**4,999**	4,999
2,540,342 redeemable shares of £1	**2,540**	2,540
	7,539	7,539

The Company has one class of ordinary shares which carry no right to fixed income.

14. CAPITAL COMMITMENTS

	31 March 2022 £'000	31 March 2021 £'000
Contract placed for future capital expenditure not provided in the financial statements	**119**	1,078

15. RELATED PARTY TRANSACTIONS

During the year, the Company purchased whey permeate from The First Milk Cheese Company Limited for £672k (11 month period ended 31 March 2021: £582k).

16. IMMEDIATE AND ULTIMATE PARENT COMPANY

The immediate parent company is The First Milk Cheese Company Limited.

The ultimate parent company and largest company into which the results are consolidated is First Milk Limited which is registered under the Co-operative and Community Benefit Societies Act 2014, Registration number 29199R. Copies of the financial statements of First Milk Limited are available from the Company Secretary, First Milk Limited, Glasgow Airport Business Park, 9 Marchburn Drive, Paisley, PA3 2SJ.

17. POST BALANCE SHEET EVENTS

There were no events after the balance sheet date that require disclosure in these financial statements.