

Baywind Member Update

Important Information on Re-powering Harlock Hill

April 2015

Introduction

Members will recall that, after what seemed a lifetime, planning consent was granted in July 2014 for repowering Harlock Hill. We think of the repowering of Harlock Hill as a continuation of Baywind because new turbines will replace the old turbines on the same site. But, to achieve the reality of the scheme, a new community benefit society is required, High Winds Community Energy Society ("High Winds"). A new society is required partly because of a changed policy of the Financial Conduct Authority ("FCA"), which does not now accept that community groups that run renewable energy enterprises can be co-operatives but should form a community benefit society. Baywind believes that policy change is erroneous.

Members received information last October about using money accumulated to repay members' initial investment at the end of Baywind's lifetime as a loan to High Winds. We anticipated that the remaining capital required to build the two turbines could be raised by a public share offer. The great majority of members who responded to the questionnaire agreed to Baywind making a loan to High Winds of up to £1.6 million. Six months on, we are pleased to confirm High Winds has successfully raised £3.7 million to complete the project with nearly one fifth of Baywind members investing. Using Baywind's loan and the share offer capital has removed the need for bank finance at this time.

The prospectus for Baywind in 1997 gave little information about the lifetime of the current wind farm and made no definite promises to refund members' investment. However, over the ensuing years, the idea of refunding the investment to members has become established and connected to the life of a turbine of around 20 years. The full 20-year lifetime will be achieved at the end of 2016 and the information below sets out the Directors expectations for the return of members' capital in the context of the High Winds project with the knowledge which they have currently.

Loan from Baywind to High Winds

To allow High Winds to meet all capital costs to construct the wind turbines, Baywind has agreed to lend High Winds up to a maximum of £1.6 million through a secured loan agreement between the parties. Interest on the loan will be paid at a rate of 4.5%. High Winds has not drawn down on any part of the loan to date but will do so as construction progresses. The loan is intended to be repaid and replaced by bank finance once the site is operational. High Winds has already received an indicative offer from an ethical bank.

Site Rights

In the spirit of co-operation between both parties and with continuation of community ownership in mind, the amount to be paid by High Winds to Baywind has been calculated by reference to the requirement for High Winds to raise the capital costs of constructing the site through its public share offer and no attempt has been made to estimate the theoretical market value of Baywind's interest in the project, given the restrictions on co-operatively developing the site arising from the FCA changes.

Baywind currently owns the option to the new lease and this will be transferred to High Winds through an Assignment Agreement. Under this agreement, High Winds will pay to Baywind a sum made up of three elements:

1. An amount calculated to be the sum required to return Baywind members' capital relating to Harlock Hill recognising the early closure of the Harlock Hill project;

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2. An amount reasonably representing the interest payments on share capital that would have been made if the existing small turbines had continued operating for a full 20 years (to the end of 2016). Currently, the existing turbines are planned to be dismantled during September 2015;
3. Any savings on High Winds capital costs made against the figures used in the financial projections for the share offer will also be considered by High Winds for payment to Baywind.

Amounts paid will be grossed up to allow for any tax due to be paid by Baywind where this is required.

In addition, High Winds will pay for the decommissioning of the current turbines, estimated to be about £100,000, which otherwise would have had to met by Baywind members in the absence of a repowering scheme.

Repayment of Members' Capital

It is intended to repay the Baywind loan after the site is operational: the current anticipated date for the repayment is **August/September 2016**. As explained above, the payment from High Winds will be dependent on bank financing being obtained to provide the cash. The Baywind board will consider when the original investment capital should be returned to members once cash is available. It is likely that this will be undertaken by returning the same percentage of equity holding to each member regardless of whether they invested in the Harlock Hill site or Haverigg. The percentage returned will not be 100% as members will need to continue with an equity holding to receive profits from the Haverigg turbine which will continue to be operated for its remaining lifetime to 2018. However, we will endeavour to return as close to 100% as cash will allow. We will consult members nearer the time in 2016 to determine their wishes. Once Haverigg comes to an end in 2018, all remaining capital will be returned.

Share Capital

Total Baywind share capital = £1,969,693 (includes Harlock Hill & Haverigg sites) at £1 per share.

High Winds Construction Progress

Wind turbines ~ a tender has been received from the turbine manufacturer. A deposit will be paid shortly to secure a delivery date of February 2016.

Construction contract ~ a preferred contractor has been chosen to build the infrastructure and a deposit paid.

Grid connection ~ a connection offer has been accepted and a deposit paid.

Lease ~ there is an option to a new lease in place with the land owner.

Capital costs ~ costs are running better than or at the anticipated budgeted level in the financial projections.

Share Certificates ~ certificates were issued to investors on 31 March 2015.

Timetable

July 2015	Commence access tracks
Sep 2015	Dismantle existing wind turbines of Baywind
Jan 2016	Wind turbines delivered
Mar/April 2016	Commission wind turbines and commence generation
Jun/Jul 2016	Refinance part of the project costs through a bank loan
Aug/Sep 2016	Repay Baywind loan and pay additional fees

The above timetable is indicative at the state of current knowledge.