

Registered number: 09195335

CANADIAN SOLAR UK PROJECTS LTD
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Sayers Butterworth LLP

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CANADIAN SOLAR UK PROJECTS LTD

Company Information

Directors	R Scognamiglio (appointed 11 December 2015) D Giannoulakis (appointed 6 August 2015, resigned 20 June 2017) G Prearo (appointed 20 June 2017)
Company secretary	JD Secretariat Limited
Registered number	09195335
Registered office	1 Lumley Street London W1K 6TT
Independent auditor	Deloitte LLP 2 New Street Square London United Kingdom EC4A 3BZ
Accountants	Sayers Butterworth LLP 3rd Floor 12 Gough Square London EC4A 3DW

CANADIAN SOLAR UK PROJECTS LTD

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CANADIAN SOLAR UK PROJECTS LTD

Strategic report For the Year Ended 31 December 2016

Introduction

The directors submit their Strategic Report for the year ended 31 December 2016.

Business review

The Company has continued to manage the Solar Plants across the UK.

The Company has expanded its core business to develop and manage Solar Plants during the construction and operation phase, as well as during the phase of project financing. In addition, the business plan includes the sale of the operational assets. The Company target is to dismiss its short-term equity positions in the UK operational assets by the end of 2017.

The Company will continue to expand its revenue base further through the development of additional Solar Plants in Europe, Middle East, and Africa.

Principal risks and uncertainties

Within the UK, the incentives for renewable energy generation ceased effective 31 March 2017 (with some exceptions i.e. Northern Ireland). With the UK having been the primary market for the Company to date, new markets across Europe, the Middle East and Africa will now need to be explored. As such, the key risks for the Company are:

1. Understanding and assessing the volatility of immature political systems
 - a. Expropriation risk (very low)
 - b. Policy risk
2. Legal risk
 - a. Contract structure and enforcement
 - b. Compliance
 - c. Environmental

Financial key performance indicators

	2016
<u>Profitability</u>	
• Company loss before tax and interest, as a percentage over previous year	119%
<u>Predictability Cost</u>	
• Average normalised asset management cost per megawatt	£2.3k
• Average normalised develop and asset management cost per megawatt	£20k - £25k

This report was approved by the board on 20 December 2017 and signed on its behalf.

G Prearo
Director



CANADIAN SOLAR UK PROJECTS LTD

Directors' report For the Year Ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Organisation and principal activity

Canadian Solar UK Projects Ltd (the 'Company') was incorporated on 29 August 2014 (Companies House registration number 09195335) and is a holding company which develops and manages Solar Plants across the UK.

At the year end, the Company is a wholly-owned subsidiary of Canadian Solar International Limited and Canadian Solar Inc., the ultimate parent undertaking.

Results and dividends

The loss for the year, after taxation, amounted to £8,916,322 (2015 - loss £7,827,573).

No dividends were paid during the period.

Directors

The directors who served during the period and subsequently were:

R Scognamiglio (appointed 11 December 2015)

D Giannoulakis (appointed 6 August 2015, resigned 20 June 2017)

G Prearo (appointed 20 June 2017)

Future developments and going concern

Canadian Solar UK Projects Ltd operates as a holding company for entities which either own, or have a controlling interest in the shares of entities that own assets in solar farms; as such the nature of Canadian Solar UK Projects Ltd's business is predictable and not subject to material change. The directors see no reason as to why the nature of Canadian Solar UK Projects Ltd will materially change in the foreseeable future.

After the year end two further subsidiaries were incorporated, namely Canadian Solar Israel Ltd and CSUK Energy Systems Construction and Generation JSC. Both are wholly owned.

The Company will continue to exist as a going concern and there are no plans to liquidate the Company. Further details in respect of going concern are provided in note 2.4 to the financial statements.

Financial instruments

Objectives and policies

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Where shares are issued, any component that creates a financial liability of the Company is presented as a liability in the balance sheet.

Price risk, credit risk, liquidity risk and cash flow risk

The business' principal financial instruments comprise bank balances, trade debtors and creditors. The main purpose of these instruments is to finance the business' operations.

In respect of bank balances, the liquidity risk is managed by maintaining a balance between the continuity of funding and flexibility through the timing of collecting debts and payments of liabilities. All of the business' cash balances are held in such a way that achieves a competitive rate of interest.

CANADIAN SOLAR UK PROJECTS LTD

**Directors' report (continued)
For the Year Ended 31 December 2016**

Trade debtors are managed in respect of cash flow risk by the regular monitoring of amounts outstanding.

Creditors liquidity is managed by ensuring sufficient funds are available to meet amounts due.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be 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.

Post balance sheet events

In May 2017 the Company sold 80% of its investment in Vazante I Energias Renovaveis S.A., Vazante II Energias Renovaveis S.A. and Vazante III Energias Renovaveis S.A. for a total sales price of 22,200,000 Brazilian real (approximately £5.1m), which was in excess of the related carrying value at that date.

At the date of approval of these accounts, a subsidiary Company, Canadian Solar UK Intermediate Limited, and its related assets and subsidiaries, was being actively marketed for sale.

Auditor

The auditor, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 20 December 2017 and signed on its behalf.

G Prearo
Director



CANADIAN SOLAR UK PROJECTS LTD

Directors' responsibilities statement For the Year Ended 31 December 2016

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

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

CANADIAN SOLAR UK PROJECTS LTD

Independent auditor's report to the shareholders of Canadian Solar UK Projects Ltd

We have audited the financial statements of Canadian Solar UK Projects Ltd for the year ended 31 December 2016, which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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.

Respective responsibilities of Directors and Auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

CANADIAN SOLAR UK PROJECTS LTD

Independent auditor's report to the shareholders of Canadian Solar UK Projects Ltd (continued)

Opinion 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 those 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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



David Paterson (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Statutory Auditor

London, United Kingdom

20 December 2017

CANADIAN SOLAR UK PROJECTS LTD

**Statement of comprehensive income (Incorporating the profit and loss account)
For the Year Ended 31 December 2016**

		2016	Period 29 August 2014 to 31 December 2015
	Note	£	£
Turnover	4	9,558,764	-
Cost of sales		(9,312,347)	-
Gross profit		244,407	-
Administrative expenses		(9,049,481)	(7,066,712)
Operating loss	5	(8,805,084)	(7,066,712)
Amounts written off investments	9,11	(1,004,448)	(1,210,000)
Interest receivable	7	893,180	449,139
Loss before tax		(8,916,322)	(7,827,573)
Tax on loss	8	-	-
Loss for the period		(8,916,322)	(7,827,573)
 Total comprehensive loss for the period		 (8,916,322)	 (7,827,573)

The notes on pages 10 to 22 form part of these financial statements.

CANADIAN SOLAR UK PROJECTS LTD
Registered number: 09195335

Balance sheet
As at 31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Investments	9	14,540,117	116,957
		<u>14,540,117</u>	<u>116,957</u>
Current assets			
Stocks	10	380,000	1,484,724
Debtors: amounts falling due within one year	11	88,163,799	53,238,147
Cash at bank and in hand		4,843,313	1,051,412
		<u>93,387,112</u>	<u>55,774,283</u>
Creditors: amounts falling due within one year	12	(121,615,617)	(63,718,313)
Net current liabilities		<u>(28,228,505)</u>	<u>(7,944,030)</u>
Total assets less current liabilities		<u>(13,688,388)</u>	<u>(7,827,073)</u>
Net liabilities		<u>(13,688,388)</u>	<u>(7,827,073)</u>
Capital and reserves			
Called up share capital	13	506	500
Share premium account	14	3,055,001	-
Profit and loss account	14	(16,743,895)	(7,827,573)
		<u>(13,688,388)</u>	<u>(7,827,073)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 20 December 2017.

G Prearo
Director

The notes on pages 10 to 22 form part of these financial statements.

CANADIAN SOLAR UK PROJECTS LTD

**Statement of changes in equity
For the Year Ended 31 December 2016**

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2016	500	-	(7,827,573)	(7,827,073)
Comprehensive loss for the period				
Loss for the year	-	-	(8,916,322)	(8,916,322)
Total comprehensive loss for the period	-	-	(8,916,322)	(8,916,322)
Shares issued during the year	6	3,055,001	-	3,055,007
Total transactions with owners	6	3,055,001	-	3,055,007
At 31 December 2016	506	3,055,001	(16,743,895)	(13,688,388)

**Statement of changes in equity
For the Period from 29 August 2014 to 31 December 2015**

	Called up share capital	Profit and loss account	Total equity
	£	£	£
Comprehensive loss for the period			
Loss for the period	-	(7,827,573)	(7,827,573)
Total comprehensive loss for the period	-	(7,827,573)	(7,827,573)
Shares issued during the period	500	-	500
Total transactions with owners	500	-	500
At 31 December 2015	500	(7,827,573)	(7,827,073)

The notes on pages 10 to 22 form part of these financial statements.

CANADIAN SOLAR UK PROJECTS LTD

Notes to the financial statements For the Year Ended 31 December 2016

1. General information

Canadian Solar UK Projects Ltd is a private company limited by shares and is incorporated in the United Kingdom and registered in England and Wales. The Company is a holding company.

The Company's registered office is 1 Lumley Street, Mayfair, London, W1K 6TT and its principal place of business is 3rd Floor, 78 Pall Mall, London, SW1Y 5ES.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the "Financial Reporting Standard applicable in the UK and the Republic of Ireland" and the Companies Act 2006. The Company has taken advantage of the disclosure exemptions allowed under this standard. The Company's ultimate parent company, Canadian Solar Inc., was notified of and did not object to the use of these exemptions.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The comparative information presented in the accounts was for a long period of 16 months and therefore amounts are not entirely comparable with the current year.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Canadian Solar Inc. as at 31 December 2016 and these financial statements may be obtained from 545 Speedvale Avenue West, Guelph, Ontario, Canada, N1K 1E6, which is its registered office.

CANADIAN SOLAR UK PROJECTS LTD

Notes to the financial statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.3 Consolidated financial statements

The Company is a wholly owned subsidiary of Canadian Solar Inc. It is included in the consolidated financial statements of Canadian Solar Inc., which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

The Company and its subsidiaries are consolidated into the financial statements of Canadian Solar Inc., the ultimate parent undertaking.

2.4 Going concern

The financial statements have been prepared on a going concern basis despite an excess of total liabilities over total assets of £13,688,388. The directors consider this to be appropriate as it is the intention of the ultimate parent undertaking, Canadian Solar Inc., to provide financial support for at least twelve months from the date of the approval of these financial statements.

2.5 Turnover

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

2.6 Employee benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

2.7 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments are evaluated for impairment when facts or circumstances indicate that the fair value of the investment is less than its carrying value. An impairment is recognised when a decline in fair value is determined to be other-than-temporary. The Company reviews several factors to determine whether a loss is other-than-temporary. These factors include, but are not limited to, the: (i) nature of the investment; (ii) cause and duration of the impairment; (iii) extent to which fair value is less than the cost; (iv) financial conditions and near term prospects of the affiliates; and (v) ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

2.8 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

CANADIAN SOLAR UK PROJECTS LTD

Notes to the financial statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.9 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.10 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, where applicable, are shown within borrowings in current liabilities.

2.11 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance sheet when there is an 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.

CANADIAN SOLAR UK PROJECTS LTD

Notes to the financial statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.11 Financial instruments (continued)

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

The Company did not have any derivatives during the period.

2.12 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.13 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

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 Statement of comprehensive income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of comprehensive income within 'other operating income'.

2.14 Operating leases

Rentals paid under operating leases are charged to the Statement of comprehensive income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

CANADIAN SOLAR UK PROJECTS LTD

Notes to the financial statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.15 Interest income

Interest income is recognised in the Statement of comprehensive income using the effective interest method.

2.16 Taxation

Tax is recognised in the Statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

CANADIAN SOLAR UK PROJECTS LTD

Notes to the financial statements For the Year Ended 31 December 2016

3. Judgments in applying accounting policies and key sources of estimation uncertainty

Estimates and judgments 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.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below.

Critical judgments

In preparing these financial statements, the following significant judgments have been made:

(i) Impairment of investments

Determine whether there are indicators of impairment of the Company's investments in subsidiary undertakings and associates. Factors taken into consideration include the stage of the subsidiary undertaking or associate's operating life cycle, current period operating profits or losses, the net asset/liability position at the year end and future expected performance of the undertaking.

There are no critical estimates in applying the Company's accounting policies.

4. Turnover

	2016 £	2015 £
Sale of solar energy modules	8,825,754	-
Intragroup recharges	731,000	-
	<u>9,556,754</u>	<u>-</u>

All turnover arose within the United Kingdom.

CANADIAN SOLAR UK PROJECTS LTD

**Notes to the financial statements
For the Year Ended 31 December 2016**

5. Operating loss

The operating loss is stated after charging:

	2016 £	2015 £
Impairment charge	1,004,448	1,210,000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	6,900	6,900
Exchange differences	643,286	(83,747)
Operating lease payments	53,782	9,309

The impairment charge recognised in the year relates to amounts written off of fixed asset investments in minority shareholdings in Canarde Group Consortium SAE and Delta for Renewable Energy SAE, and related receivables. Refer to notes 9 and 11 for more detail.

6. Employees

	2016 £	2015 £
Wages and salaries	1,452,225	-
Social security costs	19,790	-
	1,472,015	-

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

	2016 No.	2015 No.
Employees	24	-

The directors did not receive any remuneration in respect of services to the Company during the year (2015 - £Nil).

CANADIAN SOLAR UK PROJECTS LTD

**Notes to the financial statements
For the Year Ended 31 December 2016**

7. Interest receivable

	2016 £	2015 £
Interest receivable from group undertakings	891,861	449,139
Other interest receivable	1,319	-
	<u>893,180</u>	<u>449,139</u>

Interest receivable refers to interest received on a shareholder loan agreement with Canadian Solar UK Intermediate Limited. Please refer to note 12 for further details.

8. Taxation

	2016 £	2015 £
Total tax	<u>-</u>	<u>-</u>

Factors affecting tax charge for the year/period

The tax assessed for the year/period is lower than (2015 - *lower than*) the standard rate of corporation tax in the UK of 20% (2015 - 20%). The differences are explained below:

	2016 £	2015 £
Loss before tax	<u>(8,916,322)</u>	<u>(7,827,573)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20%)	(1,783,264)	(1,565,515)
Effects of:		
Unrelieved tax losses carried forward	1,783,264	1,565,515
Total tax charge for the year/period	<u>-</u>	<u>-</u>

Factors that may affect future tax charges

CANADIAN SOLAR UK PROJECTS LTD

**Notes to the financial statements
For the Year Ended 31 December 2016**

8. Taxation (continued)

Subject to approval from HMRC, the Company has trading losses of approximately £17,000,000 that can be offset against future trading profits.

The Company has not recognised a deferred tax asset in respect of the tax losses as there is insufficient evidence of future taxable profits.

On 18 November 2015, proposals to reduce the main rate of corporation tax from the current 20% to 19% from 1 April 2017 and to 18% from 1 April 2020 were enacted into UK law. Revised legislation was introduced in the Finance Bill 2016 to reduce the main rate of corporation tax for all non-ring fence profits to 17% instead of 18% from 1 April 2020.

9. Fixed asset investments

	Investments in subsidiary companies £	Other fixed asset investments £	Total £
Cost or valuation			
At 1 January 2016	1,259,106	67,851	1,326,957
Additions	3,591,849	10,887,677	14,479,526
At 31 December 2016	<u>4,850,955</u>	<u>10,955,528</u>	<u>15,806,483</u>
Impairment			
At 1 January 2016	1,210,000	-	1,210,000
Charge for the period	-	56,366	56,366
At 31 December 2016	<u>1,210,000</u>	<u>56,366</u>	<u>1,266,366</u>
Net book value			
At 31 December 2016	<u>3,640,955</u>	<u>10,899,162</u>	<u>14,540,117</u>
At 31 December 2015	<u>49,106</u>	<u>67,851</u>	<u>116,957</u>

At the year end, the equity investments in Canarde Group Consortium SAE and Delta for Renewable Energy SAE have been impaired as a result of the devaluation of Egyptian currency and a change in the regulatory environment which was going to reduce subsidies for investments in renewables.

CANADIAN SOLAR UK PROJECTS LTD

Notes to the financial statements For the Year Ended 31 December 2016

9. Fixed asset investments (continued)

Direct subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Canadian Solar Mozambique Projects Limited	Ordinary	96 %	Trade of electricity
Canadian Solar UK Intermediate Limited	Ordinary	100 %	Holding company
White Solar Light Limited	Ordinary	100 %	Production of electricity
Pantymoch Farm Community Solar Project C.I.C.	Ordinary	100 %	Generation and provision of solar energy
Wick Road Community Solar Project C.I.C.	Ordinary	100 %	Generation and provision of solar energy
Royston Community Solar Project C.I.C.	Ordinary	100 %	Generation and provision of solar energy
Canadian Solar Construction Limited	Ordinary	100 %	Production of electricity
Canadian Solar Construction S.R.L.	Ordinary	100 %	Service and Business Development company in the renewables sector
Normanton Solar Farm Pty	Ordinary	51.23 %	Generation and provision of solar energy
Vazante I Energias Renovaveis S.A.	Ordinary	99.9 %	Solar power project development
Vazante II Energias Renovaveis S.A.	Ordinary	99.9 %	Solar power project development
Vazante III Energias Renovaveis S.A.	Ordinary	99.9 %	Solar power project development

Associates and equity investments

The following were associates and equity investments of the Company:

Name	Class of shares	Holding
Canarde Group Consortium SAE	Ordinary	10 %
Delta for Renewable Energy SAE	Ordinary	10 %
Piapora Solar Holding S.A.	Ordinary	20 %
Recurrent Energy Mexico Development S. De R.L. de C.V.	Ordinary	0.1 %

Name	Registered office
Canadian Solar Mozambique Projects Limited	1 Lumley Street, Mayfair, London, W1K 6TT
Canadian Solar UK Intermediate Limited	1 Lumley Street, Mayfair, London, W1K 6TT
White Solar Light Limited	1 Lumley Street, Mayfair, London, W1K 6TT
Pantymoch Farm Community Solar Project C.I.C.	1 Lumley Street, Mayfair, London, W1K 6TT
Wick Road Community Solar Project C.I.C.	1 Lumley Street, Mayfair, London, W1K 6TT
Royston Community Solar Project C.I.C.	1 Lumley Street, Mayfair, London, W1K 6TT
Canadian Solar Construction Limited	1 Lumley Street, Mayfair, London, W1K 6TT

CANADIAN SOLAR UK PROJECTS LTD

Notes to the financial statements For the Year Ended 31 December 2016

9. Fixed asset investments (continued)

Canadian Solar Construction S.R.L.	Via Giorgio Giulini 2, Milano, Milano 20123, Italy
Normanton Solar Farm Pty	800 Zillmere Road, ASPLEY QLD 4034
Vazante 1 Energias Renovaveis S.A.	Rua Itapimirum, 650, room 32, Vila Andrade, Sao Paulo
Vazante II Energias Renovaveis S.A.	Rua Itapimirum, 650, room 32, Vila Andrade, Sao Paulo
Vazante III Energias Renovaveis S.A.	Rua Itapimirum, 650, room 32, Vila Andrade, Sao Paulo

10. Stocks

	2016 £	2015 £
Modules	380,000	1,484,724
	<u>380,000</u>	<u>1,484,724</u>

11. Debtors

	2016 £	2015 £
Amounts owed by group undertakings	86,664,843	50,901,695
Other debtors	1,478,683	2,265,097
Prepayments	20,273	71,355
	<u>88,163,799</u>	<u>53,238,147</u>

Amounts owed by group undertakings relates to an unsecured loan to Canadian Solar UK Intermediate Limited. Interest is charged at 7.8% (2015 - 4%) and the loan is repayable on demand.

There was an impairment of £948,082 recognised on amounts owed by group undertakings in relation to balances owed by Canarde Group Consortium SAE and Delta for Renewable Energy SAE as a result of the devaluation of Egyptian currency and a change in the regulatory environment which was going to reduce subsidies for investments in renewables.

Other debtors includes recoverable VAT of £Nil (2015 - £2,265,097) and costs incurred in advance of the incorporation of new subsidiaries of £1,478,683 (2015 - £Nil).

CANADIAN SOLAR UK PROJECTS LTD

**Notes to the financial statements
For the Year Ended 31 December 2016**

12. Creditors: Amounts falling due within one year

	2016 £	2015 £
Bank overdrafts	22	-
Trade creditors	1,076,923	620,078
Amounts owed to group undertakings	119,546,479	63,098,215
VAT payable	454,602	-
Other creditors	51	20
Accruals and deferred income	537,540	-
	<u>121,615,617</u>	<u>63,718,313</u>

There is a fixed charge in the form of a standard, formal security over cash in favour of National Westminster Bank Plc. The charge was taken as a condition of sanction to enable the bank to issue bonds on behalf of the Company.

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

13. Share capital

	2016 £	2015 £
Shares classified as equity		
Authorised, allotted, called up and fully paid		
506 (2015 - 500) Ordinary shares of £1 each	<u>506</u>	<u>500</u>

On 15 April 2016, the Company issued 3 ordinary subscriber shares of £1 nominal value for consideration of £520,907 per share.

On 12 September 2016, the Company issued a further 3 ordinary subscriber shares of £1 nominal value for consideration of £497,429 per share.

14. Share premium account

Share premium represents any premiums received upon issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

CANADIAN SOLAR UK PROJECTS LTD

Notes to the financial statements For the Year Ended 31 December 2016

15. Commitments under operating leases

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £	2015 £
Not later than 1 year	13,963	40,392
Later than 1 year and not later than 5 years	-	572
	<u>13,963</u>	<u>40,964</u>

16. Related party transactions

The Company has adopted the exemption permitted by paragraph 33.1A of FRS 102 and has not disclosed transactions with other group members, which are wholly-owned subsidiaries.

At the year end the Company was owed £6,983 (2015 - £Nil) by Canadian Solar Mozambique Projects Limited, a subsidiary company that was not wholly owned.

Transactions with entities outside the Group but controlled by directors of the Company were recorded in administrative expenses within the Statement of comprehensive income for £202,692 (2015 - £Nil). These transactions represent consulting services relating to the construction of solar farms charged by Business Developing Advisory Limited which is controlled by a director of the Company. The fees paid under the respective Consultancy Agreement were at market rates.

17. Post balance sheet events

In May 2017 the Company sold 80% of its investment in Vazante I Energias Renovaveis S.A., Vazante II Energias Renovaveis S.A. and Vazante III Energias Renovaveis S.A. for a total sales price of 22,200,000 Brazilian real (approximately £5.1m).

At the date of approval of these accounts, a subsidiary Company, Canadian Solar UK Intermediate Limited, and its related assets and subsidiaries, was being actively marketed for sale.

18. Controlling party

At the year end, the immediate parent undertaking is Canadian Solar International Limited, a company incorporated in Hong Kong.

At the year end, the ultimate parent undertaking is Canadian Solar Inc., a company incorporated in Canada. The parent undertaking of the largest and smallest group of which the Company is a member and consolidated financial statements are prepared is Canadian Solar Inc. Copies of consolidated financial statements can be obtained from 545 Speedvale Avenue West, Guelph, Ontario, Canada, N1K 1E6, which is its registered address.