

CO-OPERATIVE FORMATION



**DISCLOSURE STATEMENT**

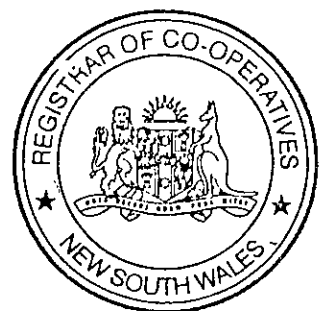
FOR A PROPOSED DISTRIBUTING CO-OPERATIVE UNDER THE  
CO-OPERATIVES NATIONAL LAW (NSW)

NAME OF PROPOSED CO-OPERATIVE:

*Pingala Co-operative Limited*

DATE OF APPROVAL: 20 May 2016

**THIS DISCLOSURE STATEMENT IS VALID FOR A PERIOD  
OF 6 MONTHS FROM DATE OF APPROVAL  
FOR ISSUE WITHIN THE STATE OF NEW SOUTH WALES**



# 1. INTRODUCTION

## Explanation of this statement

Section 25 of the Co-operatives National Law (NSW) (the **National Law**) requires that a draft disclosure statement of a proposed distributing co-operative is to be presented to the formation meeting. This disclosure statement sets out information necessary to ensure that eligible members are adequately informed of the nature and extent of a person's financial involvement or liability as a member of the proposed co-operative.

## Overview

The aim of the Pingala Co-operative Limited (**Pingala Co-operative**) is to build community-owned solar farms on the roofs of business and organisation premises across Sydney and within communities in need, with the support of members and shareholder investors who will become part owners in the projects.

To achieve this objective Pingala Co-operative plans to raise money from its members to fund the solar farm installations on the rooftops of businesses and organisations known as 'host sites'. Pingala Co-operative will then lease the solar farm installations to the occupants of the building, who will make regular lease payments to Pingala Co-operative for the life of the lease agreement. This means the host business will be able to access a renewable source of energy using solar equipment it may not otherwise have been able to afford, bringing about a positive environmental impact through community engagement. Members can pool their funds to support the projects and will also receive a return on their investment to the extent the Pingala Co-operative has a surplus after it has paid its expenses.

As detailed in Section 2 below, the Pingala Co-operative is also partnering with Pingala - Community Renewables for Sydney Incorporated, an association registered in NSW (Incorporation Number INC1300784) (**Pingala Association**), which is driving the formation of Pingala Co-operative and will continue to support the Pingala Co-operative projects, including through the provision of management services.

The first proposed project is to build a solar farm on the rooftop of the Young Henrys brewery in Newtown in Sydney's inner west.

This 'Formation Disclosure Statement' supports the establishment of Pingala Co-operative, a social enterprise whose members contribute volunteer time to support the endeavour as well as being the owners of the organisation and investors in the projects.

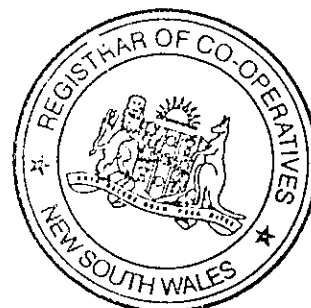
Pingala Cooperative will be governed by a Board of Directors, as set out in section 5.

### 1.1. Name

Pingala Co-operative Limited

### 1.2. Registered office

3/6 McLennan Avenue, RANDWICK NSW 2031



## 2. HISTORY AND BACKGROUND

### 2.1. Background

Pingala Association is facilitating the formation of the Pingala Co-operative. Pingala Association is a community group of energy citizens from across Sydney who are passionate about renewable energy and believe there should be a lot more solar power in Sydney. Pingala Association is a not-for-profit, incorporated association, run purely by volunteers who are committed to community energy and are members of different geographic and interest communities across Sydney.

The non-profit constitution of Pingala Association prohibits profit-making activities, including the operation of community energy projects which provide a return to investors. However, as the completion of community energy projects which are funded by community investors has been identified as an effective strategy for achieving the Pingala Association vision, a co-operative structure has been selected as the most appropriate structure to use in relation to the proposed projects.

On this basis, Pingala Association members are facilitating the formation of a separate legal entity, the Pingala Co-operative, so that the non-profit operations and objectives of Pingala Association can continue without being affected by a change in non-profit status.

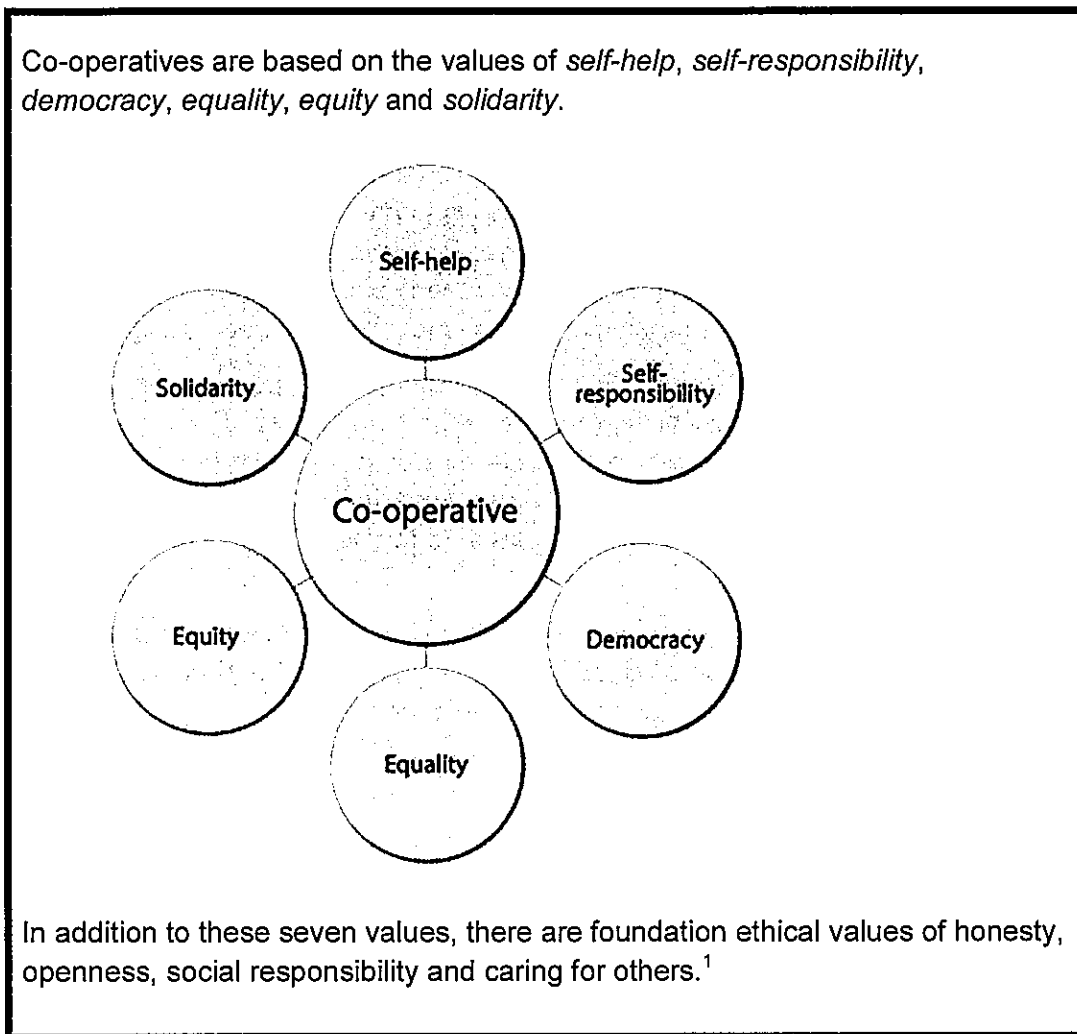
### 2.2. Why a co-operative?

Pingala Association members underwent a detailed process where they evaluated the different legal forms available for creating a distributing investment vehicle, including:

- Private company (Pty Ltd);
- Trust structures;
- Public company limited by guarantee;
- Public company limited by shares, and;
- Distributing co-operative.

A co-operative was chosen because of the strong alignment between the existing strategy of the organisation and the ability for the co-operative model to support that strategy. In particular, the co-operative values were deemed to be perfectly aligned with Pingala Association's own values:





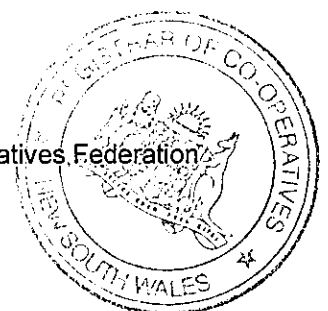
The distributing co-operative structure also offers the flexibility to enable Pingala Co-operative to offer returns (in the form of dividends or bonus shares, for example).

### 2.3. Objectives

Pingala Co-operative has a vision of a fairer energy system, where communities are empowered to own and operate their own energy systems.

Pingala Co-operative's objective is to develop, deliver and operate local renewable energy or energy efficiency projects, implemented in a way which shares the benefits as widely as possible within the community, while minimising any negative impacts.

<sup>1</sup> Source: Co-operatives in Australia, A Manual: Co-oper, Green, Tregilgas; 2013; Co-operatives Federation of NSW - pp20-22. Diagrams in this section are also taken from this reference.



## 2.4. Demand for services

The projects being developed by Pingala Co-operative are similar to the new solar leasing (or financing) projects being offered by an increasing number of commercial solar firms across Australia.

However, Pingala Co-operative plans to offer more than just a competitive solar leasing product. A unique selling point for our host site customers is Pingala Co-operative's ability to offer community based engagement and support in addition to our core solar leasing offering. This will be attractive to any organisation who is keen to establish stronger relationships with their key stakeholders and using the Pingala Co-operative membership as a way of strengthening and growing these relationships.

We believe that this combination of *solar leasing* plus *community activation* will create a new market segment which we will refer to as 'community energy'.

## 2.5. Primary activities

(see Rule 4(1))

The primary activities of the Pingala Co-operative are:

- (a) owning, operating and maintaining renewable energy generators and associated infrastructure;
- (b) investing, managing and/or participating in programs to benefit the local community;
- (c) generating and selling renewable energy;
- (d) advocating for programs that facilitate local uptake of renewable energy;
- (e) researching, producing and disseminating information and engaging the local community on a regular basis to promote renewable energy generation and energy efficiency;
- (f) being a model for cooperative, inclusive and successful community driven projects; and
- (g) creating new energy business models.

## 3. MEMBERSHIP AND SHARES

### 3.1. Benefits of Membership

A member of the Pingala Co-operative is entitled to:

- attend and vote at all general meetings of the Pingala Co-operative;
- be a candidate for election to the Board of Directors of the Co-operative
- vote for Board members;
- obtain a copy of Co-operative documents upon payment of the nominated fee as set out in the Rules of the Pingala Co-operative (**Rules**);
- buy Co-operative shares;
- trade shares with other Co-operative members;



- discuss opportunities for collaboration and project ideas between the Pingala Co-operative and third parties (councils, government, other businesses, schools, community groups, universities, communities in need);
- assist in running projects on behalf of the Pingala Co-operative.

### 3.2. Membership Eligibility Requirements

Any individual, company, co-operative, superannuation fund or other entity may apply for membership in Pingala Co-operative by accessing and completing an online application form. The application form will be published on the Pingala website (Rule 7) along with a copy of the Rules of the Pingala Co-operative and a copy of the most up-to-date version of this disclosure document.

There is no entry or subscription fee which is payable for membership in Pingala Co-operative (Rule 6), however each member is required to hold at least 20 shares in Pingala (Rule 16(2)).

A member must:

- be 18 years of age; and
- be a resident of New South Wales; and
- hold at least 20 shares (the minimum number of shares as defined by the Rules); and
- agree to be bound by the Rules; and
- maintain active membership of the co-operative as defined by the Rules

Every application for membership must be considered by the Board and, if approved, the member's details will be entered into the register of Pingala Co-operative members and the applicant will be notified in writing. The Board may, in its discretion, refuse an application for membership on any grounds (Rule 7(2) and 7(6)).

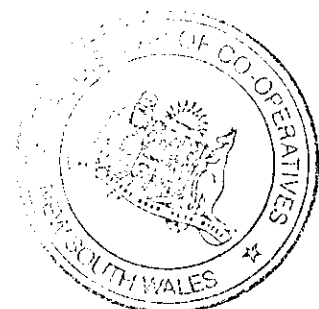
### 3.3. Share classes and categories

Pingala Co-operative offers participation in the form of Class F shares to support both its objectives in relation to the ongoing membership and in relation to achieving a financial return for projects funded by the Pingala Co-operative.

A share in the Pingala Co-operative does not carry a vote. The right to vote in the Pingala Co-operative is attached to the membership and governed by the National Law (section 288).

Class F shares are being issued by Pingala Co-operative in relation to the funding of the Young Henrys Project. The Board reserves its discretion to determine the maximum number of Class F shares which will be issued.

Additional Class F shares may be issued to support future projects of a similar nature to the Young Henrys Project. Such an issue would need to be approved by the Board of the Pingala Co-operative and, subject to any required approvals, will require an update to this disclosure document.



Each Class F share has a fixed and nominal value of \$1.00.

All members who hold Class F shares are entitled to share in the surplus generated by the business of the Pingala Co-operative. The Board will, at its discretion, determine from time to time if and the amount of any surplus which is to be distributed in any year and the manner in which it should be provided to eligible shareholders (e.g. payment of a dividend, issue of bonus shares or in the form of a rebate). The target return for investors in Class F shares is between 5% and 8% per annum (between \$0.05 and \$0.08 per share per annum).

### 3.4. Applications for Shares

To apply for shares, members (or potential members) must complete the Share Application Form made available on the Pingala Co-operative website specifying the number and class of shares being applied. The member must also make full payment for the shares in the manner specified in the Share Application Form.

The per share subscription price for Class F shares being offered by Pingala Co-operative is \$1.00.

The minimum number of shares a member may hold is one share and may hold shares in any number of classes.

No member may hold more than 20% of the total shareholding of the Pingala Co-operative.

### 3.5. Summary of Rights and Liabilities Attaching to Shares

The rights and liabilities attaching to ownership of the shares are:

- detailed in the Pingala Co-operative Rules; and
- in certain circumstances, regulated by the National Law and the general law.

A summary of the significant rights, liabilities and obligations attaching to the shares and a description of other material provisions of the Rules are set out below. This summary is not intended to be exhaustive and is qualified by the fuller terms of the Rules. This summary does not constitute a definitive statement of the rights and liabilities of Pingala Co-operative shareholders.

#### 3.5.1. Voting

A share in the Pingala Co-operative does not carry a vote. The right to vote in the Pingala Co-operative is attached to membership and governed by the National Law (section 288).

#### 3.5.2. Shares

The Board of Pingala Co-operative control the allotment and issue of Shares. Subject to the National Law and the Rules, they may issue shares with any preferential, deferred or special rights, privileges or conditions or with any restrictions (whether in regard to dividends, voting, return of share capital or otherwise) as the Board determines.



### 3.5.3. Transfer of shares

Subject to the Rules of Pingala Co-operative, the National Law and to the rights or restrictions attached to any shares or class of shares, holders of shares will be entitled to sell their shares to other members by a proper transfer document in writing and duly stamped or in any other form required by the Board. Transfers to non-members are not permitted.

The Board may decline to register a transfer of shares for reasons including where the transfer is not in registrable form, where the potential transferee does not fulfil the requirements of members set out in the Rules or where the refusal to register the transfer is otherwise permitted.

### 3.5.4. Repurchase of Shares

In accordance with the National Law, the Rules authorise Pingala Co-operative to purchase any share of a member at the request of that member and to repay to a member, with the member's consent all or any part of the amount paid up on any share held by that member where the amount repaid is not required for the activities of the co-operatives. The Board may decide, with the appropriate approvals and in line with the National Law, to carry out such repurchase.

### 3.5.5. General meetings and notices

Subject to the Rules of the Pingala Co-operative, the National Law and to the rights or restrictions attached to any shares or class of shares, each member is entitled to receive notice of and, except in certain circumstances, to attend and vote at all general meetings of the Pingala Co-operative.

### 3.5.6. Winding up and reductions of capital

Subject to the National Law, the Pingala Co-operative Rules, any special or preferential rights attaching to any class or classes of shares, and the terms of the reduction, if any, in the event of a winding up or a reduction of capital, members will have the right to participate equally in the distribution of assets of the Pingala Co-operative.

On winding up of the co-operative a member of the co-operative is liable to the co-operative for the amount (if any) not paid on the shares held by the member together with any charges payable by the member to the Pingala Co-operative as required by the rules of the Pingala Co-operative.

### 3.5.7. Board

The minimum number of Directors is three (two of which must ordinarily reside in Australia) and the maximum is nine unless the Board determines a different maximum. Directors will be elected and will hold office in accordance with the National Law and the Pingala Co-operative Rules.





### 3.5.8. Variation of the Rules

The Rules may only be varied by a special resolution passed by at least 75% of members present and entitled to vote (Rule 58).

### 3.6. Use of Funds

Funds raised through the subscriptions for membership to Pingala Co-operative and issue of Shares will be utilised to fund the purchase of the solar panels to be installed on the Young Henrys venue and associated administrative expenses.

Sources of Funds		Uses of Funds	
City of Sydney - grant	\$20,000	Payment for solar system (Net of STCs)	\$29,822
Subscriptions from Shares and memberships	\$18,167	Approvals and certification	\$2,090
		Project origination service fee (Pingala Association)	\$1,650
		Administrative costs	\$4,605
<b>Total</b>	<b>\$38,167</b>	<b>Total</b>	<b>\$38,167</b>

## 4. YOUNG HENRY'S PROJECT

### 4.1. Overview of proposed first 'Host Site' - Young Henrys

The Pingala Association is in advanced discussions with the Young Henrys brewery, located in the heart of Sydney's inner west, in relation to becoming Pingala Co-operative's first 'Host Site' customer.

Since the Young Henrys brewery opened four years ago, sustainability has been at the heart of the small business. Customers are encouraged to return and refill beer bottles, various energy efficiency measures have been installed/implemented and one tonne of spent grain is donated daily to local farmers to be used as animal feed. However, the owners of Young Henrys had not previously considered an investment in a solar system due to the significant upfront investment. Pingala's plan has changed their outlook and they are keen to become Pingala Co-operative's first 'Host Site' customer.



We believe the Young Henrys project is the ideal place to start the Pingala Co-operative journey. The brewery is located in Newtown in the heart of Sydney's inner west. Newtown is generally a place where people care about the person next to them and do have a feeling of responsibility for what they do and create in the world making it a place where community energy projects are likely to be embraced.

The Young Henrys project also has the support of the City of Sydney, who have provided a Environmental Innovation grant to support the development of the Pingala Co-operative and this first project. This includes \$20,000 to purchase solar panels to be installed on the roof of Young Henrys premises; these solar panels will remain the property of Pingala Co-operative for the duration of the project.

Electricity from the Pingala Co-operative owned solar system will be used to power brewing processes, avoiding around 37 tonnes of greenhouse gas emissions a year. Any management services relating to the Young Henrys project will be provided by the Pingala Association on the terms of a management services agreement (see Section 4.2.2 below).

After the expiration of the 10 year lease period, Young Henrys will have the option to purchase the solar panel installation for the nominal amount of \$1.00 and will take over all maintenance and repair obligations.

#### 4.2. How the co-operative intends to carry out its primary and other activities

Pingala intends to complete a 29.9 kW commercial solar project as the formation project of the co-operative. In addition to building the first community energy solar farm of the co-operative, the first project will establish the policies, processes and procedures that will enable Pingala to implement and operate many more community energy projects over the coming years.

Projects will not have any employees and all the work needed to support the first project will be conducted either by contracted suppliers or by members volunteering their time.

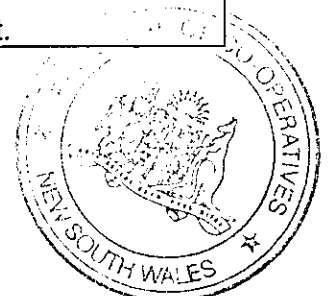
#### 4.3. Contracts required to be entered into by the co-operative

##### 4.2.1. Young Henrys' Solar Lease

The Pingala Co-operative will enter into a Solar Lease Agreement with Young Henrys brewery in Newtown pursuant to which Pingala Co-operative will supply to Young Henrys a solar system which it acquires using the City of Sydney grant and funds raised from the issue of shares in the co-operative.

The key terms of the Solar System Lease Agreement include:

Term	The lease will be for a 10 year term commencing from the date that the solar system is supplied and installed at Young Henrys.
Deposit	Young Henrys is not required to pay any deposit.



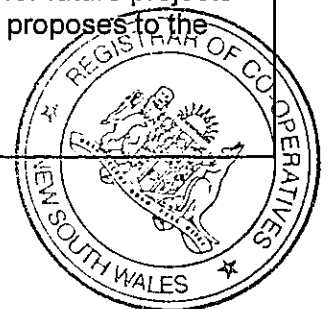
Rental Payments	Young Henrys will be required to make quarterly rental payments of \$2,232 to Pingala Co-operative.
Environmental Credits	Pingala Co-operative will have the right and title to any environmental credits which are generated by the solar panel installation at Young Henrys and may sell them and retain the profit.
Maintenance and Access	Pingala Co-operative is responsible for supply and installation of the solar panels at Young Henrys.  Pingala Co-operative is responsible for the maintenance of the solar panels and associated costs and Young Henrys has granted access rights to Pingala to enable it to carry out its obligations, including maintenance.
Insurance	Young Henrys is responsible for and required to maintain adequate insurance in relation to the solar panels.
Purchase Option	Young Henrys has the option to purchase the solar panels from Pingala Co-operative for \$1.00 at the conclusion of the 10 year lease term.
Termination	Young Henrys may terminate the lease at any time on 20 Business Days notice, without cause.  Pingala Co-operative may terminate the agreement with Young Henrys immediately if there is a failure to pay, breach which cannot be remedied or is not remedied in 10 Business Days, insolvency event or other specified events.

#### 4.2.2. Management Services Agreement

The Pingala Co-operative will enter into a management services agreement with Pingala Association pursuant to which the Pingala Association will provide certain project development and management services in relation to the Young Henrys Project in return for services fees.

The services to be provided by Pingala Association include:

SCOPE OF SERVICES	RATE (AND CAP)
<p><b>Project origination services</b></p> <ul style="list-style-type: none"> <li>- Paid to the Association at completion of the project development phase</li> <li>- Per project fee for host site 'origination services' such as site identification, negotiation and project management services.</li> </ul>	<p>Set at 5% of project infrastructure costs for the Young Henrys project, this project origination fee will be determined on a project-by-project basis for future projects the Pingala Association proposes to the Pingala Co-operative.</p>



<p><b>Administration services</b></p> <ul style="list-style-type: none"> <li>- Delivery of administration services required to manage the co-operative (see below)</li> </ul>	<p>Delivery of services at agreed hourly rates. (capped at 10% of total co-operative income)</p>
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The business of the Pingala Co-operative will be managed by or under the direction of the Board of directors. Apart from this Board of directors the Pingala Co-operative will have no other staff members. The Pingala Association will undertake the tasks required to establish and maintain the project under the direction of the Board of directors and in accordance with the Services Agreement.

Once executed the Services Agreement will be in place between the Pingala Co-operative and the Pingala Association in an ongoing manner until otherwise terminated. Both parties may terminate the agreement with immediate effect in the event of a breach of the agreement.

The performance of the Pingala Association fulfilling the delivery of services outlined in the Service Agreement will be reviewed on a six-monthly basis.

**4.2.3. Engineering, Procurement and Construction Agreement**

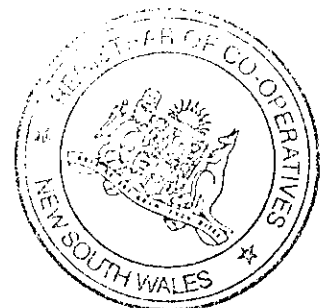
The Pingala Co-operative will enter into a contract with an appropriately qualified installer to undertake the final design, procurement and construction (installation) of the solar equipment. The installer will also be required to:

- complete the relevant applications for the connection agreement with Ausgrid;
- procure development approvals such as a Complying Development Certificate and/or council approvals;
- engage a qualified Structural Engineer to assess the suitability of the host site;
- document the existing condition of the site prior to installation via a dilapidation report, and;
- commission the solar system.

The contract with the installer will be for a fixed fee inclusive of all equipment costs, services and approvals required to complete the installation.

**4.2.4. Equipment Maintenance and Warranty Agreements**

All solar equipment and related infrastructure come with some form of warranty. Where appropriate these warranties may be extended. Solar panels require maintenance to ensure that they continue to operate reliably and efficiently. The co-operative will enter into agreements with appropriate organisations to ensure that the panels are properly maintained.



## 5. MANAGEMENT OF THE CO-OPERATIVE

### 5.1. Board of directors

The business of the Pingala Co-operative will be managed by or under the direction of the Board of directors, and for that purpose the board has and may exercise all the powers of the co-operative that are not required to be exercised by the co-operative in general meeting.

A person is not qualified to be a director of the co-operative unless the person is an individual over the age of 18 years and is either:

- (a) an active member of the co-operative or a representative of a body (e.g. a company or a co-operative) that is an active member of the co-operative (member director); or
- (b) not an active member but who possesses special skills in management or other technical areas of benefit to the co-operative as specified by the board from time to time (non-member director).

The board of directors must have a majority of member directors.

### 5.2. Election of directors

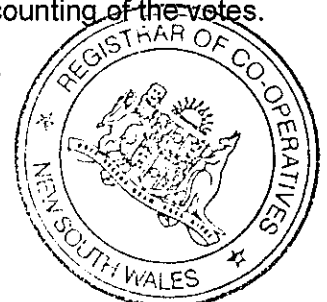
The first directors are elected by poll at the formation meeting of the co-operative. The term of office of the first directors is 1 year and subject to reelection, however not more than 3 years ending on the day of the third annual general meeting after the formation meeting.

If there is a vacancy, then at least 6 weeks before the annual general meeting the Board must notify all members of the number of directors retiring and invite nominations. If the number of nominees equals the number of vacancies, the nominees must be declared elected at the annual general meeting.

If there are insufficient nominees to fill all vacancies, the nominees to be declared elected at the annual general meeting and nominations for people to fill the remaining vacancies are to be called from the floor and a ballot held if required.

If the number of nominees exceeds the number of vacancies, the election of directors must be conducted at the meeting by ballot as follows:

- (a) A returning officer is elected at the meeting. The directors, the secretary and anyone who has an interest in the election are not eligible to be the returning officer.
- (b) All nominees are to be listed on the ballot form in alphabetical order.
- (c) The returning officer is responsible for determining the validity of and counting of the votes.
- (d) If there is an equality of votes, the outcome must be determined by lot.
- (e) The returning officer is to declare the election results.



### 5.3. First directors

The names and experience of those who have consented to being nominated for election as directors are:

#### **Beatrice Ludwig**

Beatrice's vision for Australia is a healthy bio-diverse environment where everyone has access to nutritious food, clean water and energy. Beatrice has a passion for agro-ecology, the transition from an unsustainable industrial monoculture system to a regenerative system with focus on soil health and biodiversity.

Beatrice is the Principal Solicitor at Ludwig Lawyers, where she helps individuals, social enterprises and not for profit organisations thrive by providing them with simple solutions in a complex legal environment. Beatrice attained a Bachelor of Laws from the University of Zurich and a Master of Laws in Corporate, Commercial and Taxation Laws from UNSW.

#### **Glen Klatovsky**

Glen is passionate about finding solutions to major problems, and that is why he is so excited about working with the Pingala team. Glen has extensive experience working in Australian environmental and social non-government organisations. He is currently the Director of the Places You Love alliance, Australia's largest coalition of environmental organisations.

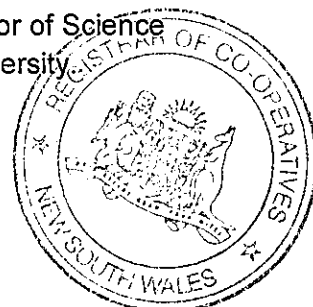
Glen has worked as Conservation Director at WWF-Australia, National Carbon Business Manager for Greening Australia; National Campaigner for the Wilderness Society and Manager in Governance and Management for the NSW Council of Social Service. Glen has been on the Board of the Wilderness Society Inc. and several small disability charities in his local area, plus being an instrumental driver in setting up a business in carbon trading and reforestation. He has a Bachelor of Arts from the University of New England.

#### **John McKinnon**

John has a long career in social enterprise, aid and development and social justice. Pingala combines two of John's key passions: a transition to renewable energy and empowering local communities.

John is currently the founder and manager of the McKinnon Family Foundation and previously was Executive Director of GMO Australia (Grantham Mayo van Otterloo LLC). He has diverse experience as a board director for organisations such as The Australia Institute, the Australian Environmental Grantmakers Network, International Justice Mission Australia and Hagar Social Enterprise Group in Cambodia.

John completed a PhD from the University of New England in 2012, entitled "Social Enterprise as a Poverty Alleviation Tool", based on case studies in Cambodia. He holds an Master of Arts in Biblical Studies from Global University (US) and a Bachelor of Science with First Class Honours in Mathematics from The Australian National University.



### **Jacqui Fetchet**

Jacqui is passionate about renewable energy, sustainable communities and alternative economies. She likes bringing interesting people together to create enduring solutions for a better economy that is more inclusive, fair and accessible.

Jacqui holds a Bachelor of Laws/International Studies (Development Studies) from UNSW and currently works for the NSW government in environmental policy. She brings diverse experience and insight from the community, government and private sectors in Australia and volunteer experience from community development projects in Indonesia and Mexico. Jacqui completed the Centre for Sustainability Leadership Fellowship in 2014. She won a Global Voices Scholarship to attend the UNFCCC COP21 climate change conference in Paris in 2015. She is also the Renewable Cities Young Ambassadors' Program Leader for 2016.

### **Tom Nockolds**

Tom has a vision of a future where people share the benefits and the burdens of the world more fairly. He left his corporate career in 2012 to pursue this vision in the community energy sector. Tom has a strong knowledge of the different business models being adopted by community energy groups in Australia through his experience helping groups navigate their way through complex technical and regulatory environments.

Tom has held diverse positions as business development manager, project manager and operations manager and has university qualifications in project management and a background in engineering. He is a founding member and Secretary of Pingala Association.

## **5.4. Remuneration of directors**

The directors of Pingala Co-operative will be volunteers. They will not receive any remuneration for their services as directors of the Pingala Co-operative. Directors may, in the discretion of the directors of the Pingala Co-Operative, be reimbursed for travelling and other expenses that the director properly incurs in attending meetings of the board of directors (or any committee) and in attending any general meetings of the Pingala Co-Operative.

## **5.5. Accounting**

The name of the company that has agreed to be responsible for general accounting and financial functions of the co-operative:

### **Eric Allan & Co**

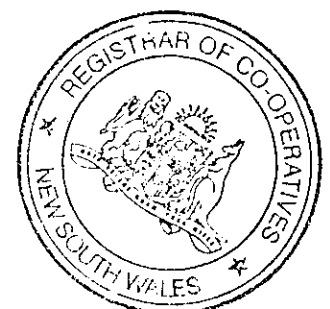
Suite 1101, 37 Bligh Street

Sydney NSW 2000

Phone: (02) 9232 4111

Fax: (02) 9223 1785

Email: [eric@ericallan.com.au](mailto:eric@ericallan.com.au)



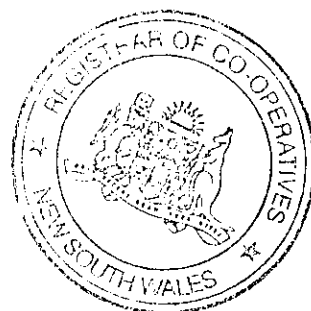
## 5.6. Auditing

Pingala Co-operative will meet the definition of a Small Co-operative, as defined by the National Law, and so will not appoint an auditor unless it becomes a Large Co-operative or the members vote to appoint an auditor.

## 5.7. Conflicts of interest or duty

The Conflict of Interest or Duty Policy document has been created for the Pingala Co-operative and can be found as an attachment to this document at Appendix A.

Should a conflict arise then the conflict will be managed in accordance with the National Law, which requires, amongst other things, for a director to declare their direct or indirect interests in a contract. If considered appropriate, the board of directors of Pingala Co-Operative will form a committee of independent directors (those not associated with the relevant member) to consider any issues where a conflict arises.



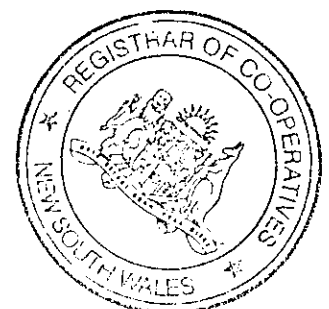


## 6. FINANCIAL INFORMATION

### 6.1. Financial statements

Pro-forma profit & Loss statement for year 1

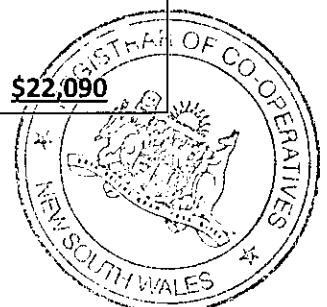
Profit and Loss Statement for Yr1	Dr	Cr
<b>Income</b>		
Sale of Energy / Interest		7,603
<b>Expenses</b>		
Business Establishment costs		
Accounting	1,750	
Services Agreement	-	
Maintenance	239	
Insurance	-	
Establishment Costs	-	
Depreciation - (PPA only)	-	
<b>Total Expenses</b>	<b><u>\$1,989</u></b>	
<b>Total Income</b>		<b><u>\$7,603</u></b>
<b>Gross Profit Before Tax</b>		5,613
Income Tax Expense	1,684	
<b>Net Income</b>		<b><u>\$3,929</u></b>



Pingala Co-operative Limited - Formation Disclosure Statement

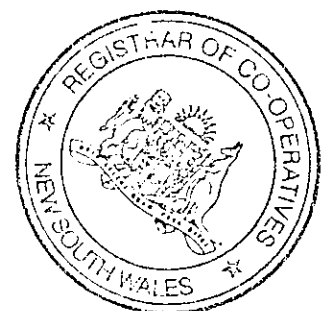
Pro forma balance sheet at end of year 1

Balance Sheet as at end of year 1	Dr	Cr
<b>Assets</b>		
<b>Current Assets</b>		
Cash at Bank		10,521
Accounts Receivable (Principal) - Yr2		1,611
Accounts Receivable (Interest) - Yr2		7,310
<b>Non-Current Assets</b>		
Future Lease Receivable (Principal) Yr 3-10		35,239
Future Lease Receivable (Interest) Yr 3-10		36,125
Solar installations (if PPA)		
Less Depreciation (if PPA)		-
<b>Total Assets</b>		<b><u>\$90,805</u></b>
<b>Liabilities</b>		
<b>Less - Current Liabilities</b>		
Dividends	908	
Provision for Income Tax Expense	1,684	
Unearned Income - Future Interest yr2	7,310	
<b>Less - Non-Current Liabilities</b>		
Unearned Income - Future Interest yr 3-10	36,125	
<b>Owners Equity</b>		
Members Equity Capital	18,168	
Member Fees	1,500	
Retained Cash	3,021	
<b>Total Liabilities and Owners Equity</b>	<b><u>\$68,715</u></b>	
<b>Net Assets</b>		<b><u>\$22,090</u></b>



Projected cashflows for year 1

Cash inflows for Yr 1 - Expected		Dr	Cr
<b>Finance Transactions</b>			
	City of Sydney Grant		20,000
	Proceeds from investors		18,168
	Membership Fee Income		1,500
<b>Investments in Assets</b>			
	Purchase & Installation of Solar System	52,106	
	Small Scale technology certificate rebate		22,284
	Completion Fee	1,650	
<b>Operating Activities</b>			
	Sale of Energy / Interest		7,603
	Loan Repayments		1,318
	Business Establishment Costs	-	
	Annual Services Fees	-	
	Back office and accounting costs	1,750	
	Insurance	-	
	Contingency / Maintenance	239	
	Q1 GST Outlay	4,606	
	<b>Total Cash Outflow</b>	<b><u>\$60,351</u></b>	
	<b>Total Cash Inflow</b>		<b><u>\$70,872</u></b>
	<b>Est Cash Balance at end of year 1</b>		<b><u>\$10,521</u></b>



The above financial projections are based on the best information available at this time. Pingala are in advanced stages of discussions with host site 1 and on formation of the Co-operative will have contractually agreed fixed lease payments for the contract period with the first host site. A written quotation has been provided for purchase, installation and commissioning of Solar Equipment. The Equipment will also be covered by 10 year manufacturer's warranty and 5 year installer workmanship warranty. The annual cost of accounting and tax reporting has been quoted as \$1,750 and this has been provisioned from the annual lease income.

## 6.2. Property and assets

Pingala will not require any fixed premises for daily operations and will not be required to purchase or rent office spaces on an ongoing basis.

Pingala will purchase and own the Solar Equipment and lease this to the host site. The lease will be a finance lease, meaning that Young Henrys will have the benefit of depreciation of the asset.

The purchase value of this asset in year 1 will be \$38,167.

## 6.3. Formation expenses

The estimated costs of formation are: \$356 registration fee with the NSW Department of Fair Trading. These costs will be covered by Pingala Association.

## 6.4. Returns to members

The co-operative will be funded by share capital and it is not anticipated that any debt will be incurred to finance projects or ongoing operations.

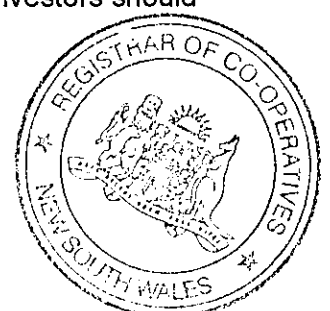
The returns to members will be on an annual basis and a decision made by the co-operative board in preparation of annual accounts.

Refer to the Forecasted Profit and Loss Statement and Forecasted Cash Flow Budget annexures for detailed financial information.

# 7. RISKS

## 7.1. Introduction

There are a number of risks and threats, both specific to Pingala Co-operative, and of a general nature, which may either individually, or in combination, materially and adversely affect the future operating and financial performance of Pingala Co-operative and the value of Shares. Many of these risks are partially or completely outside the control of Pingala, its directors and management. There can be no guarantee that Pingala will deliver on its business strategy, or that any forecasts contained in this Disclosure Statement will be achieved or realised. Prospective investors should note that past performance is not a reliable indicator of future performance.



This Section describes the areas that Pingala Co-operative believes to be the key risks associated with becoming a member of Pingala Co-operative and an investment in the Shares. The selection of risks has been based on an assessment of a combination of the probability of the risk occurring and the impact of the risk if it did occur. The assessment is based on information as at the date of this Disclosure Statement, but there is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge.

Prospective members and investors should note that this is not an exhaustive list of the risks associated with an investment in Pingala Co-operative and should be considered in conjunction with other information disclosed in this Disclosure Statement. Before applying for Shares, you should satisfy yourself that you have a sufficient understanding of these matters and should consider whether Shares are a suitable investment for you, having regard to your own investment objectives, financial circumstances and taxation position. Prospective investors should consider seeking professional guidance from their accountant, stockbroker or other independent professional adviser before deciding whether to invest.

## **7.2. Risks specific to an investment in Pingala Co-operative**

### **7.2.1. Pingala Co-operative is a start-up entity**

As a start-up co-operative Pingala Co-operative carries the normal risks of a start-up business. No assurance can be given that it will achieve commercial viability through the implementation of its business plan and there is no certainty around when it may generate a profit or how profitable it will be.

### **7.2.2. Pingala shares are not listed and may be difficult to sell**

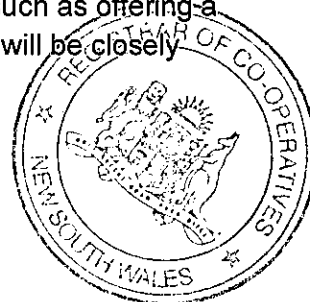
Being shares in a co-operative, Pingala Co-operative shares are not listed, and cannot be listed, on any securities exchange. There is no guarantee that a market for the trading of Shares will develop, nor is there any guarantee that the price of the Shares will be maintained or increase. There will be relatively few or even no potential buyers or sellers of the Shares at any given time. This may prevent investors from acquiring more Shares or disposing of Shares they acquire easily.

### **7.2.3. Price for the trading of Shares obtained on the sale of Shares may not reflect the intrinsic value**

The absence of a market for the Shares can impact the price of Shares. There may be few people willing to buy your Shares and those people may only want to buy them from you at a discounted price. Such discount may be a significant discount to the intrinsic value of the Shares. There is no assurance that the price for the Shares will increase over time.

### **7.2.4. Bad debts and impact on cash flow associated with slow payments**

There is a risk of bad debts and the possible impact on cash flow if there are slow payments. Pingala Co-operative intends to incentivise 'Host Site' members to pay on time such as offering a discount of early or on time payment, which will lessen the likelihood. Cash flow will be closely monitored.



### **7.2.5. Possibility that the solar panels don't function as expected or fail**

Pingala Co-operative will acquire the solar system from a third party supplier and will be outsourcing the installation of the solar system to a third party provider. As with any product there is always a risk that the solar system will fail or malfunction. While this is deemed unlikely, it must be acknowledged as a possibility. In the event of failure Pingala Co-operative may need to delay the commencement of the project and therefore the lease payments it receives.

### **7.2.6. Growing too rapidly**

Unexpectedly rapid response may impact on service, and would impact on prudential requirements. Pingala Co-operative may be required to manage take up by managing rates of calls and visits, meetings and marketing. A higher customer take up may require additional resourcing which would be funded through the increased revenue.

### **7.2.7. Licensing**

Pingala Co-operative must hold and comply with certain licence conditions to undertake its businesses. Any failure to maintain the licence or changes in eligibility would adversely impact Pingala Co-operative's ability to offer services or products to customers or manage its risks commercially. Pingala Co-operative is aware of requirements and the business systems and processes will be built to ensure compliance.

### **7.2.8. Early termination of Lease Agreement by Young Henrys (i.e. movement of business)**

Young Henrys are tenants in their premises, with a premises lease that will expire before the end of the Solar Lease agreement they enter into with Pingala. Young Henrys are unable to confirm whether they will be extending the lease or whether they will be re-locating to another premises.

In the event that Young Henrys relocate to new premises where the solar equipment can be re-installed, they must pay for relocating the solar equipment to the new premises as well as other costs incurred by Pingala Co-operative.

In the event that they relocate to new premises where the solar equipment cannot be re-installed, Pingala must use reasonable efforts over a period of 20 business days to identify a replacement host site customer. If a new host site can be found, then Young Henrys will pay for relocating the solar equipment to the new host site as well as any shortfall in lease payments the new host site customer may be paying when compared with the lease amount payable by Young Henrys. If a suitable host-site customer cannot be found, then Young Henrys must make payment of all remaining lease payments.

### **7.2.10. Unaudited financial model**

The Young Henry's project will be the first project for the Co-operative and will be the first time the financial model, prepared by the Association, will be used. PwC Australia have been providing financial advice and reviewing assumptions around accounting standards and taxes in the financial model, however, other inputs, outputs and assumptions have not been audited by PwC Australia or any other qualified professionals. Investors are advised to undertake their own due diligence when reviewing the financial model prior to making an investment decision.



#### **7.2.11. Young Henrys becomes insolvent**

Under the Lease Agreement the Co-operative may terminate the Lease Agreement in the event that Young Henrys becomes insolvent, however, there are no direct methods of recovering costs in the event of an insolvency. In the event that insolvency occurs during the Lease Period then an alternative Host Site would need to be sought for relocating the solar system and entering into a new Lease / PPA Agreement.

#### **7.2.12. Breach of City of Sydney grant**

Under the Grant Agreement with the City of Sydney if the Association is unable to satisfy its obligations, including, amongst others, meeting the Performance Criteria, such as completing the formation of the Co-operative, executing the Lease Agreement, executing the EPC agreement, raising the target capital, fully install the solar system and expend all funds by 31 May 2016 (unless otherwise extended) then the City of Sydney has a right to terminate the Grant Agreement and recover all unspent grant funding.

#### **7.2.13 Damage to building allegedly caused by solar installation works**

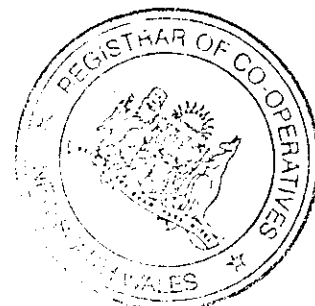
Under the Lease Agreement the Co-op is required to ensure that no damage is caused to the building or other property as a result of the solar system installation. Installation of solar systems, by their nature, require drilling of structural members and roof material and modification of electrical equipment. Under the EPC contract the EPC contractor is not liable for any pre-existing damage at the property, however, it is known that the roof and box gutter are in poor condition and roof leaks are present. To mitigate this risk the EPC contractor will be required to undertake an inspection prior to installation and provide a dilapidation report documenting the existing condition of the building with photos. It is proposed that the landlord will be informed of the existing condition by way of letter or provided with a copy of the dilapidation report. The EPC contractor will provide a follow up report once installation of the solar system is complete to document the condition of the building post-construction.

#### **7.2.14 Catastrophic event causing irreparable damage to solar system (e.g. fire)**

Under the Lease Agreement Young Henrys must maintain comprehensive insurance for the full value of the solar system such that in the event of a Total Loss the value of the solar system can be recovered and returned for investors.

#### **7.2.15 Early termination of Lease Agreement for breach (i.e. non-payment)**

Under the Lease Agreement the Pingala Co-operative can terminate the agreement in the event that Young Henrys does not make payment within 5 business days of being notified of late payments. In the event of a termination, however, the asset is largely stranded and there will be a cost to relocate the solar system to an alternative Host Site with no guarantees that financial arrangements with an alternative Host Site will be equivalent to the original financial arrangement with Young Henrys.



### **7.2.16 Delays in installation and energisation of solar system**

Under the EPC contract the EPC contractor will provide an Estimated Installation Date but takes no liability for any delays in the actual delivery of the solar system. Under the Lease Agreement the Co-operative is required to deliver and install the solar system by a nominated date. In addition, the City of Sydney grant requires all grant funding to be expended by 31 May 2016. A significant delay to the delivery and installation could therefore cause breach under the Lease Agreement and City of Sydney grant. Therefore it is proposed to amend the EPC contract to impose a hard date for installation with a potential second supplier if Solargain cannot delivery in the required timeframe.

### **7.2.18 Unable to obtain landowner's consent**

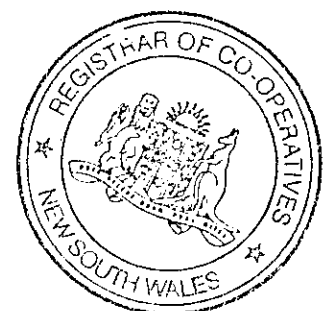
Under the Lease Agreement Young Henrys is obliged to obtain the landowner's consent as a condition precedent to the Lease Agreement. It is understood from initial discussion with the Landowner that their main concern is potential damage caused to the building as a result of installing, removing or decommissioning the solar system. If the solar system is relocated or decommissioned then under the Lease Agreement Young Henrys is obliged to cover any costs associated with making good any damage caused as a result of the decommissioning. Damage caused during installation is addressed in section 7.2.13.

### **7.2.19 Association ceases to carry on a business**

The Service Agreement, which provides all development services and administrative services to the Co-operative is proposed to be with the Pingala Association. As the Pingala Association largely comprises volunteers and relies on volunteer time in order to carry on a business it cannot be guaranteed that the Association will continue to carry on a business during the term of the Service Agreement. In the event that the Association ceases to carry on a business during the agreement term the Co-operative will either have to carry out the necessary services itself or outsource these services, which in turn may result in lower returns to investors.

### **7.2.20 Association unable to obtain professional indemnity insurance**

As discussed in section 7.2.19 the Association largely comprises volunteers which can make it difficult to obtain professional indemnity insurance as such insurance generally relies on individual or organisational skills, qualifications and experience. In the event that professional indemnity insurance cannot be procured by the Association then there will be limited recourse for any damages associated with poor or incorrect services provided by the Association under the Service Agreement.





## APPENDIX A: Policy - Conflict of Interest or Duty

### Conflict of Interest

A Covered Individual should avoid any conflict arising between their personal interests (or the interests of any other associated person or institution) and their duties to the Pingala Co-operative.

A Covered Individual must not take advantage of their position to gain, directly or indirectly, a personal benefit, or a benefit for any associated person.

A Covered Individual shall not make use of inside information.

### Definitions:

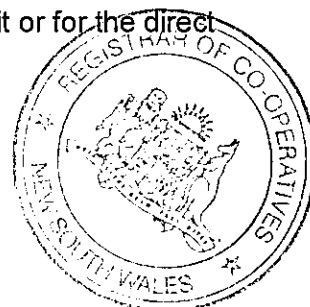
- Covered Individual means a member of the Board of the Pingala Co-operative ("Board Member"), an alternate, a member of any committee, task force or any other subsidiary body of the Pingala Co-operative.
- Associated Person means a Covered Individual's spouse, minor child, or domestic partner.
- Associated Institution means (i) any organization, corporation or government in which a Covered Individual is serving as an officer, director, trustee, partner or employee, with which the Pingala Co-operative has an agreement, contract, grant or relationship; or (ii) any person, organization, corporation, government or similar institution with whom a Covered Individual is negotiating or has an arrangement concerning prospective employment.
- Personally and substantially. To participate personally means to participate directly or to attempt to influence the outcome of a decision-making process, including, for example, consideration of a matter at a Board meeting, or direct and active supervision of a subordinate in a matter. To participate substantially means that the Covered Individual's involvement is of significance to the matter.

### Conflict of Interest:

A conflict of interest or duty arises when a Covered Individual participates personally and substantially in any particular Pingala Co-operative matter in which, to his or her knowledge, he or she or an Associated Person or Associated Institution has a financial interest, if the particular matter may have a direct and predictable effect on that interest.

In general, and without limitation, conflicts may be deemed to exist in the following situations:

- Where a Covered Individual's financial interests, or the interests of an Associated Person or Institution could affect the conduct of his or her duties and responsibilities with respect to the Pingala Co-operative or result in a reasonable perception that such a conflict exists;
- Where a Covered Individual's actions compromise or undermine the trust that the public places in the Pingala Co-operative; and
- Where the Covered Individual's actions create the perception that the Covered Individual is using his or her position at the Pingala Co-operative for personal benefit or for the direct financial benefit of an Associated Institution.



This list is only illustrative, and is not intended to set out all instances where an actual or potential conflict of interest or duty exists. A Covered Individual who has a conflict of interest or duty in matters that relate to the affairs of Pingala Co-operative must immediately disclose that interest to the Board in writing and must not be present when the matter is being considered or vote on the matter, unless the Board have passed a resolution to enable the Covered Individual to do so.

### **Procedure when a Conflict of Interest or Duty Arises:**

All actual or potential conflicts of interest or duty or the appearance thereof shall be immediately disclosed in writing to the Pingala Co-operative Board.

Individuals are encouraged to consult with the Secretary or members of Board for guidance if questions arise in the application of this policy.

It is the duty of the Board to review these disclosures and to decide whether an actual or potential conflict of interest exists and, if so, whether to issue a waiver defining the extent to which such Covered Individual may participate in any discussion of the issue that has given rise to the conflict.

When it is determined that an actual or potential conflict of interest exists, the Covered Individual shall not participate in the matter that has given rise to the conflict absent a waiver from the Board. This means that the Covered Individual shall not vote or speak on the matter, and shall absent himself/herself without comment before any discussion or voting on the matter, unless a waiver has been granted by the Board. The waiver may be designed to allow for any level of participation the Board deems appropriate. For example, it may permit the Covered Individual to present information of a technical nature, but not recommendations. Or, it may permit the Covered Individual to attend the meeting in order to fulfil his or her administrative responsibilities, but not to participate in any discussion on issues that have given rise to the conflict of interest. The names of Covered Individuals with actual or potential conflicts of interest or duty who participate in a particular meeting, and the issue on which there is a conflict, shall be recorded in the minutes for that meeting.

The Board may authorise a Pingala Co-operative employee to accept or hold an office or occupation outside of his or her employment duties at the Pingala Co-operative, or to accept an honour or decoration provided by an outside party. When requested, the Board shall state whether such authorization would result in an actual or potential conflict of interest.

Should a Covered Individual be found to have an actual or potential conflict of interest that has not been disclosed as required above, or the Board has reasonable

cause to believe that a Covered Individual has failed to disclose an actual or potential conflict of interest, it will inform the Covered Individual of the basis for such belief and provide him or her with the opportunity to explain the alleged failure to disclose.

