



Terra Catalyst Fund

Audited Financial Statements

For the year ended 31st March 2010

(With report of the Independent Auditors thereon)

Directors and Other Information

Directors

Robert Thomas Ware* (Chairman)
Richard Ian Watson* (resigned 21st December, 2009)
Nicholas Paul James*
Martin Michael Adams*
Aled Rhys Jones
Andrew Morrison Shepherd
Michael Andrew Haxby (Finance Director)
Johan Fredrik Petter Lantz* (appointed 9th June, 2010)

* Independent Directors

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Reporting Accountants and Auditors

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Directors' Report

For the year ended 31st March 2010

The Directors have pleasure in presenting their report and audited financial statements of the Company for the year ended 31st March 2010.

The Company

Terra Catalyst Fund (the "Company") was incorporated in the Cayman Islands on 21st December 2007 and listed on the AIM on 25th February 2008. The principal activity of the Company is that of a closed-end investment fund.

Investment Objective

The investment objective of the Company is to provide an absolute return for its shareholders (in Sterling) primarily through capital growth by investment in property related securities.

Results and Dividend

The Net Asset Value per Share of the Company at 31st March 2010 was 73 pence (31st March 2009: 39 pence).

The Directors do not propose a dividend for the period ended 31st March 2010.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

The Directors are required to prepare financial statements for each financial year. They have elected to prepare the financial statements in accordance with International Financial Reporting Standards.

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 and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper 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 International Financial Reporting Standards. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Directors

The Directors who held office during the year and to date were as follows:

Robert Thomas Ware (Chairman)
Richard Ian Watson (resigned 21st December 2009)
Nicholas Paul James
Martin Michael Adams
Aled Rhys Jones
Andrew Morrison Shepherd
Michael Andrew Haxby
Johan Fredrik Petter Lantz (appointed 9th June 2010)

As at 31st March 2010 the interests of the Directors in the issued share capital of the Company was as follows:

Director	Number of Ordinary Shares
Richard Ian Watson	7,500
Nicholas Paul James	50,000
Aled Rhys Jones	50,000
Robert Thomas Ware	150,000*
Michael Andrew Haxby	60,000
Andrew Morrison Shepherd	50,000
Martin Michael Adams	30,000

* Robert Thomas Ware's shares are held in his Self-invested Personal Pension

Details of Directors Remuneration for the period are given in Note 18.

Auditors

Our Auditors, KPMG Audit LLC, being eligible, have expressed their willingness to continue in office.

For and on behalf of the Board of Directors.



Michael Andrew Haxby
Director

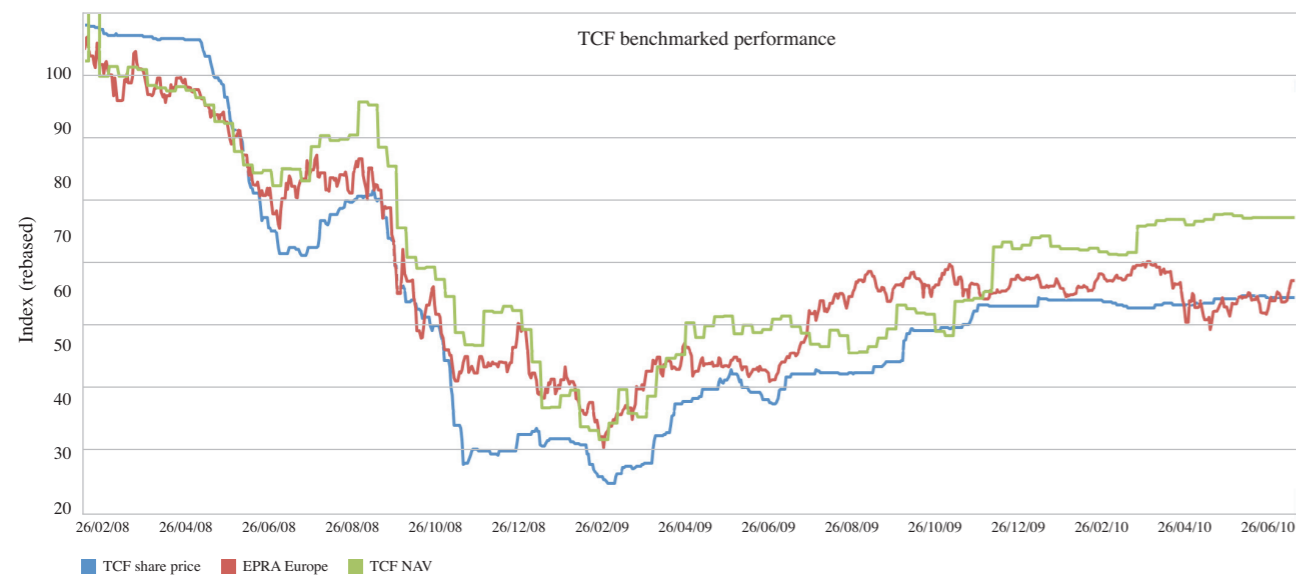


Martin Michael Adams
Director

Investment Manager's Report

For the year ended 31st March 2010

NAV Performance Since Inception



The financial year under review has been a very strong period for the Terra Catalyst Fund. As at 31st March 2010, the TCF NAV was 72.6 pence per share. As at this date, we have calculated that the “look through” NAV of TCF (where we take the latest available published underlying NAV of our investments rather than the share price) was 146 pence per share.

The performance of the fund's NAV relative to the EPRA index over the current financial year is given in the table below:

Date	EPRA	% change since start of FY	TCF NAV	% change since start of FY
31st Mar 2009	814.1	–	39.0	–
30th Sep 2009	1215.5	+49.3%	53.6	+37.4%
31st Mar 2010	1293.4	+58.9%	72.6	+86.2%

The recent NAV performance of TCF has been materially affected by the fact that on 16th December 2009, the largest single investment, Spazio Investment NV (“Spazio”), was delisted and held at a directors’ valuation. This valuation was initially the weighted average purchase cost price of EUR 6.68. Then from 31st March 2010, Spazio has been held at a price based on an underlying valuation model which is currently EUR 7.62 per share. Spazio comprises over 60% of the NAV as at 31st March 2010. Investors should note that management fees will be charged only on the weighted average purchase cost price of EUR 6.68 and not on any further directors’ revaluations.

Given the fact that Spazio’s December 2009 unaudited adjusted NAV is EUR 14.3 and there has been positive progress since that date on liquidating the portfolio, the directors’ valuation of EUR 7.62 incorporates very significant provision for both the risk that assets may be sold at a discount to NAV and also for all associated costs and fees. As further positive progress is made with portfolio sales, we expect that this will be reflected via a closing of the gap between the directors’ valuation of the investment and the externally appraised NAV of the company.

The large gap between the reported TCF NAV of 72.6 pence and the underlying “look through” NAV of 146 pence gives an indication of the substantial latent value in the portfolio as at the period end. The application of our activist strategy should enable us to close the gap between these two NAV measures over time. It should also allow us to drive positive absolute returns from our portfolio in a much wider range of market conditions than would otherwise be the case.

Immediately after the year end, TCF announced and unaudited NAV of 70.6 pence based on a carrying value for Spazio of EUR7.32. The carrying value of Spazio was subsequently revised to EUR 7.62 based on the external valuation of Spazio's property portfolio and financial results as at 31st March 2010. The revision has been incorporated into TCF's audited report and accounts and results in an audited NAV as at 31st March 2010 of 72.6 pence.

This last financial reporting period has demonstrated TCF's capability to implement its stated activist strategy in a variety of ways. We continue to believe that such a strategy is the only way investors in many sub-scale and illiquid listed property companies can have confidence of realising the underlying value of their investment.

The listed world remains full of such companies most of which have ceased to be of any interest either to specialist property investors or to income investors which they had previously sought to appeal to.

Investment Activity

During the financial period under review, TCF undertook a number of key portfolio investment decisions which we believe will deliver attractive returns to our shareholders going forward.

The first major investment decision was the offer for Spazio which went unconditional on 13th July 2009 and which effectively enabled TCF to participate in the privatisation of a property fund with a theoretical NAV of over EUR 340m for a price of less than EUR 118m. TCF has a 33% economic interest in Spazio.

Spazio is currently working towards a full liquidation of its EUR 670m portfolio with EUR 51m of sales in 2009 at an average discount to appraised OMV at the start of 2009 of 4.3% and further sales of EUR 31.4m in the first quarter of 2010 at an average discount (for the investment properties) of 2.0% to the appraised OMV as at 31st December 2009. In the second quarter of 2010, Spazio sold EUR 35.2m at an average discount (investment properties) of 5.6% to the 31st December 2009 OMV. Whilst it is clear that to achieve a sufficiently high rate of sales, it may be necessary to accept some level of discount to OMV for certain assets in the Spazio portfolio, the sales pipeline going forward is excellent and we remain confident that a full liquidation of the company can be made over the next few years at a price that will prove attractive to shareholders of TCF. This increased performance is, in our opinion, attributable to a combination of the additional resource introduced by the involvement of Celtic Italy under a co-agency mandate

Investment Manager's Report

(continued)

with Pirelli RE, together with the very professional and constructive way in which Pirelli RE, the incumbent fund manager, has engaged with us throughout the process.

On 27th May 2010, Spazio made an initial distribution to shareholders (including TCF) of EUR 13m in respect of the 2009 results and a further distribution of EUR 10m in respect of the Q1 2010 sales on 21st June 2010.

The second major investment decision was TCF's participation in the purchase of an 18% stake in Rugby REIT from a third party investor on 13th October 2009 for 41 pence which took the combined stake of funds under management of Laxey Partners to over 35%.

This decision was followed by a sequence of events which culminated in an offer for Rugby REIT by ING Real Estate Income Trust on 15th April 2010 for 63 pence in cash or a ZDP ("Zero Dividend Preference Share") or ordinary share alternative. Funds under the management of Laxey Partners undertook to accept the offer and to receive ZDPs as consideration. These ZDPs have been valued by the advisor to the offer at a price of not less than 65 pence per share, and are due to be redeemed at approximately 77 pence on 31st October 2012 (representing a gross redemption yield of 6.875%). TCF and the other Laxey Funds also agreed to sub-underwrite a placing of further ZDPs at 65 pence per ZDP by ING UK REIT which was used to fund the cash alternative available under the Offer. The Offer was declared unconditional on 14th May 2010 with an unusually high 96.4% acceptance rate, of which 38% elected the cash alternative. As a result, TCF and the Laxey Funds will receive sub-underwriting commission of £493,000 for subscribing to around £14.6m of ZDPs issued to satisfy third party cash acceptances. TCF's holding of ZDPs as at 30th June 2010 was valued at £6.6m based on the 65p issue price.

Elsewhere in the portfolio, we continue to engage pro-actively with management to close the substantial discount to NAV that our various investments continue to trade with a view to capturing the gap between TCF's mark-to-market NAV of 72.6 pence and its "look through" NAV of 146 pence. Whilst we accept that it may not always be possible to find a cash exit at a price quite as high as the underlying NAV of our investments, we do believe that it should be possible, in the majority of cases, to exit at prices close to the underlying NAV in due course. Furthermore, we believe that underlying NAVs appear to be at or close to the trough for a number of our investments. In some cases NAVs have the potential to rise at some point in the future. This can be seen most notably in the case of Rugby REIT where the appraised NAV as at 30th June 2009 was 60 pence per share and was subsequently revalued to 79 pence per share at 31st December 2009.

Other examples of progress on the realisation of underlying values from investments include the return of 95 pence per share in cash from our investment in Rugby Estates plc over the course of the year, and the restructuring of the management contract at Carpathian plc to incentivise the manager to sell assets and return cash to shareholders. Shortly after agreeing the revised incentive arrangement, Carpathian announced their first asset sale since the end of 2008. On both of these investments we have worked very closely with the boards and managers of these companies to agree the best possible way forward for shareholders.

In the broader market the 12 months to March 2010 was a year of two halves for larger cap listed property stocks.

Over the course of the first six months to the end of September, the total despair of the market bottom in

March 2009 gradually shifted from a broad-based scepticism at the initial market rally to an equally broad-based fear of missing out on a major market rebound. As investors chased the liquid stocks in particular, the EPRA index rallied nearly 50% during this period.

This first six months of extraordinary share price performance was followed by six months of "consolidation" with major listed property stocks largely treading water as evidence from the direct commercial property market took more or less until March 2010 to catch up with the sharp bounce in values which had already been factored in to the listed market by the end of September 2009.

To some extent this pattern has been reflected in the smaller cap and illiquid end of the listed property sector which is the focus of TCF's portfolio. But there have been some significant differences in how this has manifested itself.

One observation is that the successful cash offer for Spazio took place in the first half of the financial year and was well received by still-nervous investors despite the significant discount to NAV that it was completed at. However, offers in the second half of the financial year generally needed to be at levels much closer to NAV to have a chance of success. Rugby REIT was a notable example of this.

Elsewhere in the portfolio, NR Nordic & Russian Properties received what we believe to be a "low ball" offer of EUR 0.24 per share from a vehicle controlled by the external manager of the fund. Unsurprisingly, given the NAV of EUR 0.458, this offer was declared lapsed on 7th April 2010 due to insufficient acceptances and this leaves the way open for the recently reconstituted board

to implement an orderly work-out plan to sell assets and return cash to shareholders over the next few years. Again it is interesting to note shareholders rejecting in 2010 a cash offer which may have been accepted had it been made 9-12 months earlier.

Hedging and Gearing

The investment manager may mitigate against certain country, currency and other market risks by applying hedges where deemed appropriate. Hedges against foreign currency exposure for that part of the portfolio whose underlying assets were based in continental Europe were, and continue to be applied.

As at 31st March 2010, the total exposure hedged by equity shorts was approximately £3.5m against a gross long position of £81.9m, a cash balance of £1.9m and a net asset value of £76.9m.

TCF therefore had minimal period end net gearing, and expects significant cash inflows from investments over the rest of 2010. Since the period end, the fund has moved into a net cash position.

Share buybacks and significant shareholders

The last share buyback occurred on 15th June 2009. TCF has bought back a total of 17,330,000 shares since inception at a weighted average purchase price of 49.7p. As at 31st March 2010, there were a total of 106,070,870 shares outstanding. Laxey Partners, the investment manager, last purchased shares in TCF on 21st August 2009. Laxey Partners is currently the largest shareholder in TCF with a total of 16,550,870 shares (15.6% of outstanding shares).

Investment Manager's Report

(continued)

As at 31st March 2010, TCF shareholders with stakes of more than 3% of the issued share capital of the company were as follows:

Shareholder	Shares	% of Outstanding
Laxey Partners	16,550,870	15.6
Insight Investment	11,625,965	11.0
Asset Value Investors	10,505,189	9.9
Baillie Gifford & Co	5,575,300	5.3
Lehman Brothers Inc	5,090,771	4.8
Scottish Friendly Assurance plc	5,000,000	4.7

Portfolio Review

As at 31st March 2010, the fund's key holdings were as follows:

Holding	TCF Holding March 2010 £m	% held across Laxey funds Mar 10
Spazio Investment NV	51.5	71.4%
NR Nordic and Russian Properties	8.3	16.3%
Rugby Estates plc	4.5	27.6%
Rugby Estates Investment Trust	3.0	35.7%
Sirius Real Estate	2.7	9.3%
Loan to TDG	2.6	n/a
Carpathian plc	2.1	12.5%
Assura Group	1.4	2.0%
Kenmore European Ind Fund	1.0	5.2%
Lok n Store Group	0.6	12.4%
Bulgarian Land Development	0.5	15.3%
Other	3.7	Various
Total	81.9	

Investors should note that TCF's holding in each of the above positions is only a part of the total holding in each position across all Laxey funds. TCF invests alongside other Laxey funds in pursuing the fund's strategy and benefits enormously from working alongside this additional capital.

TDG Loan

During the financial year in December 2009, a £0.9m principal repayment (plus associated accrued interest) of the loan balance took place.

Since year end the balance of the loan has been fully repaid. Interest on the loan was charged at a rate of 3month Libor plus 15%.

New Investments

In the period to the interim reporting date (30th September 2009), there was substantial portfolio activity as has already been described.

Since the date of the interim report, TCF had sought to acquire shares in a number of interesting new opportunities. Unfortunately, due to the strength of the wider equity market, it has proved to be harder to acquire significant quantities of shares in small and micro-cap listed property stocks than in previous periods.

However, despite this, a few new positions have been announced including a 12.4% stake (across all Laxey funds including TCF) in Lok n Store, the UK's fourth largest provider of self storage space. In addition to this, further shares were purchased in a number of existing investments.

We also made one or two disposals of small investments which had appreciated substantially in price during the

year and which, in our opinion, no longer represented a compelling investment case for TCF. In doing so, we locked in some large percentage gains, although these were in investments that were too small to affect the fund's performance in a material way. For example, in the case of one micro-cap European property fund, we built up a tiny position over several months from November 2009 and then exited fully in June 2010 for a profit of 80% on our weighted average purchase price. However, the absolute magnitude of the profit was only just over £200k! Useful maybe but hardly enough to make a big difference to our portfolio and illustrative of one of the challenges of operating in an illiquid space and why it is often necessary to trigger a corporate event to provide an exit for more material stakes.

Outlook

With the benefit of hindsight, market participants can see clearly that there were some exceptional opportunities in the listed property sector through the spring and early summer of 2009. We are pleased to be able to report that TCF was able to participate in some of these opportunities and there was substantial portfolio activity during this period.

As ever, the market outlook at the time of writing is uncertain and many commentators have now predicted a halt to the strong price rises in the prime end of the investment property market which has been observed in the UK and in some parts of Europe. Most of the larger cap property stocks now trade at small discounts to NAV, but there is now widespread scepticism about their ability to grow NAV and rental income significantly over the short-to-medium term. It is hard to find many market participants who are overly enthusiastic about their prospects from here.

However, our own portfolio does not own these sorts of stocks. Instead, we continue to see opportunities in the smaller and less liquid end of the market where discounts are generally more material and will continue to look to build positions in interesting opportunities where we see a substantial gap between share price and the underlying value of the real estate.

We also see significant value in our existing portfolio of investments, and have already implemented pro-active strategies to realise that value across all our largest investments. The gap between our stated NAV of 72.6 pence and our "look through" NAV of 146 pence remains a significant potential source of future upside for TCF.

We remain very aware of the pitfalls within this sub-sector, where there are many examples of high leverage, conflicted managements and sometimes wildly optimistic valuations. NAV declines for some companies in this space have been devastating, and we continue to see numerous companies whose futures are very obviously in the hands of the banks.

All this represents a potential minefield for investors. However, it also represents a substantial opportunity for TCF.

The latent value within TCF's existing portfolio of investments, our experience of the sub-sector and our proven activist capabilities makes us positive about TCF's ability to deliver attractive returns to shareholders over the year ahead.

Investment Manager's Report

(continued)

Full Review of Key Holdings

Spazio Investment ("Spazio")

This externally-managed property fund (previously AIM Listed) specialises in Italian industrial real estate. Spazio owned a portfolio of EUR 668m (31 December 09) of Italian industrial properties of which around 43% comprised 347 Telecom Italia exchange buildings. In the short term, the portfolio is generally very well let on relatively long leases to sound covenants. In the medium term, there is believed to be potential within both the Telecom Italia portfolio and also some of the other assets to obtain a change of use and redevelop the sites as residential or other higher value real estate. The external manager is Pirelli Real Estate.

When Laxey Partners joined the share register in February 2008, over 60% of the shares of Spazio were already in the hands of just four shareholders. This situation resulted in poor liquidity and a depressed share price. In addition, negative sentiment associated with externally-managed, AIM listed property vehicles affected the stock. Laxey Partners worked with the board through the summer of 2008 to try and address these issues.

On 19th September 2008 Spazio announced an accelerated business plan, including targeted disposals of EUR 450m (representing over 60% of the portfolio) over the period to 31st December 2010. On 3rd November 2008 it then announced a revised management fee arrangement that rewards Pirelli primarily on the basis of cash returns to shareholders above a minimum hurdle rate over the period to end 2011, rather than simply on gross assets under management as had previously been the case.

In June 2009, Terra European Investments BV (TEI), a vehicle controlled by funds under management of Laxey

Partners announced a cash offer at a price of EUR 5.125 per share for all the shares in Spazio not already owned by funds under the management of Laxey Partners. On 13th July 2009 TEI declared the offer unconditional and announced aggregate holdings of 66.3% of the Spazio shares in issue, and subsequent acceptances and purchases of shares increased TEI's holding in Spazio to 71.4%.

TCF has made a significant investment into TEI and therefore has a significant stake in the entity which controls Spazio. The investment made by TCF into TEI has been kept below 50% of the shares in TEI and therefore Spazio will not be consolidated into the accounts of TCF. TCF currently has a stake of 46.3% in TEI, and therefore a 33.1% economic interest in Spazio.

Laxey Partners believes that the investment into TEI will prove to be a driver of significant value for shareholders in TCF over the medium term. As well as increasing TCF's stake in Spazio, the bid allows Laxey to work closely with Pirelli to ensure that assets are sold and cash returned to shareholders as quickly as possible, and will therefore assist in capturing the discount between the bid price of EUR 5.125 and the adjusted NAV of Spazio as at 30th June, 2009 of EUR 14.7 (after cancellation of treasury shares).

At an EGM on the 3rd December, the shareholders resolved to delist Spazio. This subsequently took place on 16th December 2009. Following delisting, a number of agreements were entered into between Pirelli RE and TEI to regulate the management of the delisted company. These agreements include the involvement of Celtic Italy who has been awarded a co-agency mandate alongside Pirelli RE Agency. The application of this additional resource has already helped speed up the disposals process going forward.

During the year to 31st December 2009, Spazio completed on the sales of a total of EUR 51.3m of assets, comprising EUR 47.4m of investment properties and EUR 3.9m of development properties. The investment properties were sold at an average discount of 4.3% to the 31st December 2008 open market valuation.

As at 31st December 2009, the remaining property portfolio of Spazio was valued by CB Richard Ellis at EUR 668m (a like-for-like reduction of 4.3% on the December 2008 figure) and the unaudited adjusted NAV for that date is EUR 14.3 per share. Gross debt at 31st December 2009 was EUR 384m, with EUR 67m of cash on the balance sheet. Spazio's net LTV was just over 50% as at this date. As assets are sold, the allocated loan amount is automatically repaid under the terms of the loan agreement and so the debt balance will continue to fall going forward.

Spazio completed further sales of EUR 31.4m during the first quarter of 2010 at an average discount (for the investment properties) of 2.0% to the appraised OMV at 31st December 2009. In the second quarter of 2010, sales of EUR 35.2m at an average discount (investment properties) of 5.6% to the OMV at the 31st December, 2009 was achieved. This represents a substantial up-tick in the rate of sales as the efforts of Celtic Italy and the benefits of the competitive co-agency agreement with Pirelli RE start to feed through. Beyond Q2, the pipeline of transactions with "binding offers" is strong. Laxey Partners is optimistic about the likely out-turn for the full year.

Funds under the management of Laxey Partners had a total holding of 71.4% in Spazio as at end March 2010.

Rugby Estates Investment Trust plc ("Rugby REIT")
Rugby REIT is the smallest UK REIT with a diversified

portfolio of UK property assets valued at £68m (December 09) and is externally managed by Rugby Estates plc.

The REIT was originally set up in May 2007, during the last few months of the property bull market in the UK as a tax efficient vehicle to acquire private property companies with significant embedded capital gains tax liabilities. The REIT structure offered an opportunity to eliminate this tax liability and therefore gave the REIT a competitive advantage as a purchaser of such companies.

Unfortunately the two year property bear market which followed the launch of Rugby REIT resulted in a circa 45% peak-to-trough decline in UK commercial property values and therefore a huge reduction in the number of private property companies with material embedded capital gains tax liabilities. At the time, Rugby REIT announced that it did not therefore expect to be able to make further acquisitions of such companies at the present time. Furthermore, the share price of Rugby REIT had fallen to a significant discount relative to its net asset value which has made the likelihood of raising further capital for any such acquisitions from the equity markets extremely slim.

Rugby REIT's lack of scale left it with a very high total expense ratio relative to its NAV, a feature which is common to many smaller cap property companies, particularly the externally managed ones. Furthermore, the existence of a large retained earnings deficit meant that the REIT never managed to pay a dividend since its inception.

With no obvious way forward for Rugby REIT, funds under the management of Laxey Partners (including TCF) decided in October 2009, to purchase a large stake from

Investment Manager's Report

(continued)

another shareholder in the company which caused the total shareholding of the funds to exceed 30% and therefore triggered a mandatory cash bid for the shares not already owned at a price of 41p. The offer lapsed on 24th November.

Following extensive dialogue with the board of Rugby REIT, TCF and the other Laxey Funds involved have sought to maximise shareholder value by helping to facilitate a transaction which would benefit all shareholders in Rugby REIT.

On 15th April 2010, Rugby REIT announced that it was the subject of a third party public offer by ING Real Estate Income Trust. The terms of the offer were 63p in cash or a ZDP share alternative or an ING UK REIT ordinary share alternative. TCF and funds under management of Laxey Partners undertook to accept the offer and to receive zero dividend preference shares as consideration. The ZDPs were valued at 65 pence each on issue. These ZDPs were issued at 65 pence per share and are due to be redeemed at approximately 77 pence on 31st October 2012 which represents a gross redemption yield of 6.875%.

In addition to participating in an innovative and tax efficient offer structure which involves the issue of ZDPs as consideration under the offer, TCF and other funds under the management of Laxey Partners agreed to sub-underwrite a placing of further ZDPs at 65 pence per ZDP by ING UK REIT which was used to fund the cash alternative available under the offer. The Offer was declared unconditional on 14th May 2010 with an unusually high 96.4% acceptance rate, of which 38%

electd the cash alternative. As a result, TCF and the Laxey Funds have received sub-underwriting commission of £493,000 for subscribing to around £14.6m of ZDPs issued to satisfy cash acceptances. As at 30th June 2010, TCF held £6.6m of ZDPs and will receive a proportionate share in the sub-underwriting commission for those ZDPs which were subscribed to satisfy cash acceptances.

Given a weighted average purchase price of 38 pence, the income from the sub-underwriting of the ZDPs, and an assumed exit within two and half years at a price between 65 pence and 77 pence, Laxey believes that the overall transaction is highly favourable for shareholders of TCF.

Funds under the management of Laxey Partners had a total holding of 35.7% in Rugby REIT as at March 2010.

NR Nordic and Russia Properties ("NR Nordic")

This externally-managed AIM listed property fund has a portfolio of EUR 555m (December 2009) of real estate primarily in Sweden and Russia and with a mix of industrial, office, logistic, retail and hotel use. NR Nordic IPO-ed in November 2006 as Northern European Properties with the objective of investing in the Nordic and Baltic Europe region to generate a high income yield for investors and has since undergone a dramatic transformation, including the disposal of over 50% of the initial portfolio, a change in investment strategy, a change in dividend policy, a move from AIM to Euronext and a change of name to NR Nordic and Russian Properties. The external manager is London and Regional Properties.

Laxey Partners' funds (including TCF) have been shareholders of NR Nordic since February 2008, and have pushed for a number of major changes to the board, the

first of which took place in August 2008 with further changes in September 2009. As a result of these efforts, the chairman has stepped down and four shareholder representatives have been appointed. The new board has reviewed the strategic options available to the company with a view to maximising cash returns to shareholders over a reasonable timeframe.

In the meantime, NR Nordic has addressed its excessive cash balance by making two further significant special cash dividend payments to shareholders, one in October 2008 and a further one in January 2009. It also clearly stated its intention to continue realising assets and returning cash to shareholders.

The company remains comfortably within its banking covenants and is cash generative with a relatively resilient portfolio of assets.

On 29th September 2009 Ohman, a financial advisor for Ian Livingstone and Richard Livingstone announced that they were considering a possible joint offer for NR Nordic. On 25th January 2010, Holowent Limited, a vehicle controlled by the Livingstone brothers, announced a cash offer for NR Nordic and Russian Properties at EUR 0.24 per share. This offer represents a significant discount to the last calculated adjusted NAV of the Company which is EUR 0.458 per share. Holowent already owned 24.65% of the shares of the company. On 7th April 2010, Holowent Limited announced that as only 2.4% of shareholders other than bidder had accepted the offer, the acceptance condition had not been fulfilled and the offer was therefore allowed to lapse.

Laxey Partners believes that the failure of the bid by Holowent reflects the fact that the vast majority of NR Nordic's shareholders see the offer price of EUR 0.24 as substantially below the realisable value of the underlying property portfolio. The recently appointed board of NR Nordic now has the chance to implement a serious realisation strategy with a view to an orderly liquidation of the company's property and a return of cash to shareholders over the next 3 years or so.

Funds under the management of Laxey Partners had a total holding of 16.3% in NR Nordic as at end March 2010.

Rugby Estates plc ("Rugby")

This micro cap UK property company owns a £36m (January 10) diversified portfolio of income-producing assets across the UK. Rugby also has a number of external management contracts with two separately listed property funds (including Rugby REIT – see above) and a private investment partnership. These external management contracts generate significant fee income.

Over the autumn of 2008, Laxey Partners started to engage with management and was looking to address the discount that the shares had been trading at and also ensure that Rugby's administrative cost base appropriately reflects the size of the company and the more difficult economic environment in which it now operates.

On 11th December 2008 Rugby announced that it would be returning excess cash on the balance sheet to shareholders, and was planning to cut its cost base and refocus the business on the asset management unit. The wholly owned portfolio of assets is to be "managed with a view to maximising net rental income and, in due course, capital receipts."

Investment Manager's Report

(continued)

On 28th May 2009 Rugby announced a scheme for the return of 50 pence per share in cash to shareholders (which is approximately the free cash on the balance sheet of the company) and also a new incentive scheme for management to sell assets and return cash to shareholders. Management will receive bonuses based on a percentage of cash returned to shareholders in the period to 31 January 2014 with a 50% retention, to be paid only on the full sell down of the assets on the balance sheet. There is an additional incentive scheme designed to reward management for growing the external management side of the business which designed to ensure that there will be an ongoing entity, albeit one which does not tie up large amounts of its own capital.

On 4th November 2009, Rugby announced two disposals of property assets at prices in excess of their last valuation and on 13th January 2010, made a further return of cash to shareholders of 45p per share.

As at 31st March 2010, Rugby Estates owned 8.5% of the shares in Rugby REIT and had announced its intention to accept the 63 pence per share cash alternative provided by ING REIT. This represents a further material potential cash realisation from Rugby Estates' portfolio of investments. On the 1st July 2010, the company announced its intention to return a further 175p/ share to shareholders before the 30th September 2010.

Funds under the management of Laxey Partners had a total holding of 27.6% in Rugby as at end March 2010.

Carpathian plc ("Carpathian")

This AIM listed fund has a EUR 453m (December 09) portfolio of retail assets in Central and Eastern Europe with the majority of the portfolio in Hungary and Poland.

Having been launched in July 2005 as Dawnay Day Carpathian, it was one of the earlier examples of the AIM offshore property funds, and as such was able to acquire some relatively good quality retail assets before the CEE direct property market became excessively overheated. However, like all AIM funds where the base management fee was a percentage of gross assets, there was a significant incentive to continue to buy properties even when the market had become very frothy, with a further capital increase for this purpose taking place as late as May 2007. As a result the assets vary significantly in quality from institutional grade shopping centres to retail warehouse assets of a very secondary nature.

On 22nd October 2008 Carpathian announced the appointment of Hawkpoint Partners to conduct a strategic review in order to maximise shareholder value. After pressure from its shareholders, Carpathian announced on 17th November, the appointment of a new chairman who is an experienced restructuring specialist well known to Laxey Partners.

On 1st May 2009 Carpathian announced the results of its strategic review which essentially comprises the return of surplus cash to shareholders in the short term and the orderly realisation of its portfolio over the medium term. The first EUR 0.045 per share was returned to shareholders in December 2009.

On the 5th February 2010, Carpathian plc announced a New Portfolio Management Agreement with its external manager Carpathian Asset Management. The New Agreement runs until the end of 2011 and will remunerate the manager based on cash returns to shareholders in the period until the end of

the plan. Laxey Partners has engaged actively with the board of Carpathian throughout this process to maximise shareholder value and ensure a satisfactory outcome to the orderly realisation of its portfolio.

Funds under the management of Laxey Partners had a total holding of 12.5% in Carpathian as at end March 2010.

Corporate Governance Statement

The Company's shares are quoted on the Alternative Investment Market (AIM). As an AIM quoted company, the Company is not required to follow the provisions of the combined Code as set out in the UK Financial Services Authority Listing Rules. However, the Board is committed to high standards of corporate governance and a summary of the main elements of corporate governance are described below:

Board of Directors

The composition of the Board is set out on page 1. The Board meets regularly and is provided with relevant information on financial, business and corporate matters prior to meetings.

The following committees deal with specific aspects of the Company's affairs:

Audit Committee

The Audit Committee comprises the independent non-executive chairman, and two other non-executive Directors. The committee oversees the adequacy of the Company's internal controls, accounting policies and financial reporting and provides a forum through which the Company's external auditors report to the Company.

The Audit Committee comprises:

Martin Michael Adams (Audit Committee Chairman)

Robert Thomas Ware

Richard Ian Watson

Remuneration Committee

The Remuneration Committee operates under the chairmanship of an independent non-executive director and is responsible for setting the remuneration of Directors. The Remuneration Committee comprises the full board.

Nomination Committee

The Nomination Committee operates under the chairmanship of the independent non-executive chairman and is responsible for making recommendations regarding the composition of the Company's board. The Nomination Committee comprises the full board.

Internal Control

The Directors are responsible for establishing and maintaining the Company's system of internal control. This system of internal control is designed to safeguard the Company's assets and to ensure proper accounting records are maintained and that financial information produced by the Company is reliable. There are inherent limitations in any system of internal control and such a system can provide only reasonable, but not absolute, assurances against material misstatement or loss. The Directors, through the audit committee have reviewed the effectiveness of the Company's system of internal control.

Report of the Independent Auditors, KPMG Audit LLC, To the Members of Terra Catalyst Fund

We have audited the accompanying financial statements of Terra Catalyst Fund for the year ended 31st March 2010, which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and related notes. These financial statements have been prepared under the accounting policies set out therein.

The report is made solely to the Company's members, as a body. 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 the opinion we have formed.

Respective responsibilities of the Directors and Auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities on page 2.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with International Financial Reporting Standards. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report and any other information accompanying the financial statements and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware

of any apparent misstatements or material inconsistencies with the audited financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standard on Auditing (UK and Ireland) issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Company's affairs as at 31st March 2010 and of its profit for the year then ended.



KPMG Audit LLC
Chartered Accountants, Heritage Court, 41 Athol Street,
Douglas, Isle of Man

29 July 2010

Portfolio Statement

Description	2010 Market value GBP	2010 % of Total net assets	2009 Market value GBP	2009 % of Total net assets
Investment funds – long	74,596,823	96.95	929,885	2.03
Investment funds – short	(3,529,574)	(4.59)	–	–
Investment funds – long swaps	–	–	(106,480)	(0.24)
Equities – long	4,335,927	5.63	50,015,072	109.09
Equities – short	–	–	(5,236,654)	(11.42)
Equity swaps – long	44,199	0.06	–	–
Equity swaps – short	(353,552)	(0.46)	–	–
Receivable on currency forwards	198,174	0.26	–	–
Loan receivable	2,615,160	3.40	3,500,000	7.63
Total investments	77,907,157	101.25	49,101,823	107.09
Other assets less liabilities	(957,957)	(1.25)	(3,252,620)	(7.09)
Total net assets	76,949,200	100.00	45,849,203	100.00

Analysis of investments by currency

	2010 % of investments	2009 % of investments
British pound	16.73	86.50
Euro	83.27	23.93
Other	–	(10.43)
	100.00	100.00

Analysis of investments by geographical position

	2010 % of investments	2009 % of investments
United Kingdom	30.69	83.47
Netherlands	64.71	–
Italy	–	12.34
Germany	–	3.72
Sweden	–	3.02
Bulgaria	–	1.72
British Virgin Islands	0.30	–
Cash & fixed interest	2.42	1.49
Guernsey	0.61	–
Russia	–	1.28
Poland	–	1.07
Hungary	–	0.75
Denmark	–	0.35
Romania	–	0.28
Croatia	–	0.23
Lithuania	–	0.22
European Emerging	–	0.20
Czech Republic	–	0.15
Latvia	–	0.05
Europe	1.29	(0.98)
Switzerland	–	(9.36)
	100.00	100.00

Statement of Comprehensive Income

For the year ended 31st March 2010

	Notes	2010 GBP	(Note 20) 2009 GBP
Income			
Dividends on long equity securities and investment funds		2,131,016	9,112,598
Interest			
– Cash balances		13,883	709,634
– Debt securities		–	–
– Derivatives		128	257,024
– Loan		565,057	38,522
Net realised (losses) / gains on financial assets and liabilities at fair value through profit or loss			
– Cash balances		(108,941)	–
– Equities and Funds		(17,963,324)	(8,264,924)
– Derivatives		(168,389)	(286,960)
– Forwards		(2,031,684)	(1,415,156)
Net unrealised gains / (losses) on financial assets and liabilities other than currency forwards at fair value through profit or loss			
– Equities and Funds		56,730,603	(64,533,078)
– Derivatives		(202,873)	(106,480)
Net unrealised gains/(losses) on currency forwards at fair value through profit or loss			
		335,131	(136,957)
Other foreign currency gains		47,546	
Total net investment income / (expense)		39,348,153	(64,625,777)
Expenses			
Dividends payable on short positions		339,604	716,900
Investment management fee	4	1,253,529	451,577
Administration fee	5	107,205	160,279
Audit fees		20,000	20,000
Directors' fees		238,721	264,986
Other expenses		948,260	362,820
Interest expense			
– Cash balances		108,553	508,416
– Derivatives		57,284	146,259
Total expenses		3,073,156	2,631,237
Profit/(loss) for the year/period		36,274,997	(67,257,014)
Other comprehensive income		–	–
Total comprehensive income/(loss) for the year/period		36,274,997	(67,257,014)
Gain / (loss) per ordinary share			
Basic and fully diluted	12	GBP0.33	GBP(0.59)


The notes on pages 24 to 38 are an integral part of the financial statements.

Statement of Financial Position

As at 31st March 2010

	Notes	2010 GBP	(Note 20) 2009 GBP
Current Assets			
Cash at bank and brokers	15	1,179,671	165,140
Cash held as margin at brokers		750,983	13,032
Investment funds – long at fair value through profit or loss	6	4,335,927	929,885
Equities – long at fair value through profit or loss	6	74,596,823	50,015,072
Equity swaps – long at fair value through profit or loss	6,13.6	44,199	–
Amounts receivable on currency forwards	13.6	198,174	–
Other debtors and accrued income	9	487,651	38,527
Loan receivable	18	2,615,160	3,500,000
Total Assets		84,208,588	54,661,656
Equity			
Share Capital	7	1,060,709	1,175,709
Share premium	8	106,870,508	111,930,508
Retained losses	8	(30,982,017)	(67,257,014)
Total equity		76,949,200	45,849,203
Liabilities			
Overdrawn balances at brokers	15	–	3,058,276
Investment funds – long swaps at fair value through profit or loss	6,13.6	–	106,480
Investment funds – short at fair value through profit or loss	6	3,529,574	–
Equities – short at fair value through profit or loss	6	–	5,236,654
Equity swaps – short at fair value through profit or loss	6,13.6	353,552	–
Amounts payable on currency forwards	13.6	–	136,957
Amounts due for outstanding purchase settlements		2,240,244	16,220
Other creditors and accrued expenses	10	1,136,018	257,866
Total liabilities		7,259,388	8,812,453
Total liabilities and equity		84,208,588	54,661,656
Net asset value per ordinary share	11	0.73	0.39

These accounts were approved and authorised by the Board of Directors on 29 July 2010 and are signed on their behalf by:

Director 

Director 

The notes on pages 24 to 38 are an integral part of the financial statements.

Statement of Changes in Equity

For the year ended 31st March 2010

	Share Capital GBP	Share Premium GBP	Retained losses GBP	Total GBP
Balance at incorporation	–	–	–	–
Total comprehensive income for the period:				
Loss for the period	–	–	(67,257,014)	(67,257,014)
Other comprehensive income	–	–	–	–
Transaction with owners recorded directly in equity:				
Contributions by and distributions to owners:				
Issue of shares	1,234,009	117,865,991	–	119,100,000
Repurchase of shares	(58,300)	(3,073,175)	–	(3,131,475)
Share issue costs	–	(2,862,308)	–	(2,862,308)
Balance at 31st March 2009	1,175,709	111,930,508	(67,257,014)	45,849,203

	Share Capital GBP	Share Premium GBP	Retained losses GBP	Total GBP
Balance at 1st April, 2009	1,175,709	111,930,508	(67,257,014)	45,849,203
Total comprehensive income for the period:				
Profit for the year	–	–	36,274,997	36,274,997
Other comprehensive income	–	–	–	–
Transaction with owners recorded directly in equity:				
Contributions by and distributions to owners:				
Repurchase of shares	(115,000)	(5,060,000)	–	(5,175,000)
Balance at 31st March 2010	1,060,709	106,870,508	(30,982,017)	76,949,200

The notes on pages 24 to 38 are an integral part of the financial statements.

Statement of Cash Flows

For the year ended 31st March 2010

	Notes	2010 GBP	(Note 20) 2009 GBP
Cashflow from operating activities:			
Dividends received		2,131,016	9,112,598
Interest received		129,944	966,653
Dividends paid on short positions		(310,363)	(703,360)
Management fee paid		(301,369)	(431,425)
Administration fee paid		(103,537)	(152,261)
Other expense paid		(1,305,089)	(447,378)
Interest expense paid		(174,646)	(638,947)
Decrease/(increase) in loans receivable		884,840	(3,500,000)
Increase in cash held as margin		(737,951)	(13,032)
Purchase of investments		(77,542,122)	(139,602,388)
Sale of investments		86,577,084	75,957,922
Net cash inflow/(outflow) from operating activities	14	9,247,807	(59,451,618)
Cashflow from financing activities:			
Subscriptions received		–	62,553,265
Share issue costs paid		–	(2,862,308)
Repurchase of shares		(5,175,000)	(3,132,475)
Net cash (outflow)/inflow from financing activities		(5,175,000)	56,558,482
Increase/(decrease) in cash and cash equivalents	15	4,072,807	(2,893,136)
Opening cash and cash equivalents		(2,893,136)	–
Closing cash and cash equivalents	15	1,179,671	(2,893,136)

The notes on pages 24 to 38 are an integral part of the financial statements.

Notes to the Financial Statements

For the year ended 31st March 2010

1. General

The Company was incorporated in the Cayman Islands on 21st December 2007 and its shares were admitted to AIM, a market operated by London Stock Exchange plc, on 25th February 2008.

At the Annual General Meeting held on 29th September 2009, the shareholders approved an amendment to the investment policy. The revised investing policy is set out below:

“The Company has been established to achieve an absolute return for its shareholders (in sterling) primarily through capital growth by investment in property (up to a maximum of 30 per cent of the Company’s gross asset value) and property related securities. The Company may hold large positions in a concentrated number of portfolio companies and there is no limit on the amount of the Company’s assets which may be invested in any one investment. There is no restriction of the length of time that investments may be held. The Company may incur borrowings up to an amount equal to 200 per cent of the Company’s Net Asset Value. Other than those stated, there are no investing restrictions or restrictions in relation to cross-holdings. The Company intends, but is not obliged, to provide shareholders with returns by way of annual dividends.

The Company’s strategy by which its investing policy is achieved is to take positions in undervalued securities and actively seeking to close the valuation gap between the value at which the security is trading and its intrinsic value.”

2. Accounting policies

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with the historical cost convention as modified by the revaluation of investments. The principal accounting policies which have been applied are set out below. Such policies are in accordance with and comply with International Financial Reporting Standards (“IFRSs”).

The Company has adopted Pound Sterling (GBP) as its measurement and reporting currency in which shares are issued.

Change in accounting policy

Presentation of financial statements

The company applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1st January 2009. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. This presentation has been applied in these financial statements as of and for the year ended 31st March 2010. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings.

(b) Financial assets and liabilities

Classification

The Company classifies its investments in equities and investment funds, and related derivatives, and futures as financial assets or financial liabilities at fair value through profit or loss. These financial assets and financial liabilities are classified as held for trading or designated by the Board of Directors at fair value through profit or loss at inception.

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purposes of selling or repurchasing in the short term. Derivatives are also categorised as financial assets or financial liabilities held for trading. The Company does not classify any derivatives as hedges in a hedging relationship.

The Company makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss.

Recognition/derecognition

Purchases and sales of investments are accounted for on the date the securities are purchased or sold. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership. The computation of the cost of sale of securities is made on the average cost basis. Realised and unrealised gains and losses are recorded in the Income Statement, and are shown net of all broker charges.

Measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the Statement of Comprehensive Income. Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the ‘financial assets or financial liabilities at fair value through profit or loss’ category are presented in the Statement of Comprehensive Income in the period in which they arise.

Valuation of financial instruments

IFRS 7 establishes a hierarchal disclosure framework which prioritises and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgement used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I are publicly traded equity securities and are valued at the closing bid price on a national securities exchange on the valuation date. Securities sold, not yet purchased that are listed or dealt on a national securities exchange are valued at the closing offer price on the valuation date. As required by IFRS 7, the Company does not adjust the quoted price for these investments even in situations, if any, where the Company holds a large position and a sale could reasonably impact the quoted price.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, are valued at prices for similar assets or liabilities in markets that are not active, or determined through the use of models or other valuation methodologies. Investments which are generally included in this category are publicly traded equity securities with restrictions and derivative contracts.

Notes to the Financial Statements

(continued)

Level III – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Fair value for these investments is determined using valuation methodologies that consider a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant management judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Investments that are included in this category generally are privately held debt and equity securities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

Unrealised gains and losses resulting from recording securities and derivative financial instruments at fair value are included in net unrealised appreciation/(depreciation) in the Statement of Comprehensive Income.

The Company holds the following derivative instruments:

Equity swaps and investment fund swaps

Under an equity swap the Company contracts with the broker to receive/pay successive changes in the market value of an agreed notional principle amount of an underlying security in return for an interest payment/receipt. The contracts are marked to market using closing bid/offer prices for long positions and ask price for short positions at regular intervals and a transfer made from/to the broker for the realised gain/loss.

The unrealised gains/losses in the equity swap at the year end is included within investments. Realised and movement in unrealised gains and losses are recorded in the Statement of Comprehensive Income.

Futures

A futures contract is an exchange-traded agreement to buy or sell a standard amount of a specified commodity or index at a fixed price on an agreed future date. Initial margin deposits are recognised as assets due from the broker. Futures contracts are valued at the closing price of the relevant index at year end. Any change in the valuation of the contract is recognised as an unrealised gain or loss. Realised gains and losses are recorded when the contract is closed.

Forward currency contracts

A forward currency contract is a contract to purchase or sell a specified amount of foreign currency at an agreed future date at an exchange rate determined on the date the contract is made. The contracts are valued at the forward rate at the close of business at year end and the Company's equity therein, representing unrealised gains or losses on the contracts, is included in the net current assets. Realised gains and losses are recorded when the contract is closed.

(c) Income

Dividend income is recognised in the Statement of Comprehensive Income when the relevant investment is first listed ex-dividend and is shown net of withholding taxes. Other income is recognised on a receivable basis.

(d) Short dividend expense

Dividends payable on equities sold short are recognised when the relevant investment is first listed ex-dividend.

(e) Taxation

Under current laws of the Cayman Islands, there are no income, estate, transfer, sales or other Cayman taxes payable by the Company.

(f) Fair values

The Company's financial instruments are investments, cash, accrued income, broker receivables, forward currency contracts, accrued expenses, broker payables and other derivatives. The value of these financial instruments in the financial statements approximates to their fair value.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances held at banks together with bank overdrafts. The banks overdrafts are repayable on demand and form an integral part of the Company's cash management.

(h) Accrued expenses

Accrued expenses are recognised at fair value and subsequently stated at amortised cost using the effective interest method.

(i) Translation of foreign currencies

Foreign currency transactions during the year are translated into Pounds Sterling at the rates of exchange ruling at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Pounds Sterling at the rates of exchange ruling at the balance sheet date. Exchange differences are included in the Statement of Comprehensive Income.

(j) Future changes in accounting policies

IASB (International Accounting Standards Board) and IFRIC (International Financial Reporting Interpretations) have issued the following standards and interpretations with an effective date after the date of these financial statements:

Notes to the Financial Statements

(continued)

		Effective date (period commencing)
IFRS 3	Business Combinations (revised)	1st July 2009
IFRS 9	Financial Instruments	1st January 2013
IAS 24	Related Party Disclosures (revised)	1st January 2011
IAS 27	Consolidated and Separate Financial Statements (amended)	1st July 2009
IAS 32	Classification of Rights Issues – Amendment to IAS 32 Financial Instruments: Presentation	1st February 2010
IAS 39	Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement	1st July 2009
IAS 39	Embedded derivatives – Amendment to IAS 39 Financial Instruments: Recognition and Measurement	1st July 2009
IAS 1	Presentation of Financial Statements (revised 2009)	1st January 2010
IAS 7	Statement of Cash Flows (revised 2009)	1st January 2010
IAS 36	Impairment of Assets (revised 2009)	1st January 2010
IFRIC 9	Reassessment of Embedded Derivatives (amended)	1st July 2009
IFRIC 17	Distributions of Non-cash Assets to Owners	1st July 2009
IFRIC 18	Transfers of Assets from Customers	1st July 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1st July 2009

The Directors do not anticipate that the adoption of the other standards and interpretations will have a material impact on the Company's financial statements in the period of initial application.

3. Critical accounting estimates and assumptions

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Management believes that the estimates utilised in preparing its financial statements are reasonable and prudent, however, actual results could differ from these estimates. The most significant estimates and judgements that are required to be made are in respect of the valuation of investments for which no reliable market price is available (see note 6).

4. Investment Management fee

The investment Manager is paid an annual fee of 0.5 percent of the Net Asset Value, paid monthly in arrears, which is determined based on the Net Asset Value before any deduction is made for accrued Performance Fees.

In the event that closing Adjusted NAV per share for the relevant financial period (as further adjusted to add back the aggregate value of the management fee paid during the relevant financial period) is greater than the opening adjusted NAV per share for the relevant financial period, the Investment Manager shall be entitled to receive an additional one-off payment equal to the amount needed to put the Investment Manager in the position would have been in had the monthly management fees paid were paid on the basis of one twelfth of 2% of the monthly Net Asset Value.

The Investment Manager will only charge Investment Management fees on the weighted average cost of Spazio, being EUR 6.68134 per share.

In addition, the Company pays an annual performance fee per Share to the Investment Manager equivalent to 20% of the excess of the Net Asset Value adjusted to add back the value of any dividends or other distributions paid during the year over a hurdle rate of 8% per annum (non compounded). There was no performance fee payable for the year.

The agreement between the Company and the Investment Manager is terminable upon giving of twelve months' notice by either party.

5. Administration fee

The Company pays a fee to the Administrator at the rate of 0.18 per cent per annum of the Net Asset Value of the Company. The fee is calculated and paid on a monthly basis.

The agreement between the Company and the Administrator is terminable upon the giving of three months' notice by either party.

6. Investments

	2010 GBP	2009 GBP
Long positions:		
Market value	78,976,949	50,838,477
Cost	85,918,317	115,643,177
Short positions:		
Market value	(3,883,126)	(5,236,654)
Cost	(2,712,666)	(5,401,796)

Notes to the Financial Statements

(continued)

The Company's accounting policy on fair value measurement is disclosed in note 2.b. All securities owned and sold are categorised as Level I for valuation purpose, except for those noted below under Level III and all investments in derivatives which are categorised as Level II for valuation purposes. The changes in the investments classified as Level III are as follows:

	2010 GBP	2009 GBP
Balance at 1st April/incorporation	–	–
Purchases	20,810,647	–
Sales	–	–
Realised gains/(losses)	–	–
Transfer from Level I to Level III	6,390,472	–
Movement in unrealised gains/(losses)	24,329,900	–
Balance at 31st March	51,531,019	–
Cost of investments held at year end	41,081,058	–

Investment categorised as Level III comprise Spazio Investment NV.

The Company has a holding in Spazio Investment NV of £51,531,019, or 61.19% of the Total Assets of the Company as at 31st March 2010. The Directors, with the advice of the Investment Advisor, has resolved to carry the investment at its current estimated realisable value, being EUR7.62 per share which has been derived based on an underlying valuation model.

The aggregate of realised gains/loss and movement in unrealised gains/loss for the year resulting from this investment recorded in the Statement of Comprehensive Income amounted to a gain of £24,329,900.

7. Share capital

Authorised share capital

	2010 Number	2010 GBP	2009 Number	2009 GBP
Ordinary shares of GBP0.01 each	1,000,000,000	10,000,000	1,000,000,000	10,000,000
		10,000,000		10,000,000

	2010 Number	2010 GBP	2009 Number	2009 GBP
Issued share capital				
At 1st April/incorporation	117,570,870	1,175,709	–	–
Issued during year/period	–	–	123,400,870	1,234,009
Repurchased during year/period	(11,500,000)	(115,000)	(5,830,000)	(58,300)
	106,070,870	1,060,709	117,570,870	1,175,709

8. Reserves

	2010 GBP	2009 GBP
Share Premium		
At 1st April / incorporation	111,930,508	–
Relating to issue of shares	–	117,865,991
Relating to repurchase of shares	(5,060,000)	(3,073,175)
Relating to share issue costs	–	(2,862,308)
At 31st March	106,870,508	111,930,508
Retained losses		
At 1st April / incorporation	(67,257,014)	–
Total comprehensive income/(loss) for the year/period	36,274,997	(67,257,014)
At 31st March	(30,982,017)	(67,257,014)

9. Other debtors and accrued income

	2010 GBP	2009 GBP
Interest receivable	487,651	38,527
	487,651	38,527

10. Other creditors and accrued expenses

	2010 GBP	2009 GBP
Interest payable	6,919	15,728
Dividends payable	42,781	13,540
Administration fee payable	11,784	8,018
Accounting fees payable	10,864	3,191
Audit fee payable	20,000	20,000
Corporate secretarial fees payable	2,666	8,833
Directors' fees payable	51,250	62,363
Investment management fee payable	972,312	20,152
Other items payable	17,442	102,177
Trustee fees payable	–	3,864
	1,136,018	257,866

Notes to the Financial Statements

(continued)

11. Net asset value per ordinary share

	2010 Total GBP	2010 Per Share GBP	2009 Total GBP	2009 Per Share GBP
Net asset value	76,949,200	0.73	45,849,203	0.39

12. Basic and diluted gain per ordinary share

The basic loss per ordinary share is based on the gain for the year of GBP 36,274,997 (2009: loss of GBP 67,257,014) and the weighted average number of ordinary shares in issue during the period of 108,433,884 (2009: 114,563,082).

13. Risk Profile

The Company's activities expose it to a variety of financial risks: market price risk, currency risk, interest rate risk, credit risk and liquidity risk. The Company's overall risk management programme focuses in the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to moderate certain risk exposures.

13.1 Market price risk

Market price risk is the risk that the market price of a financial instrument will fluctuate due to changes in factors specific to the security or its issuer, factors affecting all securities traded in the market, foreign exchange rates or market interest rates.

The Company trades in financial instruments, taking positions in traded and over-the-counter instruments, including derivatives, and some unlisted instruments. The Company primarily invests in property (up to a maximum of 30 per cent of the Company's gross asset value) and property related securities. The Company may hold large positions in a concentrated number of portfolio companies and there is no limit on the amount of the Company's assets which may be invested in any one investment. The Company may from time to time enter into financial securities contracts either to buy or to sell derivatives as part of this strategy. All securities investments present a risk of loss of capital. The Investment Manager moderates this risk through a careful selection of securities and other financial instruments within specified limits. The Investment Manager, when it is considered appropriate, intends both to enhance returns and to reduce risk through the selective utilisation of various appropriate hedging strategies.

Market exposures to different classes of investment are shown on the Statement of Financial Position.

Short sales made by the Company involve certain risk and special considerations. Possible losses from short sales may be unlimited, whereas losses from purchases cannot exceed the total amount invested.

If the fair value of the Company's investment portfolio had increased/decreased in value by 5% as at 31st March 2010 the effect on net assets would have been an increase/decrease of GBP 3,754,691 (2009: GBP 2,280,091).

13.2 Interest rate risk

The majority of the Company's financial assets and liabilities are non-interest bearing. As a result, the Company is not subject to the significant amounts of risk due to fluctuation in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates. Overdrawn balances at brokers are also subject to short-term market interest rates.

Cash balances and overdrawn balances at brokers are due on demand. A sensitivity analysis regarding interest rate risk has not been given as the Company is not subject to significant interest rate risk.

13.3 Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Company is exposed to credit risk in relation to its cash balances, investments and debtor balances as stated in the Statement of Financial Position.

All transactions in listed securities are traded on a delivery versus payment basis. The trade will fail if either party fails to meet its obligation. Credit risk on a derivative instrument is limited to the amount of initial margin paid plus any variation margin.

13.4 Liquidity Risk

Liquidity risk may arise from the potential inability to sell a financial instrument without undue delay at a price close to its market value. It invests the majority of its assets in investments that are traded in an active market and can be readily disposed of; it invests only a limited proportion of its assets in investments not actively traded on a stock exchange.

The Company may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid.

The table below analyses the Company's financial liabilities and net settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the financial year to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	Less than 1 month GBP	1-12 months GBP	No Stated maturity GBP	Total GBP
As at 31st March 2010				
Financial liabilities at fair value through profit or loss	–	–	3,883,126	3,883,126
Amounts due for				
outstanding purchase settlements	2,240,244	–	–	2,240,244
Other creditors and accrued expenses	1,136,018	–	–	1,136,018
Total financial liabilities	3,376,262	–	3,883,126	7,259,388

Notes to the Financial Statements

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	Less than 1 month GBP	1-12 months GBP	No Stated maturity GBP	Total GBP
As at 31st March 2009				
Financial liabilities at fair value through profit or loss	–	–	5,343,134	5,343,134
Amounts payable on currency forwards	136,957	–	–	136,957
Overdrawn balances at brokers at brokers	3,058,276	–	–	3,058,276
Amounts due for				
outstanding purchase settlements	16,220	–	–	16,220
Other creditors and accrued expenses	257,866	–	–	257,866
Total financial liabilities	3,469,319	–	5,343,134	8,812,453

13.5 Currency risk

The Company holds assets denominated in currencies other than its functional currency, the Sterling Pound. It is therefore exposed to currency risk, as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The Company's policy is to attempt to hedge currency risk via currency forward contracts. The table below summarises the Company's exposure to foreign currencies as a percentage of net assets.

At 31st March 2010 the Company's exposure to foreign currency, on a look through basis, was as follows:

	2010 Weighted %	2009 Weighted %
UK	13.55%	91.83%
Russia	–	1.29%
Sweden	0.14%	0.94%
Hungary	–	0.75%
Denmark	–	0.35%
Romania	0.10%	0.28%
Croatia	–	0.23%
Lithuania	–	0.22%
European Emerging	–	0.20%
Czech Republic	0.02%	0.15%
Bulgaria	0.77%	0.11%
Latvia	–	0.05%
Poland	0.01%	0.04%
Europe	1.82%	(2.08%)
Switzerland	–	(9.43%)
Norway	0.30%	–
Serbia	0.02%	–
	16.73%	84.93%

13.6 Not stated in Statement of Financial Position

Furthermore, the Company enters into investment transactions which attract risks not stated in the Statement of Financial Position. Market risks not stated in the Statement of Financial Position exist when the maximum potential loss on a particular investment is greater than the value of such investment as reflected in the Statement of Financial Position. Credit risk not stated in the Statement of Financial Position exists, among other situations, when the collateral received by the Company from the counterparty to an agreement with the Company proves to be insufficient to cover the Company's losses resulting from a default by the counterparty of its obligation to perform under the terms of the agreement.

Transactions in the following instruments represent risk not stated in the Statement of Financial Position associated with the Company's portfolio:

Short investments

The Company sells borrowed securities which are subsequently repurchased and delivered to the lender. The risk not reflected in the Statement of Financial Position associated with this form of trading is that if the market value of the security sold short increases, the Company may realise losses from the repurchase of the securities, which exceed the liability on the Statement of Financial Position.

Equity Swaps

Under an equity swap the Company contracts with the broker to receive/pay successive changes in the market value of an agreed notional principal amount of an underlying security. Risk not reflected in the Statement of Financial Position associated with this form of trading is that as the market value of the security changes the Company may realise losses relative to the contractual amounts of the swaps. The Company portfolio contains Equity swaps and Investment swaps.

At 31st March 2010 the Company held open equity swaps as set out below:

	2010 Contractual amount GBP	2010 Unrealised loss GBP	2009 Contractual amount GBP	2009 Unrealised loss GBP
Equities – long	269,214	44,199	–	–
Equities – short	(2,038,968)	(353,552)	–	–
Investment funds – long	–	–	144,652	(106,480)
		(309,353)		(106,480)

Notes to the Financial Statements

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Forward currency contracts

The Company enters into forward currency contracts in order to hedge against foreign currency exchange risk and/or speculative purposes. The amount of the contract represents the extent of the Company's participation in these financial instruments. Market risks associated with forward contracts arise due to the possible movements in foreign exchange rates underlying these instruments. Other market and credit risks include the possibility that there may be an illiquid market for the contracts, that the change in value of the contract may not directly correlate with the changes in the value of the underlying currencies or that the counterparty defaults on its obligation to perform under the terms of the contract.

At 31st March 2010 the Company held net open forward contracts as set out below:

Purchase currency	Contractual amount	Sale currency	Contractual amount	Unrealised gain GBP
GBP	58,916,799	EUR	(65,817,060)	198,174
				198,174

At 31st March 2009 the Company held net open forward contracts as set out below:

Purchase currency	Contractual amount	Sale currency	Contractual amount	Unrealised gain GBP
GBP	775,176	BGN	(1,661,900)	(10,623)
GBP	8,330,415	EUR	(9,011,700)	(16,613)
GBP	499,113	PLN	(2,532,500)	(2,253)
GBP	977,519	SEK	(12,027,200)	(37,315)
CHF	6,466,500	GBP	(4,038,786)	(70,153)
				(136,957)

14. Reconciliation of gain/(loss) for the year/period to net cash inflow/(outflow) from operating activities

	2010 GBP	2009 GBP
Total comprehensive income/(loss) for the year/period	36,274,997	(67,257,014)
Net realized loss on financial assets	20,272,338	9,967,040
Net unrealised (gain)/loss on financial assets	(56,910,407)	64,776,515
Increase in revenue debtors and accrued income	(449,124)	(38,527)
Increase in revenue creditors and accrued expenses	878,152	257,866
Decrease/(increase) in loans receivable	884,840	(3,500,000)
Increase in cash held as margin	(737,951)	(13,032)
Purchase of investments	(77,542,122)	(139,602,388)
Sale of investments	86,577,084	75,957,922
Net cash inflow/(outflow) from operating activities	9,247,807	(59,451,618)

15. Cash and cash equivalents

	2010 GBP	2009 GBP
At 1st April/incorporation	(2,893,136)	–
Increase/(decrease) in cash and cash equivalents	4,072,807	(2,893,136)
At 31st March	1,179,671	(2,893,136)
Cash at bank	1,179,671	165,140
Overdrawn balances at brokers	–	(3,058,276)
	1,179,671	(2,893,136)

16. Prime brokerage agreements

Under the terms of the prime brokerage agreement which the Company has entered into, the prime broker holds a first fixed charge over the Company's assets and cash held with the prime broker as security for the payment and performance by the Company of its obligations to the prime broker.

17. Related parties

The Company and the Investment Manager are related by virtue of the existence of a material contract as referred to in note 4. As at 31st March 2010, the Investment Manager owned 16,550,870 shares (2009: 13,800,870) in the Company. Fees payable to the Investment Manager in respect of the year were GBP1,253,529 (2009: GBP451,577) of which GBP972,312 (2009: GBP20,152) was outstanding at the year end.

Michael Haxby, a Director of the Company, is also a Director of Laxey Partners Limited, the Investment Manager to the Company.

Celtic (Italy) s.r.l. ("Celtic") has been engaged to assist in the realisation of Spazio's property portfolio. Celtic is a related party by virtue of being controlled by the Investment Manager. Independent legal advice was taken regarding this agreement and, after this advice and consultation with the company's Nominated Advisor, the Company's Independent Directors have signed off the transaction as being fair and reasonable.

In addition, the Company advanced funds to TDG Limited, a subsidiary of DouglasBay Capital plc. DouglasBay is considered to be a related party on the basis that funds managed by Laxey Partners are the controlling shareholders of DouglasBay and Michael Haxby is a Director of Laxey Partners Ltd, the Investment Manager.

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18. Directors Remuneration

Details of Directors remuneration earned in respect of the financial year by each Director of the Company acting in such capacity during the financial year are as follows:

Directors fees	2009 GBP	2008 GBP
Robert Thomas Ware	64,911	71,766
Richard Ian Watson	34,001	38,644
Nicholas Paul James	34,952	38,644
Martin Michael Adams	34,952	38,644
Aled Rhys Jones	34,952	38,644
Andrew Morrison Shepard	34,952	38,644
Michael Andrew Haxby*	–	–
	238,721	264,986

* Michael Andrew Haxby has waived the right to receive Directors fees while he is still a Director of the Investment Manager.

The fees detailed above are the only remuneration paid to the Directors of the Company.

19. Loan receivable

The Company entered into a revolving loan facility agreement with TDG Limited, a subsidiary of DouglasBay Capital plc. The amount drawn down from the Company as at 31st March 2010 was £2,615,160. The amount is unsecured and due to be repaid on or before the 31st July 2010. It is also subject to interest at a rate of 10% per annum above 3 months LIBOR, which will increase to 15% per annum above 3 months LIBOR if the facility is used for more than 5 business days in each calendar month. The interest accrued to 31st March 2010 was GBP 565,057 of which GBP 487,651 was unpaid at year-end.

The outstanding loan and all accrued interest was repaid in full on 1st July, 2010.

20. Gearing

Gearing, or leverage, is the percentage of borrowing compared to the percentage of assets. Pursuant to the Company's articles of association, this borrowing may not exceed 200% of the Net Asset Value.

21. Comparative figures

The comparative figures are for the period from 21st December 2007 (date of incorporation) to 31st March 2009.

Supplementary Information

Reconciliation of Net Asset Value as at 31st March 2010

	2010 GBP	2009 GBP
Net Assets as at 31st March	74,920,420	45,849,203
Revaluation of Spazio Investment NV from EUR7.32 to EUR 7.62 per share	2,028,780	–
Balance as per Statement of Financial Position	76,949,200	45,849,203



