Terra Catalyst Fund

Audited Financial Statements

For the year ended 31st March 2017

Content

Directors and other information

Directors
Robert Thomas Ware* (Chairman)
Martin Michael Adams*
Michael Andrew Haxby (Finance Director)
* Independent Directors

Registered Office
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Grand Cayman, KY1 – 1108
Cayman Islands

Legal Advisor to the Company (as to Cayman Islands Law)
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Administrator
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Ireland

Prime Broker
Credit Suisse Securities (Europe) Limited
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E14 4QJ

Reporting Accountant and Auditor
KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

Investment Manager
Laxey Partners Ltd
4th Floor, Derby House
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Douglas
Isle of Man
IM1 1JD

Nominated Advisor and Broker
Smith & Williamson
Corporate Finance Limited
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EC2R 6AY

Legal Advisor to the Company (as to English Law)
Gowling WLG (UK) LLP
4 More London Riverside
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SE1 2AU

Registrar
Capita Registrars (Isle of Man) Limited
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54-62 Athol Street,
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Isle of Man
IM1 1JD

Depositary
Capita IRG Trustees Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Directors' Report

For the year ended 31st March 2017

The Directors have pleasure in presenting their report and the audited financial statements of the Company for the year ended 31st March 2017.

The Company

Terra Catalyst Fund (the "Company" or "TCF") was incorporated in the Cayman Islands on 21st December 2007 and was admitted to the AIM market of the London Stock Exchange plc on 25th February 2008. The Company was also listed on The International Stock Exchange on 19th December 2011. The Company's website is www.terracatalystfund.com.

The Directors are seeking shareholder approval at the next Annual General Meeting to cancel the listing of TCF on the AIM market of the London Stock Exchange and The International Stock Exchange, details of which can be found on pages 4 and 5.

Investment Objective

The investment objective of the Company changed at the Annual General Meeting on 25th September 2012 when a Realisation Resolution was approved by shareholders. The new investment objective and policy is to seek realisation of the Company's portfolio of investments in the ordinary course of business and, subject to retaining sufficient cash to meet operating costs and liabilities, to return the net proceeds of all such realisations to shareholders on a periodic basis, following which the Company will be wound-up.

The Company will make no new investments except follow on investments required to protect the interests of the Company.

Results and Distributions

The Net Asset Value per share of the Company at 31st March 2017 was £0.58 (31st March 2016: £2.26).

Statement of Directors' Responsibilities

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

In addition, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards, as adopted by the EU.

The financial statements are required to 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 they have been prepared in accordance with International Financial Reporting Standards, as adopted by the EU; 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. 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

The Directors have resolved to prepare the financial statements for each financial year.

Directors

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

Robert Thomas Ware (Chairman)
Martin Michael Adams
Michael Andrew Haxby

As at 31st March 2017 the interests of the Directors in the issued share capital of the Company were as follows:

Director	2017 Number of Shares	2016 Number of Shares
Martin Michael Adams	6,637	6,637
Michael Andrew Haxby	12,191	12,191
Robert Thomas Ware	33,729*	33,729*

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

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

Auditor

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

For and on behalf of the Board of Directors 26 September 2017

Michael Andrew Haxby
Director

Martin Michael Adams
Director

Proposed Cancellation from listing on AIM and TISE

The Directors have recently undertaken a review of the benefit of the Company's ordinary shares ("Ordinary Shares") continuing to be listed on the AIM market of the London Stock Exchange ("AIM") and The International Stock Exchange ("TISE").

Having completed this review, which included consultation with the Company's major Shareholders, your Directors have concluded that it is in the best interests of the Company and its Shareholders as a whole if admission of the Ordinary Shares to trading on both AIM and TISE is cancelled (the "Delisting").

Rationale for the Delisting

In 2012, Shareholders approved the Company's adoption of a realisation investment policy, with capital being returned to Shareholders subject to retaining sufficient resources to meet operating costs and liabilities. Since the realisation strategy was adopted, all portfolio investments, with the exception of the indirect holding in Spazio Investments NV ("Spazio"), have been sold and no new investments have been made. At each of the Company's Board meetings in recent years, the Directors have considered and implemented a variety of cost reduction measures. The recent review undertaken by the Directors considered the most effective ways to further reduce the projected level of operating costs during the period of realisation of the property investments held by Spazio in Italy and the eventual distribution of its residual equity capital to the Company and its Shareholders.

Realisation of the property investments held by Spazio through its Italian fund, and therefore the distribution of residual capital to Spazio, is expected to take time:

- the Italian economy and the investment environment in Italy for selling industrial properties, such as those held in the Italian fund's portfolio, remain challenging and market prices have not yet recovered from the levels prevailing prior to the 2008 global financial crisis;
- proceeds from the sale of properties by the Italian fund will first be used to meet operating costs and liabilities in Italy, in particular the servicing and repayment of secured bank borrowings, before material distributions can be made to Spazio; and
- the Italian property investment manager, IDeA FIMIT, is not currently incentivised to realise the property investment portfolio. The board of Spazio intends to review with IDeA FIMIT the operating structure and continuing management arrangements in Italy with a view to aligning interests with both the secured lenders and Spazio. Given the legal and regulatory complexities in Italy, this process will take time to agree and implement.

In view of the factors outlined above, the Directors have concluded that the direct and indirect costs to the Company associated with maintaining the Company's AIM and TISE quotations, outweigh the benefits.

In reaching this conclusion, the Board has focused on the following key factors:

- the management time and the legal and regulatory burden associated with maintaining the Company's listing on AIM and TISE, and complying with the AIM Rules, the TISE Rules and related regulatory requirements (including reporting, disclosure and corporate governance requirements) is disproportionate to the benefits to the Company;
- like other small quoted companies the Company suffers from a very low level of liquidity in terms of trading in its Ordinary Shares which can cause volatility in the share price. In the twelve months to 31st August 2017 there were 183 trading days when no Ordinary Shares were traded on AIM (72 per cent. of trading days) and in that time period only approximately 1,859,000 Ordinary Shares were traded, representing approximately 12 per cent. of the Ordinary Shares in issue;
- in light of the limited trading in the Ordinary Shares, the tangible costs associated with maintaining the AIM and TISE quotations (such as legal, accounting, broking, London Stock Exchange, TISE and nominated adviser costs) are disproportionately high when compared to the benefits, and the Directors consider that reducing operating costs further following Delisting will maximise the net realisation proceeds from Spazio, which will eventually be distributed to Shareholders; and
- the Delisting will provide the Company with greater flexibility in terms of making capital returns to Shareholders.

Effects of the Delisting

The principal effects that the Delisting would have on a Shareholder are as follows:

- it will significantly reduce the liquidity and marketability of the Ordinary Shares. Following the Delisting, although the Ordinary Shares will remain transferable, they will no longer be traded on AIM or TISE;
- Shareholders will hold their Ordinary Shares in an unquoted entity and therefore there will no longer be a public market for such Ordinary Shares. Accordingly, it may be difficult to sell Ordinary Shares following the Delisting;
- at present, the Board has no definitive plans to put in place a matched bargain settlement facility. Any Shareholders wishing to sell their Ordinary Shares following the Delisting are advised to contact the Board for assistance in identifying any potential buyers;
- the Company would no longer be required to comply with many of the corporate governance requirements applicable to companies admitted to trading on AIM and TISE;
- the Company would no longer be subject to, and Shareholders would no longer be afforded the protections given by, the AIM Rules and the Market Abuse Regulation. Consequently, the Company would no longer be required to announce material events, substantial transactions, related party transactions, interim or final results or disclose major shareholdings in the Company;
- the Company would remain subject to its current articles of association and company law in the Cayman Islands, which mandate Shareholder approval for certain limited matters; and
- following Delisting, the Board will make annual financial statements available to all Shareholders, and intends to maintain the Company's website at www.terracatalystfund.com to provide information on significant events and developments in respect of the Company. The Board intends that following Delisting, access to the Company's website will be password protected. Information regarding the activities of Spazio will continue to be available for the foreseeable future from its website www.spazioinvestment.com.

Shareholders should be aware that, if and when the Delisting takes effect, they will, at that time, cease to hold Ordinary Shares in a Company whose shares are admitted to trading on AIM and TISE and the matters set out above will automatically apply to the Company from the date of Delisting.

Process for Delisting

In accordance with Rule 41 of the AIM Rules, the Company has notified the London Stock Exchange of the Delisting subject to Shareholder approval. Under the AIM Rules, it is a requirement that the Delisting is approved by the requisite majority of Shareholders voting at a General Meeting (being not less than 75 per cent of the votes cast). Under the Articles, the quorum for a General Meeting is attendance by two Shareholders of the Company's Ordinary Shares.

It is expected that these audited financial statements for the year ended 31st March 2017, including the Notice of the Annual General Meeting ("AGM"), will be available from the Company's website and posted to Shareholders on or about 29th September 2017. Accordingly, the Resolution numbered 6 (the "Resolution") set out in the Notice of the AGM will seek, inter alia, Shareholders' approval of the Delisting.

Subject to the Resolution being passed at the AGM, it is expected that trading in the Ordinary Shares on AIM and the TISE will cease at the close of business on 7th November 2017 with Delisting taking effect when a dealing notice is issued at 7.00am on 8th November 2017.

Recommendation

The Board unanimously recommends, and the investment manager, Laxey Partners Ltd supports, the Delisting. The Directors, together with the investment manager, who together hold 1,356,024 Ordinary Shares representing 8.75% of the Company's issued share capital, intend to vote for the Resolution at the AGM.

Investment Manager's Report

For the year ended 31st March 2017

Portfolio Review

The remaining asset in Terra Catalyst Fund ("TCF") is Spazio Investments NV ("Spazio"). More information on Spazio can be found at www.spazioinvestment.com. This externally managed, previously AIM listed property fund, specialises in investment in Italian industrial real estate. Through a wholly-owned Italian regulated property fund, Spazio Industriale (the "Fund"), Spazio owns interests in a portfolio of Italian industrial properties. TCF indirectly held a 26.7% interest in Spazio as at 31st March 2017. Laxey Partners Ltd (the "Investment Manager"), TCF and other funds under the management of the Investment Manager together control 72.4% of Spazio.

Spazio

Strategy and Market Update

The Fund invests in Italian property and continues to concentrate on its strategic plan to improve the marketability of the portfolio through asset refurbishment and re-leasing, with a focus on (i) increasing rental income and extending lease duration and (ii) selling vacant properties at the highest possible value in order to release cash and improve the Fund's cash flow.

The Fund's property agent, Celtic Italy S.r.l., together with certain other brokers (Gabetti Property Solutions S.p.A. for the vacant/trading properties, GVA Redilco S.r.l. and Cushman & Wakefield LLP for certain leased assets), are currently actively marketing certain properties.

The Italian real-estate market

Published data shows that in Q3 2016 the Italian real estate market recorded 265,323 'normal' transactions, further cementing the growing trend recorded in the two previous quarters, and up by 17.8% against the same period in 2015. The factors that contributed to this bullish trend include the persistent extremely low loan interest rates and the economy in general. These factors continue to increase the relative attractiveness of the real estate investment.

Portfolio

As at 31st December 2016, the Fund owned a portfolio of 168 properties with predominantly industrial and logistics use, located throughout Italy and with an audited total open market value (OMV) at 31st December 2016 of €351.9m, compared with €375.2m at 31st December 2015.

On 4th February 2014, the Fund signed a conditional preliminary contract of sale with Eurospin Tirrenica S.p.A. for a property in Portoferraio (LI), Corso Italia, for €2.65m. Although the required decontamination certificate was obtained later than expected due to various authority delays, the sale was completed on 26th June 2017 for €2.54m.

Bank financing

The Fund has a single bank loan with a face value of €213.9m from three institutions: Banca IMI S.p.A (agent and lender bank), Natixis S.A. (lender bank) and UniCredit S.p.A (lender bank). This debt arrangement was signed on 30th December 2015 and will finally mature on 31st December 2022.

The residual Fund debt outstanding at 31st December 2016, following the repayment of €5.0m (partially through sales and partially through cashflow) was €208.9m.

As of 30th June 2017, due to difficulties in selling real estate assets in the portfolio at valuations determined in conjunction with the lending banks, the Fund has not repaid the amortization instalment envisaged in the loan agreement of €5.0m. This amounts to a default.

In anticipation of this potential default event, during the first half of 2017, the Fund commenced negotiations with the lending banks aimed at reassessing the terms and conditions of the loan agreement with the aim of agreeing to a new disinvestment plan at sales prices significantly lower than those envisaged in the current business plan, in order to allow an acceleration in the repayment of debt. In line with the need to define the disinvestment plan, the Fund requested an independent expert, Eagle & Wise Service S.p.A., to estimate a "quick asset" value of the properties in the portfolio. Eagle & Wise Service S.p.A reported a "quick asset value" of approximately €276m as at 30th June 2017. Discussions with the lending banks are ongoing.

Future Prospects for TCF

Due to the inherent uncertainty associated with the determination of the value of the investment in Spazio, the Directors of TCF, with the advice of the Investment Manager, have effectively written down the value of the underlying investment portfolio held by the Fund by another €25.5m to form the basis of the Directors valuation of Spazio disclosed in note 6 to the financial statements.

As previously announced, due to the cash sweeps in place, since October 2013 there has not been any free cash for distributions from the Fund back to Spazio. Spazio has returned €3.38 per share to TCF shareholders to date, equivalent to 66% of the average weighted acquisition price. However, TCF does not expect further substantial returns in the short to medium term until substantial progress has been made in repaying the bank loan.

The focus for Spazio has been to reduce costs where possible and the board of Spazio believes that there is substantial scope for additional cost reduction on management fees, consultancy work and property administration and increasing the rent roll through asset management and reducing vacancies.

Corporate Governance Statement

The Company's shares are quoted on the AIM market of the London Stock Exchange. As an AIM quoted company, the Company is not required to follow the provisions of the UK Corporate Governance code. However, the Company intends to comply with the corporate governance regime for listed investment companies in the UK, currently the AIC Code of corporate governance, to the extent appropriate for a Cayman Islands incorporated investment company quoted on AIM and the Board is committed to high standards of corporate governance. 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 is responsible for reviewing 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 Adams (Chairman) and Robert Ware.

Remuneration Committee

The Remuneration Committee is responsible for setting the remuneration of Directors. The Remuneration Committee comprises Robert Ware (Chairman) and Martin Adams.

Nomination Committee

The Nomination Committee is responsible for making recommendations regarding the composition of the Board. The Nomination Committee comprises Robert Ware (Chairman) and Martin Adams.

Management and Engagement Committee

The Management and Engagement Committee is responsible for the supervision of the Investment Manager and its performance under the Investment Management Agreement. The Management and Engagement Committee comprises Robert Ware (Chairman) and Martin Adams.

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, as far as is reasonably practical, 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 2017, 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs), as adopted by the EU.

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 Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st March 2017 and of its loss for the year then ended; and
- have been properly prepared in accordance with IFRSs, as adopted by the EU.

Emphasis of matter – valuation of holding in Spazio investment NV

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in notes 2(b), 3 and 6 to the financial statements concerning the valuation of the holding in Spazio Investment NV ("Spazio") of £8,263,484. This is stated at a Directors' valuation based on the adjusted net asset value. Due to the inherent uncertainty associated with the determination of the valuation the amount realised on disposal may differ materially from the amount at which it is stated in the financial statements. The impact of such uncertainty cannot be quantified.

KPMG Audit LLC

KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
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Isle of Man IM99 1HN

26 September 2017

Statement of Financial Position

As at 31st March 2017

	Notes	2017 £	2016 £
Current assets			
Cash at bank	15	1,101,758	1,405,947
Equities – long at fair value through profit or loss	6	8,263,484	34,053,412
Other debtors and accrued income	9	4,385	3,837
Total assets		**9,369,627**	**35,463,196**
Equity			
Share capital	7	155,048	155,048
Share premium	8	52,935,499	52,935,499
Retained losses	8	(44,107,630)	(17,975,015)
Total equity		**8,982,917**	**35,115,532**
Liabilities			
Other creditors and accrued expenses	10	386,710	347,664
Total liabilities		**386,710**	**347,664**
Total liabilities and equity		**9,369,627**	**35,463,196**
Net asset value per ordinary share	11	0.58	2.26

These accounts were approved and authorised by the Board of Directors on 26th September 2017 and are signed on their behalf by:

Michael Andrew Haxby
Director

Martin Michael Adams
Director

The notes on pages 14 to 25 are an integral part of the financial statements.

Statement of Comprehensive Income

For the year ended 31st March 2017

	Notes	2017 £	2016 £
Income			
Distribution income		36,566	–
Interest – Cash balances		909	2,796
Net realised gains/(losses) on financial assets and liabilities at fair value through profit or loss			
– Cash balances		628	(3,077)
Net unrealised (losses)/gains on financial assets and liabilities at fair value through profit or loss			
– Cash balances		(10,021)	(180)
– Equities		(25,789,928)	6,255,065
Total net investment (loss)/income		**(25,761,846)**	**6,254,604**
Expenses			
Investment management fee	4	36,321	174,169
Administration fee	5	57,720	47,747
Audit fees		14,307	16,042
Directors' remuneration	18	100,000	100,000
Other expenses		162,185	172,442
Interest expense – Cash balances		236	64
Total expenses		**370,769**	**510,464**
(Loss)/profit for the year		**(26,132,615)**	**5,744,140**
Total comprehensive (loss)/income for the year		**(26,132,615)**	**5,744,140**
(Loss)/earnings per share			
Basic and fully diluted	12	(£1.69)	£0.37

The Directors consider that all results derive from continuing activities.

The notes on pages 14 to 25 are an integral part of the financial statements.

Statement of Changes in Equity

For the year ended 31st March 2017

	Share capital £	Share premium £	Retained (losses)/gains £	Total £
Balance at 1st April 2015	155,048	52,935,499	(23,719,155)	29,371,392
Total comprehensive income				
Profit for the year	–	–	5,744,140	5,744,140
Balance at 31st March 2016	**155,048**	**52,935,499**	**(17,975,015)**	**35,115,532**

	Share capital £	Share premium £	Retained (losses)/gains £	Total £
Balance at 1st April 2016	155,048	52,935,499	(17,975,015)	35,115,532
Total comprehensive loss				
Loss for the year	–	–	(26,132,615)	(26,132,615)
Balance at 31st March 2017	**155,048**	**52,935,499**	**(44,107,630)**	**8,982,917**

The notes on pages 14 to 25 are an integral part of the financial statements.

Statement of Cash Flows

For the year ended 31st March 2017

	Note	2017 £	2016 £
Cash flows from operating activities:			
Distribution received		36,566	–
Interest received		1,145	2,860
Prepaid expenses		(44,613)	784
Management fee paid	4	14,961	9,462
Administration fee paid	5	(57,034)	(47,681)
Other expenses paid		(245,585)	(288,759)
Interest paid		(236)	(64)
Net realised and unrealised losses on foreign currency		(9,393)	(3,257)
Net cash outflow from operating activities	14	**(304,189)**	**(326,655)**
Decrease in cash and cash equivalents		(304,189)	(326,655)
Opening cash and cash equivalents		1,405,947	1,732,602
Closing cash and cash equivalents	15	**1,101,758**	**1,405,947**

The notes on pages 14 to 25 are an integral part of the financial statements.

Notes to the financial statements

For the year ended 31st March 2017

1. General

The Company was incorporated in the Cayman Islands on 21st December 2007 and its shares were admitted to the AIM Market of the London Stock Exchange plc, on 25th February 2008. The Company was also listed on The International Stock Exchange on 19th December 2011.

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"), as adopted by the EU.

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

(b) Financial assets and liabilities

Classification

The Company classifies its investments in equities 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.

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 first in first out basis. Realised and unrealised gains and losses are recognised in the profit or loss, and are shown net of all estimated 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 13 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 judgment 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 13, 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.

Level III – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Fair value of 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, independent appraisals of the values of the underlying properties, 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 gains and losses in the Statement of Comprehensive Income.

All financial assets and liabilities not stated at fair value in the financial statements are categorised as Level II in the fair value hierarchy.

(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.

Notes to the financial statements (continued)

For the year ended 31st March 2017

(d) Taxation

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

(e) Fair values

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

(f) 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.

(g) Accrued expenses

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

(h) 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 statement of financial position date. Exchange differences are included in the Statement of Comprehensive Income.

(i) Future changes in accounting policies

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31st March 2017, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the measurement of the amounts recognised in the Company's financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2018)

IFRS 9 specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The standard is not expected to have a significant impact on the Company's financial position or performance, as it is expected that the Company will continue to classify its financial assets as being at fair value through profit or loss.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Company.

3. Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the Directors to make estimates and assumptions that affect the reported amounts in the financial statements. The Directors believe 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

Management fee basis:

- A monthly payment of one twelfth of 0.5% of the NAV, less the carrying value of the Company's indirect interest in Spazio NV;
- 1.5% of any distributions made to shareholders.

Aggregate management fees charged during the year were £6,733 (2016: £8,789) of which £0 (2016: £0) related to distribution fees. Fees of £476 (2016: £655) were outstanding at the year end.

The agreement between the Company and the Investment Manager may be terminated subject to twelve months' notice by either party.

The Investment Manager receives a fee from Terra European Investments BV ("TEI"), a group company of Spazio Investment NV ("Spazio"). The Investment Manager receives an annual management fee of 0.5% based on the latest audited NAV of Spazio, payable monthly in arrears. The fee remunerates the Investment Manager for managing TEI's holding in Spazio. The carrying value of Spazio is not included in the calculation of the management fee paid by the Company to the Investment Manager. Aggregate management fees charged during the year in relation to TEI were £29,588 (2016: £165,380). Fees of £291,447 (2016: £239,986) were outstanding at the year end.

5. Administration fee

The Company pays a fee to the Administrator at the rate of 0.16% per annum of the NAV. The fee is calculated and paid on a monthly basis. The agreement between the Company and the Administrator may be terminated subject to three months' notice by either party.

Notes to the financial statements (continued)

For the year ended 31st March 2017

6. Investments

	2017 £	2016 £
Long positions:		
Market value	8,263,484	34,053,412
Cost	13,988,345	13,988,345

The Company's accounting policy on fair value measurement is disclosed in note 2(b). All securities are categorised as Level III. The changes in the investments classified as Level III are as follows:

	2017 £	2016 £
Balance at 1st April	34,053,412	27,798,347
Movement in unrealised (losses)/gains	(25,789,928)	6,255,065
Balance at 31st March	8,263,484	34,053,412
Cost of investments held at year end	13,988,345	13,988,345

Investment categorised as Level III comprise of Spazio Investment NV ("Spazio").

As at 31st March 2017, the Company had an interest in Spazio of £8,263,484 (2016: £ 34,053,412) or 88.19% (2016: 96.02%) of the Total Assets of the Company. The Directors, with the advice of the Investment Manager, have resolved to carry the investment at €1.5764 per share (2016: €7.0083 per share). This is based on the adjusted net asset value of Spazio as at 31 December 2016. Audited financial statements for Spazio as at 31 December 2016 are not available. However, audited financial statements are available for Spazio Industriale (the "Fund"), all of whose units are owned by Spazio, which owns the underlying property portfolio and has a bank loan. The adjusted net asset value is based on the audited financial statements for the Fund as at 31 December 2016 as amended for the revised valuation of the property portfolio based on the accelerated property disposal programme agreed with the bank post year-end, as detailed below.

The Fund owns a portfolio of 168 properties with predominantly industrial and logistics use, located throughout Italy and with an audited total open market value at 31st December 2016 of €351.9m, compared with €375.2m at 31st December 2015. The Fund has a bank loan with a face value of €213.9m. Interest on the debt is payable 6 monthly. Principal must be repaid according to an agreed amortisation schedule. The residual debt as at 31st December 2016 was €208.9m.

As of 30th June 2017, due to difficulties in selling real estate assets in the portfolio at valuations determined in conjunction with the lending banks, the Fund has not repaid the amortization instalment envisaged in the loan agreement of €5.0m. This amounts to a default.

In anticipation of this potential default event, during the first half of 2017, the Fund commenced negotiations with the lending banks aimed at reassessing the terms and conditions of the loan agreement with the aim of agreeing to a new disinvestment plan at sales prices significantly lower than those envisaged in the current business plan, in order to allow an acceleration in the repayment of debt. In line with the need to define the disinvestment plan, the Fund requested an independent expert to estimate a "quick asset" value of the properties in the portfolio. The independent expert reported a "quick asset" value of approximately €276m as at 30th June 2017. Discussions with the lending banks are ongoing.

Due to the inherent uncertainty associated with the determination of the valuation, the Directors, with the advice of the Investment Manager, have written down the portfolio by another €25.5m to €250.5m to form the basis of the Directors' valuation of €1.5764 per share.

The Company held a 26.7% interest in Spazio as at 31st March 2017 (2016: 26.7%).

The aggregate of realised gains/losses and movement in unrealised gains/losses for the year resulting from Spazio recorded in the Statement of Comprehensive Income amounted to a loss of £25,789,928 (2016: gain of £6,255,065).

7. Share capital

	2017 Number	2017 £	2016 Number	2016 £
Ordinary shares of £0.01 each	1,000,000,000	10,000,000	1,000,000,000	10,000,000
		10,000,000		10,000,000

	2017 Number	2017 £	2016 Number	2016 £
Issued share capital				
At 1st April	15,504,787	155,048	15,504,787	155,048
	15,504,787	155,048	15,504,787	155,048

8. Reserves

	2017 £	2016 £
Share premium		
At 1st April	52,935,499	52,935,499
At 31st March	52,935,499	52,935,499
Retained losses		
At 1st April	(17,975,015)	(23,719,155)
Total comprehensive (loss)/income for the year	(26,132,615)	5,744,140
At 31st March	(44,107,630)	(17,975,015)

Notes to the financial statements (continued)

For the year ended 31st March 2017

9. Other debtors and accrued income

	2017 £	2016 £
Prepaid consulting fees	2,949	2,169
Prepaid listing fees	1,436	1,432
Interest receivable	–	236
	4,385	3,837

10. Other creditors and accrued expenses

	2017 £	2016 £
Administration fee payable	4,976	4,290
Accounting fees payable	9,000	9,239
Audit fee payable	10,557	12,500
Corporate secretarial fees payable	2,000	2,000
Directors' fees payable	25,000	25,000
Investment management fee payable	291,923	240,641
Accrued liquidation fee	35,000	35,000
Other payables	8,254	18,994
	386,710	347,664

11. Net asset value per ordinary share

	2017 Total £	2017 Per Share £	2016 Total £	2016 Per Share £
Net asset value	8,982,917	0.58	35,115,532	2.26

12. Earnings per share

The basic and fully diluted earnings per share is based on the loss for the year of £26,132,615 (2016: gain of £5,744,140) and the weighted average number of shares outstanding at the year of 15,504,787 (2016: 15,504,787).

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 on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

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.

Following the disposal of most of its securities the Company now holds only the investment in Spazio, which represents 88.19% (2016:96.02%) of total assets. The Company is therefore exposed to the performance of Spazio, which invests in Italian commercial property through the Fund.

The Fund has a significant level of gearing, with a bank loan as at 31st December 2016 of €208.9m compared to the valuation of the property portfolio (as estimated by the Directors for the adjusted net asset value included in these financial statements) of €250.5m. This is equivalent to a loan-to-value ratio of 83%. Therefore, any movement in the valuation of the underlying property portfolio has a significant effect on the net asset value of Spazio. For indicative purposes, a 5% reduction in the value of the property portfolio would reduce the value of TCF's investment in Spazio by 30% (assuming no other assets or liabilities).

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 rate movements.

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 assumes 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.

The Company mitigates credit risk through using only reputable banks and brokers. The credit worthiness of the banks and brokers are monitored by the Investment Manager.

Notes to the financial statements (continued)

For the year ended 31st March 2017

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. The Company's policy in managing liquidity risk is to have sufficient liquid assets to meet its liabilities as they fall due, without incurring undue losses.

The table below provides a breakdown of the Company's 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 £	1-12 months £	No stated maturity £	Total £
As at 31st March 2017				
Other creditors and accrued expenses	386,710	–	–	386,710
Total financial liabilities	**386,710**	**–**	**–**	**386,710**

	Less than 1 month £	1-12 months £	No stated maturity £	Total £
As at 31st March 2016				
Other creditors and accrued expenses	347,664	–	–	347,664
Total financial liabilities	**347,664**	**–**	**–**	**347,664**

13.5 Currency risk

The Company holds assets denominated in currencies other than its functional currency, the Pound Sterling. 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 following table summarises the Company's exposure to foreign currencies as a percentage of net assets.

At 31st March 2017 the Company's exposure to foreign currency, on a look through basis, was as follows:

	2017 Weighted %	2016 Weighted %
€	90.26%	96.76%
£	9.72%	3.24%
$	0.02%	–
	100.00%	100.00%

At 31st March 2017 and 31st March 2016 the Company held no open forward contracts.

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

	2017 £	2016 £
Total comprehensive (loss)/income for the year	(26,132,615)	5,744,140
Net realised loss on financial assets	(628)	3,077
Net unrealised loss/(gain) on financial assets	25,799,949	(6,254,885)
(Increase)/decrease other debtors and accrued income	(548)	849
Increase in other creditors and accrued expenses	39,046	183,421
Net realised and unrealised losses on foreign currency	(9,393)	(3,257)
Net cash outflow from operating activities	(304,189)	(326,655)

Notes to the financial statements (continued)

For the year ended 31st March 2017

15. Cash at bank and brokers

	2017 £	2016 £
At 1st April	1,405,947	1,732,602
Decrease in cash and cash equivalents	(304,189)	(326,655)
At 31st March	1,101,758	1,405,947
Cash at bank	1,101,758	1,405,947
	1,101,758	1,405,947

16. Prime brokerage agreements

Under the terms of the Company's prime brokerage agreement, 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 2017, the Investment Manager owned 1,303,467 shares (2016: 1,303,467 shares) in the Company. Fees charged to the Investment Manager in respect of the year were £6,733 (2016: £8,789) of which £476 (2016: £655) was outstanding at the year end.

Michael Haxby, a Director of the Company, is also a director of the Investment Manager and of member companies of the Spazio group. Mr Haxby receives a fee from Terra European Investments BV ("TEI"), a Spazio group company, of €12,000 per year.

The Investment Manager receives a fee from Terra European Investments BV ("TEI"), a Spazio group company. The Investment Manager receives an annual management fee of 0.5% based on the latest audited NAV of Spazio, payable monthly in arrears. The fee remunerates the Investment Manager for managing TEI's holding in Spazio. The carrying value of Spazio is not included in the calculation of the management fee paid by the Company to the Investment Manager. Aggregate management fees charged during the year in relation to TEI were £29,588 (2016: £165,380). Fee of £291,447 (2016: £239,986) was outstanding at the year end.

Colin Kingsnorth, a director and an ultimate beneficial owner of the Investment Manager is also a director of Spazio.

Ian Melvin, a director of the Investment Manager is also a director of Spazio.

The Company held a 26.7% interest in Spazio as at 31st March 2017 (2016: 26.7%). The Investment Manager controls 72.4% of Spazio (2016: 72.4%).

18. Directors' remuneration

Details of the 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:

	2017 £	2016 £
Robert Thomas Ware	65,000	65,000
Martin Michael Adams	35,000	35,000
Michael Andrew Haxby*	–	–
	100,000	100,000

* Michael Haxby has waived the right to receive a Directors fee from the Company while he is a director of the Investment Manager.

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

19. Subsequent events

In preparing these financial statements, the Company has evaluated events that have occurred from 1st April 2017 through to 26th September 2017, being the date that the annual statements were issued/available to be issued. Except as already included in the notes to financial statements, the Company has determined that no events have occurred that would require recognition or additional disclosures in these financial statements.

Supplementary information (unaudited)

Reconciliation of Net Asset Value to Total Equity per Statement of Financial Position as at 31st March 2017

	2017 £	2016 £
Net Assets as at 31st March	37,278,127	31,525,694
Revaluation of Spazio from €7.0083 per share		
to €1.5764 per share as at 31st March 2017 (2016: €6.2695 to €7.0083)	(28,474,002)	3,589,838
TEI management fee adjustment	178,792	–
Shareholder's Funds per Statement of Financial Position	8,982,917	35,115,532

terracf
Terra Catalyst Fund