

# **Terra Catalyst Fund** **Unaudited Interim** **Financial Statements**

For the six months to 30th September 2016

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# 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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75 Fort Street  
PO Box 1350  
Grand Cayman, KY1 – 1108  
Cayman Islands

## Legal Advisors to the Company (as to Cayman Islands Law)

Appleby  
Clifton House  
75 Fort Street  
PO Box 190  
Grand Cayman, KY1 – 1104  
Cayman Islands

## Administrator

Quintillion Limited  
24-26 City Quay  
Dublin 2  
Ireland

## Prime Broker

Credit Suisse Securities (Europe) Limited  
Canary Wharf  
One Cabot Square  
London  
E14 4QJ

## Reporting Accountants and Auditors

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

## Investment Manager

Laxey Partners Ltd  
4th Floor, Derby House  
64 Athol Street  
Douglas  
Isle of Man  
IM1 1JD

## Nominated Adviser and Broker

Smith & Williamson  
Corporate Finance Limited  
25 Moorgate  
London  
EC2R 6AY

## Legal Advisors to the Company (as to English Law)

Gowling WLG (UK) LLP  
4 More London Riverside  
London  
SE1 2AU

## Registrar

Capita Registrars (Isle of Man) Limited  
3rd Floor, Exchange House  
54-62 Athol Street  
Douglas  
Isle of Man  
IM1 1JD

## Depository

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

# Investment Manager's Report

## For the six months ended 30th September 2016

### Portfolio Review and Investment Activity

The remaining asset in Terra Catalyst Fund ("TCF") is Spazio Investment NV ("Spazio"). More information on Spazio can be found at [www.spazioinvestment.com](http://www.spazioinvestment.com). This externally managed property fund specialises in investment in Italian industrial real estate. Through a wholly-owned Italian regulated property fund, Spazio Industriale ("the Fund"), Spazio owns a portfolio of Italian industrial properties. The external manager is Idea FIMIT, who replaced the former external manager, Prelios RE, in May 2013. TCF indirectly holds a 26.7% interest in Spazio as at 30th September 2016. Laxey Partners Ltd (the "Investment Manager" or "Laxey Partners"), TCF and other funds under the management of Laxey Partners, together control 72.4% of Spazio.

### Spazio Carrying value

The carrying value per share of Spazio in these financial statements is €7.0083, being the audited Net Asset Value per share of Spazio as at 31st December 2015, compared with €6.2695 as at 30th September 2015. The Net Asset Value increased principally as a result of the increase in the value of Spazio's Telecom Italia portfolio, after the debt renegotiation.

### 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 CBRE and GVA Redilco, are currently actively

marketing certain properties in order to close, before the year end, a number of sales sufficient to meet the amortising schedule of the bank debt, although there is a risk this target is not achieved.

### The Italian real-estate market

Regarding institutional transactions, in the first quarter of 2016 real estate investment volume reached around €1.8bn, which although down 6.7% against the same period in 2015, was an increase of 36% against the average quarterly value over the last four years.

Despite investors being more cautious than they were in 2015, interest in the Italian market remained high. Foreign capital of approximately €1.3bn, equal to about 74% of the quarterly volume, has been the main source of real estate investment in Italy in 2016.

Domestic institutional capital invested in the quarter continued its uptrend, with circa €455mn invested – an increase of over 130% against the same period last year; in which domestic investment had reached about €200mn.

In addition to the positive data regarding investment volume, another current encouraging sign is represented by the presence in the Italian market of all types of investors, i.e. core, opportunistic and value added, together with more allocations by pension funds.

The troubles of the Italian banking sector continue and are well documented. They continue to have a considerable adverse effect on the cost of finance and the ability for buyers to finance purchases of real estate.

### Portfolio

Spazio owns 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 2015 of €375.2mn, compared with €357.8mn at 31st December 2014. The value of the portfolio has risen principally as a result of the increase in the value of Spazio's Telecom Italia portfolio, after the debt renegotiation.

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 €2.65mn. Certain conditions must be fulfilled in order for the final deed of sale to be signed no later than 31st December 2016. To date, the required environmental decontamination work has been completed and now the management team is working to obtain the decontamination certificates from the relevant authorities to fulfil the final presale condition ahead of 31st December 2016.

With regard to leases, during the first nine months of 2016, the Fund entered into the following new lease agreements:

(i) Pavia Via Veneroni property – logistics use: an additional 4,100 m2 has been added to an existing lease contract with Riso Scotti (with natural expiry envisaged on 31st March 2020). The initial additional rent will be for €70,000 per annum, with a provision to step up that would result in addition rent of approximately €80,000 per annum, bringing the total annual rental payable to €200,000.

(ii) Pavia Via Veneroni property – logistics use: to lease around 4,000 m2 to a company called

SAMI Srl, which in turn supplies Riso Scotti. SAMI Srl will take care of a light refurbishment plan and the Fund will receive rent of €85,000 in year 3, €50,000 in year 2 and €25,000 in year 1.

- (iii) Bagni di Tivoli, Cesurni property – logistics use: to lease a portion of 4.100 m2 of a logistic building to Arco Spedizioni Spa for an annual rent of €195,000 (on a 6 + 6 year lease). The Bagni di Tivoli Property is now 50% leased (Ceva is the other tenant) with a total passing rent equal to €530,000 per annum.
- (iv) Turate, Via Salvo d'Acquisto property – office use: to lease a portion of 4.100 m2 of offices to Avon Cosmetics on a 9 plus 6 year lease, with a rent regime at year 4 equal to €420,000 (€230,000 in year 1, €280,000 in year 2 and €350,000 in year 3). In order to secure this lease agreement, the Fund committed to a capex plan of approximately €1.5mn.

During the first half of 2016, no new investments were made by the Fund. Sales of the Fund's properties for a total value of €757,800 were finalised.

### Bank financing

As previously disclosed, the Fund has a single bank loan with a face value of €213.9mn; with three institutions – Banca IMI S.p.A (agent bank 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.

This debt has a 6 month interest period at a reference rate of the 6 month Euribor plus 290 bps. The debt must be repaid according to the amortisation schedule below:

Amount €	Repayment deadline
5,000,000	31st December 2016
5,000,000	30th June 2017
15,000,000	31st December 2017
10,000,000	30th June 2018
15,000,000	31st December 2018
15,000,000	30th June 2019
20,000,000	31st December 2019
20,000,000	30th June 2020
Residual amount at	31st December 2020

The residual Fund debt at 30th September 2016, following the repayment of €643,200 from authorised sales is now €213.26mn.

# Investment Manager's Report

## For the six months ended 30th September 2016

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For the six months to 30th September 2016

(continued)

### Future Prospects for TCF

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 shareholders in TCF should not expect further substantial returns in the short to medium term.

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, as per the following table.

Asset	GLA (sq.m.)	Total Rent at Regime Considering Rent Step Up (€/000)	Occupancy %	2016		2015		2014	
				Annual Rent (**) (€/000)	Occupancy %	Annual Rent (***) (€/000)	Occupancy %	Annual Rent (****) (€/000)	
Leased properties	453,982	€16,566	85.2%	€15,751	82.0%	€16,810	69.4%	€18,026	
Vacant properties to be redeveloped	52,805	€389	26.5%	€311	11.4%	€226	2.5%	€94	
Vacant asset to be traded to end user*	478,003	–	–	–	–	–	–	–	
<b>Grand total</b>	<b>1,515,597</b>	<b>16,955</b>	<b>–</b>	<b>16,373</b>	<b>–</b>	<b>17,263</b>	<b>–</b>	<b>18,214</b>	

\* Building Capacity of EGP represents 450.000 sq.m of the total GLA represented for the "Vacant Asset to be Traded to End User".

\*\* In 3Q 2016 signed contract with Avon Cosmetics for 4.100 sq.m. on Turate Building. Lease start by 2Q 2017.

\*\*\* On 26 June 2015 renegotiated all the telecom lease agreements. Total Rent was reduced from €11.3m to €9.6m based on double net agreement and a WALT of 16.9 years.

\*\*\*\* In April 2014 renegotiated the Alstom and ABB lease agreements for a total rent of €2.8m based on 6 years duration.

# Review Report by KPMG Audit LLC to Terra Catalyst Fund For the six months ended 30th September 2016

## Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 30th September 2016, which comprises the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

## Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly report in accordance with IAS 34 Interim Financial Reporting and the AIM Rules.

The annual financial statements of the Company are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with IAS 34 Interim Financial Reporting.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Emphasis of matter – valuation of investment in Spazio Investment NV

In forming our opinion on the condensed set of financial statements, which is not modified, we have considered the disclosures made in notes 2(b) and 6 to the financial statements concerning the valuation of the holding in Spazio Investment NV ("Spazio") of £37,158,190. This is stated at Directors' valuation, with the advice of the Investment Manager, in the absence of a readily ascertainable and reliable market value and is based on the net asset value per share of Spazio, per its last audited accounts as at 31st December 2015. 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.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30th September 2016 is not prepared, in all material respects, in accordance with IAS 34 and the AIM Rules.

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

2 December 2016

# Statement of Financial Position

## As at 30th September 2016

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Terra Catalyst Fund Unaudited Interim Financial Statements  
For the six months to 30th September 2016

	Notes	(Unaudited) 30th September 2016 £	(Audited) 31st March 2016 £
<b>Current assets</b>			
Cash at bank		1,248,132	1,405,947
Equities – long at fair value through profit or loss	6	37,158,190	34,053,412
Other debtors and accrued income		43,187	3,837
<b>Total assets</b>		<b>38,449,509</b>	<b>35,463,196</b>
<b>Equity</b>			
Share capital	7	155,048	155,048
Share premium		52,935,499	52,935,499
Retained losses		(15,099,517)	(17,975,015)
<b>Total equity</b>		<b>37,991,030</b>	<b>35,115,532</b>
<b>Liabilities</b>			
Other creditors and accrued expenses		458,479	347,664
<b>Total liabilities</b>		<b>458,479</b>	<b>347,664</b>
<b>Total liabilities and equity</b>		<b>38,449,509</b>	<b>35,463,196</b>
Net asset value per ordinary share	8	2.45	2.26

The notes on pages 10 and 11 are an integral part of the financial statements.



# Statement of Comprehensive Income (Unaudited)

## For the six months ended 30th September 2016

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Terra Catalyst Fund Unaudited Interim Financial Statements  
For the six months to 30th September 2016

	Notes	(Unaudited) 30th September 2016 £	(Note 5) (Unaudited) 30th September 2015 £
<b>Income</b>			
Distributions on long equity securities		36,566	–
Interest			
– Cash balances		909	1,129
Net realised losses on financial assets and liabilities at fair value through profit or loss			
– Cash balances		(440)	(1,364)
Net unrealised (losses)/gains on financial assets and liabilities other than currency forwards at fair value through profit or loss			
– Cash balances		(12,193)	1,665
– Equities	6	3,104,778	516,577
<b>Total net investment income</b>		<b>3,129,620</b>	<b>518,007</b>
<b>Expenses</b>			
Investment management fee		102,690	88,663
Administration fees		27,552	23,705
Audit fees		3,336	6,250
Directors' remuneration		50,000	50,000
Other expenses		70,307	62,031
Interest expense			
– Cash balances		237	14,892
<b>Total expenses</b>		<b>254,122</b>	<b>245,541</b>
<b>Profit for the period</b>		<b>2,875,498</b>	<b>272,466</b>
Other comprehensive income		–	–
<b>Total comprehensive income for the period</b>		<b>2,875,498</b>	<b>272,466</b>
<b>Earnings per ordinary share</b>			
Basic and fully diluted		£0.19	£0.02

The notes on pages 10 and 11 are an integral part of the financial statements.

# Statement of Changes in Equity (Unaudited) For the six months ended 30th September 2016

	Share capital £	Share premium £	Retained losses £	Total £
<b>Balance at 1st April 2015</b>	155,048	52,935,499	(23,719,155)	29,371,392
<b>Total comprehensive income</b>				
Profit for the period	–	–	272,466	272,466
<b>Balance at 30th September 2015</b>	<b>155,048</b>	<b>52,935,499</b>	<b>(23,446,689)</b>	<b>29,643,858</b>

	Share capital £	Share premium £	Retained losses £	Total £
<b>Balance at 1st April 2016</b>	155,048	52,935,499	(17,975,015)	35,115,532
<b>Total comprehensive income</b>				
Profit for the period	–	–	2,875,498	2,875,498
<b>Balance at 30th September 2016</b>	<b>155,048</b>	<b>52,935,499</b>	<b>(15,099,517)</b>	<b>37,991,030</b>

The notes on pages 10 and 11 are an integral part of the financial statements.

# Statement of Cash Flows (Unaudited)

## For the six months ended 30th September 2016

	(Unaudited) 30th September 2016 £	(Note 5) (Unaudited) 30th September 2015 £
<b>Cash flows from operating activities:</b>		
Interest received	1,146	1,161
Interest paid	(237)	–
Prepaid expenses	–	69
Investment management fee paid	(3,688)	(4,785)
Administration fee paid	(26,771)	(23,635)
Other expenses paid	(142,424)	(146,497)
Net realised and unrealised losses on foreign currency	14,159	–
<b>Net cash outflow from operating activities</b>	<b>(157,815)</b>	<b>(173,687)</b>
<b>Cash flows from financing activities:</b>		
Repurchase of shares	–	–
<b>Net cash flow from financing activities</b>	<b>–</b>	<b>–</b>
Decrease in cash and cash equivalents	(157,815)	(173,687)
Opening cash and cash equivalents	1,405,947	1,732,602
<b>Closing cash and cash equivalents</b>	<b>1,248,132</b>	<b>1,558,915</b>

The notes on pages 10 and 11 are an integral part of the financial statements.

# Notes to the Financial Statements

## For the six months ended 30th September 2016

### 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.

### 2. Basis of preparation

#### (a) Statement of compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements.

These condensed interim financial statements were approved by the Board of Directors on 2nd December 2016.

#### (b) Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31st March 2016. 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).

### 3. Significant accounting policies

The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its financial statements as at and for the year ended 31st March 2016.

### 4. Financial risk management

The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31st March 2016.

### 5. Comparative figures

The comparative figures shown in the Statement of Financial Position is at 31st March 2016 and in the case of the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows are for the six months to 30th September 2015.

### 6. Investments

	30th September 2016	31st March 2016
	£	£
Long positions:		
Market value	37,158,190	34,053,412
Cost	15,145,206	15,145,206

As at 30th September 2016, the Company had an interest in Spazio Investment NV ("Spazio") of £37,158,190 (31st March 2016: £34,053,412) or 96.64% (31st March 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 its most recent audited Net Asset Value, at 31st December 2015, being €7.0083 per share (31st March 2016: €7.0083 per share).

Spazio's property agent, Celtic Italy s.r.l., together with CBRE and GVA Redilco, are currently actively marketing certain properties in order to close, before 31st December 2016, a number of sales sufficient to meet the amortising schedule of Spazio's bank debt, although there is a risk this target is not achieved. If targeted sales are not achieved, the Directors are satisfied that Spazio has alternative funding plans in place to enable the amortisation schedule to be met.

The Company held a 26.7% interest in Spazio as at 30th September 2016 (31st March 2016: 26.7%).

The aggregate of realised gains/losses and movement in unrealised gains/losses for the period ended 30th September 2016 resulting from Spazio recorded in the Statement of Comprehensive Income amounted to a gain of £3,104,778 (30th September 2015: £516,577).

**7. Share capital**

	Period ended 30th September 2016 Number	Period ended 30th September 2016 £	Year ended 31st March 2016 Number	Year ended 31st March 2016 £
<b>Authorised share capital</b>				
Ordinary shares of £0.01 each	1,000,000,000	10,000,000	1,000,000,000	10,000,000
<b>Issued share capital</b>				
At 1st April	15,504,787	155,048	15,504,787	155,048
Repurchased during period/year	–	–	–	–
	15,504,787	155,048	15,504,787	155,048

**8. Net asset value per share**

The net asset value per share as at 30th September 2016 was £2.45 based on 15,504,787 ordinary shares in issue as at that date (31st March 2016: £2.26 based on 15,504,787 ordinary shares).

**9. Earnings per share**

The basic and fully diluted earnings per share is based on the profit for the period of £2,875,498 (31st March 2016: £5,744,140) and the weighted average number of shares outstanding at the period of 15,504,787 (31st March 2016: 15,504,787).

**10. Subsequent events**

The Company has evaluated all other events that have occurred from 1st October 2016 through to 2nd December 2016 and determined that no events 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 30th September 2016

	30th September 2016	31st March 2016
	£	£
Net assets	37,991,030	31,525,694
Revaluation of Spazio Investment NV from €6.2695 per share to €7.0083 per share as at 31st March 2016	–	3,589,838
<b>Shareholder's Funds per Statement of Financial Position</b>	<b>37,991,030</b>	<b>35,115,532</b>

