SQN ASSET FINANCE INCOME FUND LIMITED

Annual Report and Accounts 2018

SQN Asset Finance Income Fund Limited is the only diversified equipment leasing and asset finance investment company traded on the London Stock Exchange. The Fund's objective is to generate regular income for investor through collateralised investments in business-essential equipment and hard assets and in asset-and-equipment-based project financings.

Scan the QR code to visit sqnassetfinance.com

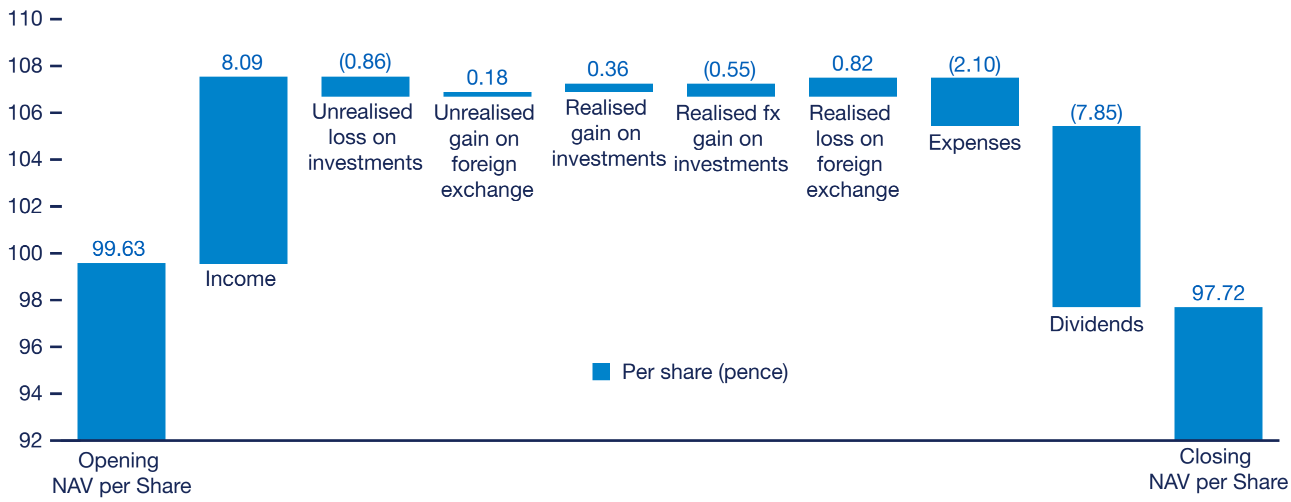
GROUP HIGHLIGHTS FOR THE YEAR ENDED 30 JUNE 2018

The investment objective of SQN Asset Finance Income Fund Limited is to provide its Shareholders with regular, sustainable dividends and to generate capital appreciation through investment, directly or indirectly, in business-essential, revenue-producing (or cost saving) equipment and other physical assets. The Group's base currency is Sterling.

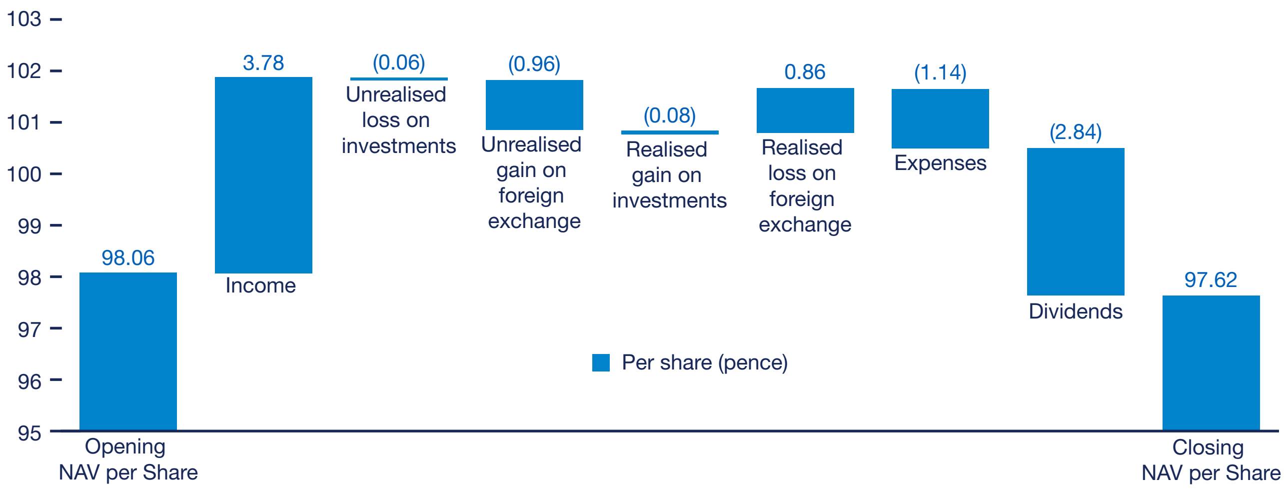
6.2% per Ordinary Share **1.9%** per 2016 C Share	**(7.1)%** Ordinary Share **(3.9)%** 2016 C Share	**£454 million**
NAV total return per share for the year ended 30 June 2018 (dividends reinvested at NAV)	Share price discount to NAV as at 30 June 2018	Market capitalisation of Ordinary Shares and 2016 C Shares as at 30 June 2018
>9.5%	**8.0%** Ordinary Share **2.1%** 2016 C Share	**77**
Average weighted yield of invested portfolio as at 30 June 2018	Dividend yield for the twelve months based on the share price as at 30 June 2018	Weighted average remaining term of invested portfolio (in months)

The key drivers of the change in NAV between 30 June 2017 and 30 June 2018 are highlighted in the graphs below:

Ordinary Shares



2016 C Shares



Index	Page

FINANCIAL HIGHLIGHTS AND PERFORMANCE SUMMARY

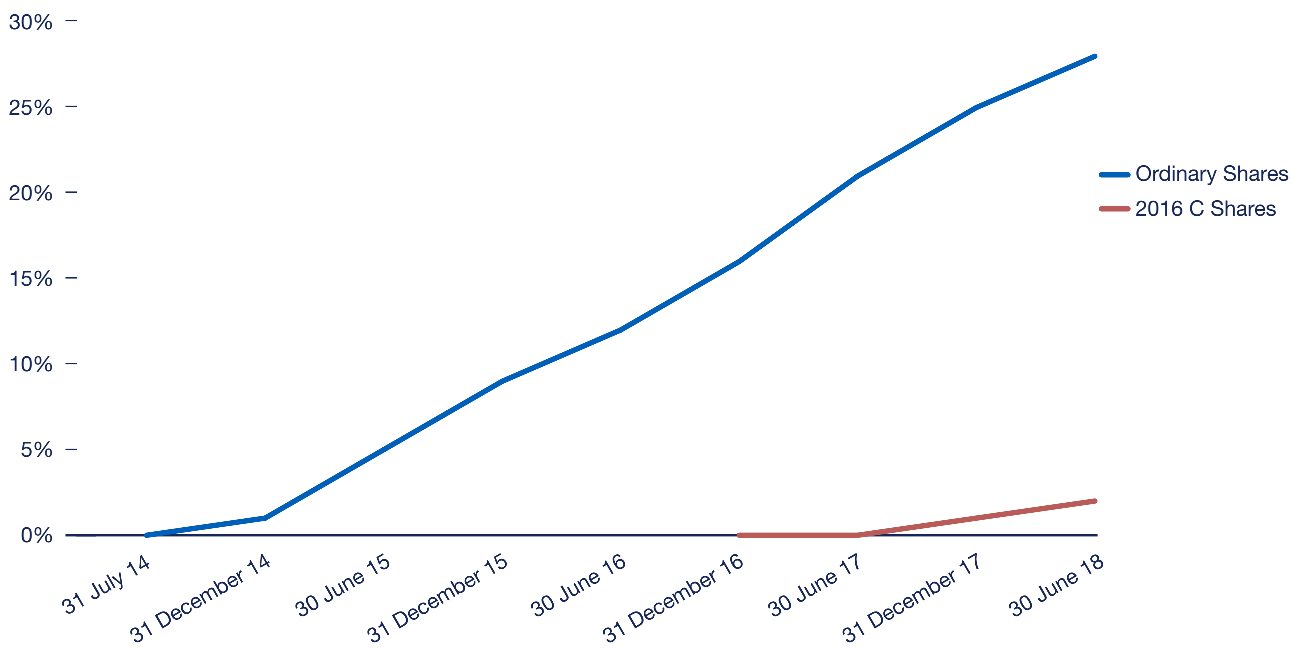
Financial Highlights

NAV Total Return

The NAV total return details the change in NAV from the start of the relevant period and assumes that dividends paid to shareholders are reinvested at NAV. The NAV total return achieved by SQN Asset Finance Income Fund Limited (the "Company" and together with its subsidiaries, the "Group") is detailed in the table below:

Period	Ordinary shares	2016 C shares
Year to 30 June 2018	6.2%	1.9%
3 year annualised[1]	6.7%	-
Since inception	28.2%	2.0%

The NAV total return since inception is illustrated in the graph below:



Ongoing Charges

Ongoing charges reflect those expenses which are likely to recur in the foreseeable future and which relate to the operation of the Group, excluding the costs of acquisition or disposal of investments, finance charges, gains or losses arising on investments, Ordinary Shares and 2016 C Shares.

Ongoing charges are a measure, expressed as a percentage of NAV, based on actual costs incurred in the year as being the best estimate of future costs excluding any non-recurring fees divided by the average NAV of the Company during the year, in accordance with the Association of Investment Companies (the "AIC") methodology. The ongoing charges for the year ended 30 June 2018 were 1.11% (30 June 2017: 1.18%).

Dividend History

The Company targets an annual dividend of 7.25 pence per Ordinary Share. During the year, a dividend of 7.25p was paid on the Ordinary shares and 0.6042p was accrued as a payable, reflecting the timing of the ex-dividend dates during the year. The 2016 C shares paid a gradually increasing dividend during the year as the portfolio became invested. Please refer to note 14 for details on dividends paid during the year and prior year.

[1] NAV total return annualised over a 3 year period from 1 July 2015 to 30 June 2018.

FINANCIAL HIGHLIGHTS AND PERFORMANCE SUMMARY (CONTINUED)

Financial Highlights (Continued)

Return of Capital

The Group repurchased 1,122,366 Ordinary Shares during the year for a total cost of £1,031,187. The repurchased Ordinary Shares are being held in treasury.

On 25 May 2018, the Group made a capital return by way of a compulsory redemption of 41,075,778 2016 C Shares for a total cost of £40,385,704 on pro rata basis amongst all the holders of 2016 C Shares.

Performance Summary

Sterling in millions, except per share data and number of shares in issue	30 June 2018	30 June 2017
Number of Shares in Issue		
- Ordinary Shares	356,585,141	357,707,507
- 2016 C Shares	138,924,222	180,000,000
Total Net Asset Value ("NAV")		
- Ordinary Shares	£348.47	£356.40
- 2016 C Shares	£135.62	£176.51
NAV per share		
- Ordinary Shares	97.72p	99.63p
- 2016 C Shares	97.62p	98.06p
Share Price[1]		
- Ordinary Shares	90.80p	104.50p
- 2016 C Shares	93.79p	101.75p
Market Capitalisation[1]		
- Ordinary Shares	£323.78	£373.80
- 2016 C Shares	£130.30	£183.15
Earnings/(loss) per share		
- Ordinary Shares	5.92p	8.58p
- 2016 C Shares	1.96p	(0.02)p
Dividend paid per share[2]		
- Ordinary Shares	7.85p	7.25p
- 2016 C Shares	2.31p	0.20p
- 2015 C Shares	-	1.43p
Comprehensive income before dividends	**£24.63**	**£25.74**
Investments	**£398.81**	**£373.93**
Cash and cash equivalents	**£76.80**	**£154.57**
Weighted average yield (in excess of)[3]	**9.50%**	**9.50%**
Weighted average remaining term[3]	**77.34 months**	**82.54 months**

[1] Source: London Stock Exchange.

[2] The dividend for May 2018 went ex-dividend on 28 June 2018, which resulted in 12 dividend payments being paid during the year and the May 2018 dividend accrued to be paid. The dividend paid per share would be 7.25p for Ordinary Shares and 2.0376p per 2016 C Share based on 12 dividend payments.

[3] In regard to the invested portfolio

COMPANY OVERVIEW

The investment objective and policy of the Company is set out on pages 4 to 5 of this report.

Company	**SQN Asset Finance Income Fund Limited** Incorporated in Guernsey on 28 May 2014. Registered Guernsey Closed-ended Collective Investment Scheme. Admitted to the Premium Segment of the UK Listing Authority's Official List and to trading on the Main Market of the London Stock Exchange on 14 July 2014 for Ordinary Shares, 9 November 2015 for the first issuance of C Shares (the "2015 C Shares") and 12 December 2016 for the second issuance of C Shares (the "2016 C Shares"). Registration number 58519.
Investment Managers	**SQN Capital Management, LLC (the "US Investment Manager")** Incorporated in the United States of America on 7 December 2007. A Registered Investment Adviser with the United States Securities and Exchange Commission. File number 4466472.
	SQN Capital Management (UK) Limited (the "UK Investment Manager") Incorporated in England & Wales on 12 May 2014. A wholly owned subsidiary of the US Investment Manager. Registration number 09033846.
	(together the "Investment Managers")

Details of other service providers are provided on page 82.

INVESTMENT OBJECTIVE

The investment objective of the Company is to provide its shareholders with regular, sustainable dividends and to generate capital appreciation through investment, directly or indirectly, in business-essential, revenue producing (or cost-saving) equipment and other physical assets.

INVESTMENT POLICY

The Company will seek to invest in business-essential, revenue producing (or cost-saving) equipment and other assets with high in place value and long economic life relative to the investment term.

The Company provides asset financing primarily by way of equipment leases, loans, hire-purchase agreements, construction finance, and residual participations. It is intended that each investment made by the Company will generate returns either through cash flow over the investment term or through the residual value of the equipment or other assets at the end of the investment term. When available, the Company targets investments in the specialist segment of the leasing market where assets provide cash flow during the base term of the leases as well as offering the potential for additional proceeds through lease extensions or sales at the end of the lease. The Company generally does not intend to invest in the large single asset segment of the leasing market, such as wide-body commercial aircraft leasing, which is heavily reliant on residual value to meet its return targets, or the high volume, low margin segment of the leasing market, such as photocopier and automobile leasing, although it may do so, from time to time, if appropriate opportunities are identified in these segments.

The Company may invest in assets in any industry. The Company, however, generally expects to be invested in such industries where the Investment Managers see the potential to make the most attractive risk adjusted returns which currently include, but are not limited to, Agriculture, Energy, Environmental, Manufacturing, Material Handling, Medical, Modular Accommodation, Technology and Transportation.

The Investment Managers will target transaction sizes below £20 million but, generally, the average transaction size is expected to be £3 million to £6 million, although it may fluctuate based on the market opportunities and portfolio composition that the Investment Managers believe will best achieve the Company's investment objectives. Whilst there is no minimum lease term, it is typical for the initial lease terms to be 3 to 10 years depending on the asset. Where appropriate, however, the term of the lease may vary significantly from this range reflecting the opportunities available and the needs of the lessee.

It is intended that the Company will primarily acquire assets directly and function as the lessor under equipment lease contracts. In such situations, the Company will own all rights, title, and interest in and to the assets and will lease them to the end-user. In other situations, the Company may own assets and enter into hire-purchase agreements where the Company will own the assets until all payments are made under the agreement and a pre-agreed nominal purchase price is paid to the Company.

The assets held by the Company will generally be leased to a third party and will be subject to either a direct finance (cash flow) lease or an operating lease. The Company intends to balance the portfolio between direct finance leases, to provide regular cash flow, and operating leases, to provide capital appreciation opportunities. Many, but not all, investments will be structured to provide return of capital and interest during the lease term with an opportunity for additional realisation from the residual value after the initial lease term. In certain jurisdictions, direct finance leases will be structured as loans and provide the same advantages to the Company.

The Investment Managers will generally seek to acquire investments and/or enter into lease arrangements that require the lessee or other counterparty to bear all tax, maintenance, insurance, and other costs related to the lease or the operation of the underlying asset(s). Generally, as a result, the Company will not be required to undertake maintenance on assets but reserves the right to do so on an exceptional basis.

Whilst the Company will typically seek direct ownership of the assets under lease, the Company may also obtain exposure to such investments through holding securities that have exposure to an underlying asset or assets that meet the Company's investment criteria where it is more advantageous for the Company to do so or a direct investment is not possible. This includes, but is not limited to, holding or entering into debt securities, loan agreements, equity securities, participation agreements, hybrid instruments, or other securities, whilst maintaining the desired economic exposure and level of security.

INVESTMENT POLICY (CONTINUED)

The Company may invest in residual interests in assets or equipment. When the Company invests in residual interests, it or its subsidiaries will acquire the rights and/or title to equipment, assets, income or proceeds in respect of the period after the end of the initial lease term or other underlying contract term. Cash flow from the residual interests generally will not commence until all of the obligations under the initial term are satisfied. Once those obligations are satisfied, rights and/or title to the underlying equipment, assets, income or proceeds will be transferred to the Company or its subsidiaries. Furthermore, the Company may elect to sell all or part of the lease receivables to a third party investor or bank and retain its exposure to the asset by retaining ownership of the residual value (in addition to any proportion of the lease receivables retained). Therefore, in relation to certain investments, the Company may be reliant on the residual value to obtain its return on that investment. It is not expected that residual interests would represent more than 35 per cent of the portfolio at the time of investment.

Investments will primarily be made in the United Kingdom, the United States and Europe which is expected to represent at least 75 per cent of the portfolio. The Company may also invest in assets and equipment located or subject to law in Canada and Australia and other countries, regions, or jurisdictions where the Investment Managers believe they can adequately secure the Company's interest in assets and equipment whilst achieving an appropriate risk-adjusted return consistent with the rest of the portfolio.

For further details on the Investment Objective and Policy refer to the Prospectus which can be viewed on the website, www.sqnassetfinance.com.

CHAIRMAN'S STATEMENT

I am pleased to be once again updating you on the progress which the Group has made over the last full year.

In my report to investors within the interim report as at 31 December 2017, I commented:

"I look forward to reporting to you again in the autumn with the Annual Financial Statements. By then I hope that some of the complex situations will have become resolved, the portfolio will be fully invested generating attractive levels of cashflow and the rating of the Shares will have improved. I can assure you that the Board and the Investment Managers are focused on achieving all of those objectives over the balance of the year."

As I write to you today:

✓ Four out of six "Past Due not Impaired" accounts have been resolved satisfactorily and no new material delinquencies have materialised.

✓ The 2016 C Share has achieved its investment and income target and with effect from August 2018 is paying a dividend at an annualised rate of 7.25%.

✓ Both share classes have significantly reduced their respective discount to NAV.

Judged solely by the share price, these last twelve months were challenging. However despite a handful of situations requiring extra attention, which I discuss below, the majority of the portfolio has continued to perform well and the Ordinary Shares NAV total return for the year was 6.2%. Since inception, the Ordinary Shares have generated a return of over 28%, with remarkably little volatility (see the graph on page 1). Against a backdrop of cash rates barely above zero and the initial ramp up of investment in the early months of the Company's life, this is a commendable return and demonstrates that the overall investment thesis is sound.

As both the Ordinary Shares and 2016 C Shares approach full investment profits should accordingly be higher next year. Also encouraging was that all transactions that repaid during the year exceeded the initial target returns.

At the same time, we have been able to keep expenses in check and, for the fourth year in a row, the ongoing charges ratio for the Group decreased, to 1.11% from 1.18% in the previous year.

During the year, the Group found itself in the extraordinary position of supporting a borrower (Suniva) in petitioning the United States Government for protection from foreign importers which were decimating the borrower's industry and preventing them from repaying the Group. The borrower was successful in its petition but the high-profile nature of the undertaking put significant pressure on our share price.

As a result, during the year the Ordinary Share price (which contains the Suniva investment) slipped to a low of 81.2p representing a discount of 18%, when Ordinary Shares were at their peak during the year they traded as high as 106.5p; a premium of 7%.

At year end, the price of the Ordinary Shares had improved to 90.80p and I am pleased to report that, at the time of writing, they are trading at a modest premium to the NAV. This share price improvement was the direct result of a concerted effort by the Group and the Investment Managers, to improve communication with investors and analysts as well as to highlight the broader portfolio activity and strong performance of the diversified equipment-backed investment strategy. Concurrently, the Board repurchased Ordinary Shares in the market. A total of 1,122,366 Ordinary Shares were repurchased in May 2018 at an average discount of 7%. A total of 321,316 Ordinary Shares were repurchased subsequent to the year end in July 2018.

In sustaining a flow of detailed information to the market, the interim report as at 31 December 2017 released in March 2018, identified six investments that were "Past Due not Impaired". In that same report, it was reiterated that, in the normal course of generating yields at the levels necessary to sustain a 7.25% dividend, there would inevitably be occasional transactions requiring attention and that, based on the collateralised nature of the Group's investment strategy, workouts do not necessarily result in impairments and, on occasion, have the potential for additional returns to be realised. These workouts also take time to achieve.

CHAIRMAN'S STATEMENT (CONTINUED)

As already mentioned, I am pleased to report that four of the six "Past Due not Impaired" investments have been satisfactorily restructured and we remain optimistic for a positive outcome for the remaining two investments. One is a relatively small investment in the portfolio in telecommunication towers which is now close to resolution. The other is Suniva, where the Board continues to anticipate a positive outcome but where some uncertainty exists around the timing of any recovery. The Group continues to pursue a recovery on two fronts; the Group has initiated legal action against the guarantor for full payment of the outstanding amounts and at the same time, the Investment Managers remain in talks with multiple parties regarding a sale, merger, or joint venture which will result in cash proceeds to the Group. This is explained in more detail in the Investment Managers Report.

In addition to the downward pressure on the Ordinary Share price, the 2016 C Share performance also struggled as a result of the slower than expected deployment of cash. In June 2018, the Group returned £40,385,704 to investors which included all fees paid to the Investment Managers related to that capital. Although the pipeline was sufficient to deploy the entirety of the capital, the Board and the Investment Managers concluded that redeeming a proportion of the 2016 C Shares was the most effective and fairest way to accelerate full investment and pay the full dividend. As of the date of this report, the 2016 C Share price has improved to approximately 96p, a full dividend has been announced and paid from the month of August 2018, and the share class is now close to being fully invested.

The Group maintains its commitment to supporting the share price and has kept the share buy-back programme open should any weakness once again present itself and it is deemed accretive and in the best interests of shareholders to deploy the buyback option.

In conjunction with the decision to return capital, the Group extended the date by which it was required to convert the 2016 C Shares to Ordinary Shares to June 2019. The exact timing of conversion will depend upon achieving greater clarity around the resolution of Suniva and the Board will notify shareholders in due course.

During the year, Suniva was one of three investments that were not generating income. The other two investments were Snoozebox, and Green Valley Hospital. Snoozebox and Green Valley Hospital have each now been restructured and re-commenced making regular payments.

In addition to a focus on dividend cover, the Group is concentrating on maintaining a portfolio as close to full investment as possible, growing the NAV, and supporting the share price.

The Portfolio

Within the combined invested portfolio, the weighted average yield remains comfortably in excess of 9.5% and the transactions funded after the year end have maintained that level. The average investment size for the combined share classes was approximately £7.7 million with a weighted average remaining term of approximately 77.34 months as at 30 June 2018.

Investments are diversified across 17 different asset classes and 19 industries, ranging from a paper mill in Scotland to construction equipment utilised throughout England.

The portfolio remains geographically diverse with the majority of assets in the United Kingdom (64.0%) and the balance across the United States (17.2%), France (7.0%), the Netherlands (5.0%), Ireland (3.4%), Mexico, (1.2%), UAE (1.0%), Brazil (<1%) and Australia (<1%).

Conclusion

I would like to assure all our shareholders that the Investment Managers and the Board continue to work to ensure the objectives of the Group are fully met; the dividend continues to be paid and the dividend cover enhanced.

I am very grateful to my Board colleagues for their diligence and the time that they have put into the Group throughout the last year, and indeed ongoing, and to the Investment Managers for their continuing professionalism in dealing with an increasingly diverse portfolio and maintaining our ability to satisfy investor expectations both in terms of the returns we provide and in the communication of our story.

Peter Niven
Chairman
2 October 2018

STRATEGIC REPORT

The Investment Objective and Policy, the Chairman's Statement and the Investment Managers' Report form part of the Strategic Report. A review of the Company's activities is provided in the Company Overview, the Chairman's Statement and the Investment Managers' Report. These include a review of the business of the Group and its core activities, the principal risks and uncertainties it faces, dividend policy and results for the year.

Structure

The Company is a non-cellular company limited by shares, incorporated in Guernsey on 28 May 2014. The Company is regulated in Guernsey by the Guernsey Financial Services Commission as a Registered Closed-ended Collective Investment Scheme.

The Company is a member of the AIC and is classified within the Specialist: Leasing sector.

Share Capital

The Company's issued share capital as at 30 June 2018 consisted of 356,585,141 Ordinary Shares and 138,924,222 2016 C Shares of no par value. The share capital of the Company is represented by an unlimited number of shares of no par value. All shares hold equal voting rights with no restrictions and no shares carry special rights with regard to the control of the Company. There are no special rights attached to the shares in the event that the Company is wound up.

The Company repurchased 1,122,366 Ordinary Shares during the year for a total cost of £1,031,187. The repurchased Ordinary Shares are being held in treasury. Repurchases subsequent to the year end are detailed in note 19.

On 25 May 2018, the Group made a capital return by way of a compulsory redemption of 41,075,778 2016 C Shares on a pro rata basis amongst all the holders of 2016 C Shares.

Please refer to note 13 for further information.

Subsidiaries

The Company's subsidiaries are detailed in note 1.

The Directors of the subsidiaries are the same as the Company.

Diversification Strategy

The Group's portfolio is subject to diversification policies limiting the maximum amount of capital that can be invested in a single asset, in a single asset class, in assets held by a corporation or group or held by companies in a specific industry and as a percentage of NAV of the portfolio, measured at the time of investment, as follows:

- Maximum by asset: 15%
- Maximum by asset class: 30%
- Maximum by corporation or group: 15%
- Maximum by industry: 30%

STRATEGIC REPORT (CONTINUED)

Principal Risks and Uncertainties

When considering the total return of the Group, the Board takes account of the risk which has been taken to achieve that return. The Board looks at numerous risk factors, an overview of which is set out below:

Asset/Credit quality risk

The Group's success is subject to risks inherent in the equipment leasing and finance business; in particular, the quality of the assets it acquires and the risk of default by the Group's lessees or other counterparties, including banking counterparties in relation to cash balances, which may affect the Group's ability to operate profitably. Key risks here are deemed to be asset valuations and quality and the level of arrears and impairments. Additionally, the risk of asset concentration, by geography, industry sector and asset class. Further, to the extent relevant, any decline in the residual value of the Group's underlying assets at the end of a lease term, which will depend on factors outside the Group's control, may erode the ability of the Group to make a profit on those investments.

Geopolitical and economic risks

It is the intention of the Group to lease or make loans to customers in several jurisdictions exposing the Group to potential economic, social, legal and political risks. The Group therefore also faces the risk of failing to survive a global financial crisis, including any impact that Brexit may cause. These risks additionally expose the Group to interest rate changes and foreign exchange currency fluctuations. The adequacy and timeliness of management's response to risks in the jurisdictions in which it operates are of critical importance to the mitigation of these risks. The Board considers management to include third parties, such as the Investment Managers and BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Administrator") to whom the Board has delegated responsibility for key operations and day to day functions. Refer to note 17 for more detail on interest rate risk and foreign exchange hedging.

Key personnel risk

The Group's performance is dependent on services provided by the Investment Managers. The departure of key employees from the Investment Managers may adversely affect the returns available to the Group.

Performance Risk

The performance of the Group is largely determined by the success of the Investment Managers in meeting or exceeding performance objectives and the expectations of investors, in accordance with the objectives set out in the prospectus. As such, if dividend return targets or overall rate of return targets are not met, or the Group's cash flows or liquidity are constrained, investor confidence and support would be at risk.

Regulatory risk

Changes in law or regulation may adversely affect the Group's ability to carry on its business or may increase the Group's on-going charges.

Tax risk

Unfavourable changes in tax legislation could result in adverse changes in the tax position of the Group or the imposition of additional and possibly material tax liabilities on shareholders.

Other risks

The Directors wish to draw the attention of shareholders to the other risks as set out in the Company's Prospectus, which is available on the Group's website: www.sqnassetfinance.com. Refer to note 17 for details on the Group's risk mitigation strategies and details of additional risks.

Going Concern

Going concern refers to the assumption that the Group has the resources and desire to continue in operation for the foreseeable future. After analysing the following, the Directors believe that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements:

- Working capital – As at 30 June 2018, there was a working capital surplus. The Directors noted that as at 30 June 2018 the Group had no borrowings and therefore has sufficient capital in hand to cover all expenses (which mainly consist of Investment Managers' fees, administration fees and professional fees) and to meet all its obligations as they fall due.

- Consideration of various areas of possible financial risk, including comprehensive financial forecasts.

- Closed-ended Company - The Company has been registered with the Guernsey Financial Services Commission as a Registered Closed-ended Collective Investment Scheme, as such shareholders have no right to have their Ordinary Shares redeemed, and there will therefore be no cash flows out of the Company in this respect. Please see page 26 for details on the continuation resolution.

Given the nature of the Group's business, the Directors have a reasonable expectation that the Group has adequate financial resources to continue for a period of at least twelve months from the date of approval of the Consolidated Financial Statements. Accordingly, the Consolidated Financial Statements have been prepared on a going concern basis.

Viability Statement

The Directors have assessed the viability of the Company over a three-year period. This statement explains how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, taking into account the Company's current position and principal risks. The principal risks faced by the Group are described on page 9.

In making this statement, the Directors have considered and challenged the reports of the Investment Managers and have conducted a robust assessment of the viability of the Company over a three-year period, taking account of the Company's current position and the potential impact of the principal risks. In making their assessment, the Directors have taken into consideration the Group's NAV, dividend cover and cash flows. These factors were subjected to stress tests which involved sensitivity analysis of the key assumptions underlying the forecast. Where appropriate, this analysis was carried out to evaluate the potential impact of the Group's principal risks occurring, severe changes to macro-economic conditions, increased defaults and counterparty risks.

The Directors have determined that a three-year period is an appropriate time over which to provide its viability statement and this takes account of the average weighted life of the portfolio, the probability of the refinancing and early redemption of a number of construction loans within the portfolio. The three-year period is consistent with the outlook period used in economic and other medium term forecasts prepared for the Directors by the Investment Managers and is the outlook period generally used by the Board in considering the Company's strategies. The review also considers the market opportunities for the investment of capital, the anticipated portfolio redemptions and the ability to raise third party funds.

This statement is made on the assumption that continuation votes will be passed throughout the period under assessment (see Life of the Company section on page 26).

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a three-year period.

Key Related Party Transactions

The contracts with the US Investment Manager (and related entities) and the UK Investment Manager are the key related party transactions currently in place. Other than fees payable in the ordinary course of business, there have been no material transactions with these related parties which have affected the financial position or performance of the Group in the year. Further details on related party transactions can be found in note 18.

STRATEGIC REPORT (CONTINUED)

Financial Review

At 30 June 2018, the Net Assets of the Group amounted to £484,088,140 (30 June 2017: £532,903,565).

Borrowing

The Group does not currently utilise borrowings on a portfolio basis for investment purposes. The Group, however, may, from time to time, utilise borrowings for share buybacks and short-term liquidity purposes, but such borrowings will not, in any event, exceed 15% of the Group's NAV at the time of investment. This does not prevent the Group from purchasing the equity or subordinated participation in a special purpose entity set up to own an asset or a pool of assets or equipment, which itself may be geared.

Hedging

The Investment Managers seek to hedge the foreign exchange exposure against Sterling on the principal balances outstanding on the Group's portfolio and may, where appropriate, also hedge expected income against foreign currency fluctuation risks. Accordingly, the Group may use derivative instruments to hedge against foreign currency risks, although there can be no certainty as to the efficacy of any such hedging. Hedging arrangements, however, will be implemented only when suitable hedging contracts, such as currency swap agreements, futures contracts, options and forward currency exchange and other derivative contracts, are available in a timely manner and on terms acceptable to the Group. The Group may otherwise employ the use of derivatives for efficient portfolio management purposes but derivatives will not be employed for investment purposes. The Group does not apply hedge accounting.

Performance Measurement and Key Performance Indicators

In order to measure the success of the Group in meeting its objectives and to evaluate the performance of the Investment Managers, the Directors take into account the following performance indicators:

- Returns and NAV – The Board reviews and compares at monthly meetings the performance of the portfolio as well as the NAV, income, dividend and share price of the Company.

- Discount/premium to NAV – at monthly meetings the Board monitors the level of the Group's discount or premium to NAV. The Group publishes the NAV per share on a monthly basis through the official newswire of the London Stock Exchange.

- Formal monthly and quarterly reports from the Investment Managers, which provide information to assess other key performance criteria, including:

    - asset quality, arrears and impairments;
    - geographic and currency breakdowns;
    - sector concentration and asset classes;
    - liquidity and cash flows; and
    - ongoing charges.

INVESTMENT MANAGERS' REPORT

Notwithstanding considerable price volatility, the Group consistently paid one of the highest monthly dividends in the market, continued to deploy capital into well-collateralised investments with yields above 9%, and met or exceeded return targets on all of the concluded transactions during the year ended 30 June 2018.

As was expected, the Investment Manager was able to resolve or restructure four out of the six investments that had gone off schedule and which were reported in the Interim Report, all of which are again contributing income to the Group. With a portfolio in the half a billion-pound range and generating high single digit yields, the business model anticipates there will always be assets requiring attention. This is especially true given that the portfolio is highly diversified.

As a secured investor, net charge-off rates are extremely low and restructurings have the potential to deliver enhanced returns. By way of example, a number of the restructured transactions have included warrants or direct equity in the borrower. These positions, along with the warrants on other investments where they were part of the original security package, are currently valued at nil in the Group's NAV. When these warrants are exercised or the equity positions realised, there could be potential meaningful appreciation.

Another aspect of the investment strategy that contains an element of hidden value are early settlements and refinancings. Three out of the four transactions concluded in the first half of 2018 resulted in returns above the book yield. Additionally, subsequent to the year end, two investments in wind turbines and one investment in marine support equipment were settled at premiums over the originally anticipated yields.

Investments Concluded Since the Interim Report

Infrastructure Painting and Coating Equipment

The Group provided financing secured by all the assets and equipment of the fourth largest industrial painting and coating contracting company in the United States. This investment was settled in April 2018, resulting in a 12.1% return on investment.

Semiconductor Manufacturing and Testing Equipment

The Group participated in the financing of a semiconductor manufacturing plant and related equipment for a publicly-traded French company that produces and markets silicon wafers for use in a variety of industries including solar panel manufacturing. This investment matured in April 2018, yielding a return of 10%.

Ground Support Equipment

In September 2017, the lease for two de-icers at Heathrow Airport came to maturity resulting in a 9.5% full cycle return on investment. The investment for the final two de-icers in service at Gatwick Airport was also repaid early, for a 11% return on investment.

Combine Heat and Power Units

The Group entered into a sale and leaseback of three 1MW Jenbacher combined heat and power engines located in Somerset. This investment was refinanced earlier than initially expected for a yield of approximately 10%.

The capital repayments from the Concluded Transactions have been deployed, along with the majority of the remaining 2016 C Share proceeds at rates maintaining an average gross book yield above 9%. This has allowed the 2016 C Share to commence paying the full 7.25p annualised dividend in August this year.

INVESTMENT MANAGERS' REPORT (CONTINUED)

Ten Largest Investments as at 30 June 2018

At 30 June 2018, the ten largest positions held by the Group, on a combined basis are as follows:

Asset		Principal Balance Outstanding (£)	% of NAV	Net Yield[1]	Industry	Region	Share Class
AD Plant at Hartlepool	GBP	32,244,907	6.66%	9.80%	Agricultural	UK	Ordinary
Diversified Portfolios	USD	30,767,936	6.36%	9.55%	Diversified	US	Ordinary
AD Plant at Imperial Park	GBP	27,960,832	5.78%	9.65%	Agricultural	UK	Ordinary
Glass Manufacturing Plant	EUR	24,408,443	5.04%	9.14%	Glassware	France	Ordinary
Solar Manufacturing Equipment (Suniva)	USD	23,826,934[2]	4.92%	10.51%	Solar	US	Ordinary
AD Plant at Donegal	GBP	19,769,606	4.08%	10.00%	Agricultural	UK	Ordinary
AD Plant at Peterhead	GBP	17,997,681	3.72%	10.00%	Agricultural	UK	Ordinary
Combined Heat and Power Units	GBP	17,453,867	3.61%	9.41%	Agricultural	UK	Ordinary
Paper Mill	GBP	15,429,935	3.19%	9.47%	Paper	UK	Ordinary
Marine Vessels	USD	13,909,328	2.87%	10.28%	Transportation	US	Ordinary
Total		**223,769,469**	**46.23%**				

Anaerobic Digestion Plants (AD Plants)

The Group's largest exposure to a single asset class is in AD Plants which includes the first, third, sixth and seventh largest investments. The Group has invested approximately £105.0 million which, with accrued interest, represents 24.2% of the NAV in leases and project financings for AD Plants. An AD Plant is a closed system that processes organic material to produce methane which can be used as a fuel source or fed into a combined heat and power unit to create electricity and heat. The AD Plants that have been financed run on a combination of agricultural and food waste as the primary feedstocks. The majority of the cash flow generated from operations is derived from long-term, non-cancellable government subsidies related to the production of electricity or the volume of gas delivered to the grid. Each investment carries performance warranties tracked by guarantees and performance bonds to ensure a minimum level of production. The typical term of the Group's investments in AD Plants is around 12 years at rates of approximately 10%. To date, the Group has been able to refinance three of these plants which resulted in attractive premiums over the book yields. It is anticipated that as these plants mature, more of these holdings will be sold or refinanced to capture the yield enhancement and to reduce the concentration of large investments in the portfolio.

1. AD Plant at Hartlepool

The Group's initial investment was £27.1 million in a 5 MW waste to energy project in Hartlepool in the North East of England. This plant will be capable of treating up to 110,000 tonnes of commercially-sourced food waste per year. The initial term of this investment is 14 years with a potential 3-year extension that, if exercised, could enhance the Group's return on investment. The Company also holds equity in the underlying operating company which, in the best scenario, may provide some further upside return once the plant is fully commissioned and operational.

2. Diversified Portfolio

The Group made an initial investment of £29.8 million that is classified as Diversified Portfolios. The investment is backed by diversified portfolios of equipment lease and asset financing transactions within larger portfolios held by insurance companies and further collateralised by the broader portfolios of investment-grade securities. The equipment assets in these portfolios include traditional transportation assets, manufacturing equipment, construction cranes, IT equipment, medical equipment, furniture, fixtures and equipment, earth moving equipment, machine tools, and a wood pellet mill. The investments are structured as secured notes with 11-year full payout terms. The notes individually have been rated BBB which is considered investment grade.

[1] In local currency

[2] Includes £3,547,077 of debtor in possession financing

3. AD Plant at Imperial Park

The Group's initial investment was £23.8 million in a second 5 MW waste to energy project in Imperial Park, Middlesbrough, UK. The fully operational plant which is ramping up to full capacity is subject to a 12-year full payout lease and designed to process 120,000 tonnes of agriculture and food waste a year and sell electricity, heat and fertiliser to local businesses. The Group also holds equity in the underlying operating company which has the potential to further enhance the investment return.

4. Glass Manufacturing Plant

The Group's initial investment was £27.2 million through a sale and lease back of 7 furnaces, 10 production lines and ancillary equipment for one of the largest plate and cup manufacturers in the world with over 3,000 separate products and speciality contracts with some of the world's most recognised brands. The 84 month fully amortising financing was provided in conjunction with an acquisition and recapitalisation of the company. Headquartered in France where the equipment is located, the company was formed in 1825 and has operations in 160 countries.

5. Solar Manufacturing Equipment

The Group's initial investment in Suniva was £21.4 million. In order to secure the equipment, take control of the company, and ensure that the petition filed with the United States Trade Commission was properly prosecuted, the Group agreed to provide up to an additional $4.75 million in the form of a super-senior secured loan and in exchange for, among other considerations, warrants representing a majority equity ownership in the company. Subsequent to the Group's year-end, an additional $750,000 was approved and drawn down under the secured loan facility. This was done to cover the legal cost associated with protecting the Group's assets.

The Group continues to pursue a recovery on the Suniva investment on two fronts. The Group has sued the Guarantor for full payment of the outstanding amounts and has issued subpoenas to directors and officers to appear in New York Court to answer the complaint. At the same time, the Investment Managers remain in talks with multiple parties regarding a sale, merger, or joint venture which would result in cash proceeds to the Group.

Since the initial tariffs were implemented in February 2018, two additional sets of tariffs were announced, the most recent being in August 2018, which have provided further pricing support for US solar panel manufacturers. There is also the potential for substantial compensation for Suniva from two prior trade cases. With an increasing amount at stake over the last several weeks, the Group has come into an adversarial position with Suniva's co-debtor-in-possession lender in the bankruptcy. These are complications that were not anticipated which have had the effect of impeding a swift resolution to take advantage of the favourable marketplace. The Investment Managers believe that the Group will prevail in its adversarial proceedings with the co-debtor-in-possession lender and it will ultimately be able to consummate a transaction that will provide for the recovery of the investment. Unfortunately, this may require substantial additional legal expenses, which should be recoverable, but nonetheless need to be incurred.

6. AD Plant in Donegal

The Group's initial investment was £17.8 million in a 4 MW AD Plant located in Donegal in the Republic of Ireland, with equipment provided by Purac for gas clean up, Wartsila for compression, and ASCO for CO^2 capture, together with 14 hexagon gas road tanker trailers and two Volvo tractor units to transport gas to five sites in Belfast utilising four 500 kW combined heat and power units and site transformers for grid connection. The equipment is subject to a 15 year fully amortising lease with quarterly payments. The Group also holds warrants in the underlying operating company which have the potential to further enhance the investment return.

7. AD Plant at Peterhead

The Group's initial investment was £15.0 million in a 2.5 MW gas to grid AD Plant in Peterhead, Scotland. The plant converts merchant waste, grass silage, and crops into bio-methane which is sold to Total Gas and injected into the national gas grid through Scotia Gas Networks' grid connection. The construction and commissioning has encountered some delays and missed milestones, in part related to the financial difficulties experienced by the Engineering Procurement Construction provider. The plant is now operating though not yet at the warrantied level but the performance bond and guarantees held will enable satisfactory performance levels to be achieved. The Group also holds warrants in the underlying operating company which may provide some upside return once the plant is fully commissioned and operational.

8. Combined Heat and Power Units

The Group initially provided £17.0 million for the construction and lease financing of two (non-renewable) 11 MW natural gas-based energy generation plants. The equipment includes four Rolls-Royce 5.5 MW combined heat and power units at two sites on the Isle of Wight on the U.K.'s largest tomato farms. The equipment is used to produce heat and CO^2 to aid the growth of tomatoes in glasshouses. The Group advanced 62.5% against the value of the equipment and took full title subject to a 13-year full payout lease.

9. Paper Mill

The Group's initial investment was £21.6 million through a sale and leaseback of a paper mill in Scotland operated by a well-known speciality paper company that was consolidating operations from multiple international plants into the Scottish facility. The equipment being financed includes the industrial reel wrappers, the speciality and colour paper manufacturing machines, the bespoke paper production equipment, and the business stationery and watermarking tools. The fully amortising lease term is 84 months with the company that was originally founded in 1761 and was a constituent of the FTSE 100 on the London Stock Exchange until it was taken private in 2000.

10. Marine Vessels

Two investments in marine vessels combine with a third investment in helicopter engines to make up the largest exposure to any one group of companies, amounting to an initial investment of £39.1 million. The counterparty is a privately-held international business group that controls 30 subsidiaries active in 35 countries across six continents. It is focused on six core sectors: aviation, energy, finance and diversified, hospitality, real estate, and shipping. The Group initially provided financing of £14.1 million secured by two Supramax bulk carriers and the strong balance sheet of related companies providing additional support. After two years of a four-year term with steady performance and amortisation, the borrower sought additional financing at a lower advance rate for the acquisition of a fleet of 6 container feeder marine vessels through two 48-month transactions totalling £18.6 million.

During the first half of 2018, four of the marine vessels that served as collateral for the loan were sold and have been replaced with two vessels of higher market value resulting in a reduced loan to value on the investment.

Principal balance outstanding as at 30 June 2018: £13,909,328	Share class: Ordinary
Principal balance outstanding as at 30 June 2018: £10,965,718	Share class: C
Principal balance outstanding as at 30 June 2018: £5,907,449	Share class: C

Other Assets in the Portfolio

Marine Vessels

The Group provided financing for four Jumbo Class Multipurpose Marine Vessels built between 2007 and 2009 with a Dutch operator. Charter rates on marine vessels in this segment remained under significant pressure for an extended period and resulted in a pattern of consistent payment delinquencies. Under pressure from the Group, contracts for sale of all four vessels have been entered into and deposits have been received. The vessel sales are expected to close before the end of the calendar year as each vessel enters a port in a jurisdiction favourable for the sale transaction.

Principal balance outstanding as at 30 June 2018: £13,634,831	Share class: Ordinary

Medical Equipment

The Group made an investment secured by medical equipment for a new hospital in Green Valley, Arizona in the United States. The initial investment was divided between two equipment-secured notes; one with a term of 4 years and the other with a term of 5 years. The investment was further collateralised by a lien on unencumbered property owned by the hospital. The hospital encountered delays in securing crucial insurance reimbursements and, as a consequence, was unable to attract specialist doctors whose services were a meaningful component of the projected income of the hospital. As a result, the hospital filed for bankruptcy protection in order to reorganise while the insurance issues were resolved and specialist doctors are on-boarded. Given the crucial nature of the equipment financed by the Group and its long economic life, the Group and the hospital were able to reach an agreement within the bankruptcy court that keeps the equipment in place and protects the principal of the investment.

Subsequent to the year end, the investment has been restructured as a $5 million equipment lease and a 15% equity holding in the hospital which will be held at fair value.

Principal balance outstanding as at 30 June 2018: £9,812,170 Share class: Ordinary

Wholesale Lending Arrangements

Wholesale lending arrangements are an effective way for the Group to make asset-secured investments through lenders that specialise in those specific asset classes or segments, with additional credit enhancements that would not be available if the Group invested directly.

The Group made two investments through a firm that specialises in providing financing to small and medium-sized enterprises ("SMEs") throughout the UK. The financing is secured by all the assets of the borrowers including business-essential equipment. The structure of the Group's investment is that it lends against a portfolio of loans at a 90% advance rate. Under the terms of the agreement, any loan that is more than 30 days delinquent is either bought out or replaced with a performing loan from an unencumbered pool of loans held directly by the lender. All activity within the portfolio is reviewed monthly by a third-party accounting firm which provides reports to the Investment Managers. This facility has a one year rolling term.

Principal balance outstanding as at 30 June 2018: £8,516,900 Share class: C
Principal balance outstanding as at 30 June 2018: £4,040,000 Share class: Ordinary

The Group provided financing under a programme with the lessor of domestic central heating/hot water system boilers. The Group's advance rate is between 92.5% and 94% of a seasoned portfolio but has an assignment of 100% of the underlying leases and service agreements. The investment is further secured by floating and fixed charges over all of the assets of the lessor.

Principal balance outstanding as at 30 June 2018: £8,426,068 Share class: Ordinary

Modular Building

The Group initially provided financing to Snoozebox Limited secured by mobile, modular buildings used in the hospitality industry to serve as hotel rooms at different events throughout Europe. The investment was made in coordination with the operator's plan to transition its business toward semi-permanent arrangements like remote worker accommodations and away from short-term rentals. The transition was intended to be completed over a period of two years. Management was changed in April of 2016 and entered into only one new profitable contract for worker accommodation in October 2017. Given the slow deployment, a rescheduling of the Group's debt could not be agreed causing the company to enter administration in November 2017.

In April 2018, the Investment Manager successfully completed the restructuring of this investment. Following the transfer of ownership from the administrator, Snoozebox was sold to a new owner which is part of a well-capitalised group experienced in the wider modular accommodation sector and operating in the oil and gas industries.

The Group has entered into a new 5-year operating lease, with the option to extend the term for a further 5 years, with part fixed and part variable rentals. It is expected that the new lease will result in full amortisation of capital and payment of interest.

The Fund also holds warrants to the value of 10% of the fully diluted equity.

Principal balance outstanding as at 30 June 2018: £8,034,470 Share class: Ordinary

IT and Telecommunications Equipment

The Group provided financing secured by a portfolio of Integrated Set Top Cable and Internet Boxes (and all related receivables) on lease or under service agreements with 1,400 different customers representing approximately 2,200 hotels and 230,000 hotel rooms. The investment is further secured by an investment grade insurance policy for all principal and interest.

During the second half of 2017, the company secured two large contracts with major international hotel chains and signed a licensing agreement with Google to provide in-room connectivity to handheld devices. This resulted in the company committing cash flow to new hardware to service those contracts.

During the first half of 2018, the company entered into an agreement to sell a majority interest to a private investor. As of the date of this report, the sale transaction has not yet closed and the company is operating on a restricted basis pending receipt of the acquisition proceeds. This has caused a single payment delinquency. This account is being closely monitored but with credit insurance in place and a robust collateral base, an acceptable resolution is expected.

Principal balance outstanding as at 30 June 2018: £7,994,075 Share class: Ordinary

AD Plants in Nottinghamshire and Northern Ireland

The Group is a co-investor in a 2 MW AD Plant in Nottinghamshire which was voted the 2017 AD Plant of the Year by the Anaerobic Digestion and Bio-Resources Association. The Group's investment is in a 15-year full payout lease.

Principal balance outstanding as at 30 June 2018: £7,686,071 Share class: Ordinary

The Group has invested in two additional AD Plants that are both co-investments alongside the Green Investment Bank in farm-based 500 kW AD Plants in Northern Ireland. The lease on one of the AD Plants commenced is March 2018, whilst the other is due to commence imminently. Each is subject to a 15-year lease with the expectation that they will be refinanced before the end of the term.

Principal balance outstanding as at 30 June 2018: £2,074,215 Share class: Ordinary
Principal balance outstanding as at 30 June 2018: £1,942,525 Share class: Ordinary

The Group has made four additional investments in 500 kW farm-based AD Plants in Northern Ireland on similar terms as the above. Those investments range from £1.6 million to £2.3 million. All four plants are currently operating. Three of the plants are already commissioned, whilst the fourth is yet to begin commissioning.

Principal balance outstanding as at 30 June 2018: £7,849,027 Share class: Ordinary

Waste Processing Equipment

The Group invested in the construction and lease of waste water processing equipment that includes a 1 MW AD Plant located in the Republic of Ireland. The lessee provides a full life cycle service to clients operating in the municipal and private sectors including collection, transportation and disposal/reuse of their sludges which are in turn processed into a fully certified alternative to expensive chemical fertilisers. The initial term of this investment is 12 years with a 3-year extension that, when exercised, will enhance the Group's return on investment.

Principal balance outstanding as at 30 June 2018: £7,065,340 Share class: Ordinary

Automotive Manufacturing Equipment

The Group entered a sale and leaseback with an award-winning Tier One/Two automotive supplier, based in France. The supplier started as a general mechanics workshop in the early 1940s, however in 1948 the plant was converted to an aluminium die-casting foundry. The assets that comprise the Group's security include new high-pressure die-casting machines, moulding presses, hydraulic presses, handling robots and radioscopy equipment subject to a 7-year lease.

Principal balance outstanding as at 30 June 2018: £6,370,397 Share class: C

Helicopters

The Group has provided 70% deposit financing for the acquisition of seven newly built helicopters for an affiliate of the company identified above as the largest exposure to a single group of companies. The investment is structured as a 24-month term loan with quarterly interest-only payments and a balloon payment at maturity. The loan is guaranteed by the borrower's immediate parent company with a net worth of more than $46 million and available credit facilities of over $100 million.

Principal balance outstanding as at 30 June 2018: £6,252,355 Share class: C

INVESTMENT MANAGERS' REPORT (CONTINUED)

Combined Heat and Power Unit

In addition to the two combined heat and power units financed on the Isle of Wight, the Group provided financing for a third non-renewable unit for the UK's largest tomato grower which is used in their glasshouses in Teesside, Middleborough, UK. The 6.6 MW natural gas-based energy generation plant includes two Jenbacher combine heat and power units subject to a 13.25 year fully amortising lease.

Principal balance outstanding as at 30 June 2018: £6,110,081 Share class: Ordinary

Infrastructure Equipment

During the year ended 30 June 2018, the Group made three separate investments that have been classified as infrastructure equipment.

In February and March 2018, the Group made two investments for the construction and operation of a composting plant for a consortium of 27 mushroom growers across Northern Ireland and the Republic of Ireland. This 10 year fully-amortizing investment was made through a leveraged facility with senior debt provided by a lower cost traditional bank. Once operational, the plant will be able to process 65k tonnes of mushroom compost annually.

Principal balance outstanding as at 30 June 2018: £4,846,985 Share class: C

The Group purchased two existing leases and their respective assets which are comprised of 51 portable battery power units. The battery power units are an alternative to temporary diesel generators used by construction companies, utilities, and large-scale outdoor event management companies each of which creates emissions equivalent to 100 automobiles. The remaining lease terms at the time of acquisition were 41 and 43 months.

Principal balance outstanding as at 30 June 2018: £901,867 Share class: C

In June 2018, the Group entered into a 48-month sale and lease back with an international civil engineering and building company based in Swansea for a variety of construction equipment and machinery, including dump trucks, generators, excavators and tower lights. The mission-critical equipment, which was originally financed by Caterpillar, is being used for the company's large on-going projects in Western Africa.

Principal balance outstanding as at 30 June 2018: £3,378,347 Share class: C

Diversified Portfolio

In June 2018, the Group made an investment in the senior portion of a diversified portfolio of manufacturing and industrial leases which includes leases in the United States and Mexico. The investment has 40% subordinated equity below it and the investment term is 58 months.

Principal balance outstanding as at 30 June 2018: £4,686,254 Share class: C

Waste Processing Equipment

The Group entered into a lease of a new automated waste material recovery system for a successful waste collection company located in the Midlands in the UK. The lessee was formed in 1986 and, for the last ten years, has been focusing on modernising the plant, increasing efficiency, and creating a zero-carbon footprint. The lessee has historically been engaged solely in waste collection and has had to pay to dispose of the waste. With the addition of the waste recovery system, the lessee is able to sort the waste and sell portions for recycling and greatly reduce the cost of disposal. The investment will be repaid over a lease term of 60 months.

Principal balance outstanding as at 30 June 2018: £4,562,673 Share class: C

The Group provided 8 year senior financing for the construction and operation of a state-of-the-art refrigerator recycling plant in Gateshead in the UK. The borrower specialises in collecting and recycling electrical products once they have been discarded. In 2016 the company set up its own in-house fully automated Waste Electrical and Electronic Equipment plant, which can process five tonnes of material per hour. The company collects over 100,000 refrigerators a year and will be able to process 100 an hour once the plant is commissioned.

Principal balance outstanding as at 30 June 2018: £4,525,803 Share class: C

Telephone Towers

The Group made an investment in the construction and lease of a portfolio of telecommunication towers located in Brazil for a company based in Florida in the United States. The investment was secured by an investment grade insurance policy with a reputable reinsurance syndicate that includes Hanover Re, PartnerRe, QatarRe, and Lloyd's of London. The towers are in the process of being sold which will cover all of the principal and interest due to the Group.

Principal balance outstanding as at 30 June 2018: £4,090,180 Share class: Ordinary

Marine Equipment

The Group provided financing for a successful marine services business based in the United Arab Emirates. The business has remained profitable over a period where many others have failed as a result of its strategic decision early on to diversified away from pure O&G customers and focus instead mainly on Utilities, Renewables and Civil Construction. The equipment, which is used for a diversified range of subsea services, includes a multipurpose site investigation vessel, two Remote Operated Vehicle systems ("ROVs") and a vessel mounted deep water drilling rig. The investment term is 60 months.

Principal balance outstanding as at 30 June 2018: £4,040,000 Share class: C

ROVs

The Group made an investment in two ROVs that were originally subject to a lease with a company engaged in oil field services in the North Sea for a term of 60 months at a fixed rate. In the first quarter of 2015, the original end-user went into administration, and, as a result, the Investment Managers decided to take possession of the assets and re-lease them directly to the company on whose vessel the launch and recovery systems servicing the ROVs were mounted. The new operating lease was for a term of 36 months with a variable rate based on utilisation. This repositioned asset continues to perform.

Principal balance outstanding as at 30 June 2018: £3,928,012 Share class: Ordinary

The Group made a second, smaller, unrelated investment of £1.1 million in ROVs with another operator.

Principal balance outstanding as at 30 June 2018: £338,505 Share class: Ordinary

Helicopters

The Group invested in the senior portion of a portfolio of helicopters on lease to three separate lessees who in turn sub-lease the fully serviced helicopters to end-users that include military, government, medical, and corporate clients. This investment is now in the residual realisation phase and proceeds will be received as the helicopters are sold or re-leased.

Principal balance outstanding as at 30 June 2018: £3,402,690 Share class: Ordinary

Material Handling Equipment

In conjunction with large equity investments made by two Fortune 100 Companies, the Group invested in material handling equipment located at Walmart Distribution Centres throughout the United States. The counterparty in this five-year investment is a publicly traded company on the NASDAQ with a market capitalisation in excess of $400 million.

Principal balance outstanding as at 30 June 2018: £3,066,866 Share class: C

INVESTMENT MANAGERS' REPORT (CONTINUED)

Wind Turbines

The Group entered into separate leases for four 250 kW wind turbines in a single, cross-collateralised transaction. Each of the leases is for a term of 10 years against 20-year power purchase agreements and Northern Ireland Renewable Obligation Certificates.

Principal balance outstanding as at 30 June 2018: £1,810,759 Share class: Ordinary

As part of the same vendor programme in Northern Ireland, the Group entered into a second transaction for the lease of three additional 250 kW wind turbines. These three leases are cross-collateralised amongst themselves for a term of 10 years with the same structure as the first set of wind turbines.

Principal balance outstanding as at 30 June 2018: £2,892,359 Share class: Ordinary

Both of the aforementioned wind turbine investments were settled post year end. The return on investment across the seven wind turbines ranged from 12.0% to 14.6%.

The Group provided lease financing for 250 kW and 225 kW wind turbines located on a dairy farm in Northern Ireland. The lease term is 12 years with a power purchase agreement in place and qualified for 20 years of Northern Ireland Renewable Obligation Certificates.

Principal balance outstanding as at 30 June 2018: £1,428,457 Share class: Ordinary

The Group entered into a sale and lease back for a 500 kW wind turbine and a 50 meter tower. The equipment is located 100 miles north of London in a business park owned by the principals of the lessee. The lease term is 10 years which is coterminous with a power purchase agreement with a major Dow Chemical subsidiary.

Principal balance outstanding as at 30 June 2018: £1,312,143 Share class: Ordinary

The Group entered into a 10-year lease for two 225 kW wind turbines located in the south of Wales. The lessee is a specialist in developing community scale wind turbines between 300 kW and 800 kW in rural, commercial, and brownfield sites. The project is supported by 20 years of Feed-in-Tariffs.

Principal balance outstanding as at 30 June 2018: £820,884 Share class: Ordinary

Each of the investments made by the Group in wind turbines had a construction phase during which the lessee made interest-only payments at a higher rate than the long-term lease rate. Construction was completed in each case without incident and all of the investments are performing as anticipated.

Marine Vessel

In May of 2016, the Group entered into a sale and lease back for a brand new, state of the art crew transport vessel in the amount of £1.9 million which represented 80% of the vessel's cost. As part of the transaction, a three-month rental reserve was deposited by the lessee with the Group. Despite the high demand for this vessel from offshore wind farm developers, the new vessel was under-utilised. By November of 2016, the three-month rental reserve was exhausted and the lessee voluntarily surrendered the vessel to the Group. Under the remarketing agreement with the manufacturer, a new lessee that was already operating a sister vessel was quickly identified. A new lease was entered into in early 2017 for a term of 6 months. At the end of the initial term, the lessee extended for a further 6-month term with a fixed purchase option. The vessel has been fully utilised since being repositioned and has been repainted and officially made part of the new lessee's fleet.

Principal balance outstanding as at 30 June 2018: £1,798,673 Share class: Ordinary

Marine Support Equipment

In two phases, the Group entered into a lease for a "flexi-coil" subsea flow unit which is an updated version of pipe-unblocking technology. The lease has a 60-month term while the useful life of the equipment is 20 years when properly maintained.

Principal balance outstanding as at 30 June 2018: £988,999 Share class: C

In a separate and unrelated transaction, the Group invested in the sale and leaseback of a patented Modular Pipelay System. The system takes advantage of special joints to reduce installation time which results in significant cost savings in offshore pipeline construction. The lease has a term of 36 months.

Principal balance outstanding as at 30 June 2018: £979,669 Share class: C

Marine Support Equipment (Reel Drive System)

The Group entered into a transaction to refinance a 400-ton reel drive system along with a spares container and a control van. The value of the equipment was in excess of £2.5 million and had approximately £228,000 of outstanding debt encumbering it. The Group provided £1.0 million against the equipment and paid off the existing encumbrance. The proceeds were then used to complete the construction of a new 85-ton reel drive system which also became part of the Group's collateral package. The equipment is used offshore for both undersea pipeline and power cable construction (laying) and maintenance.

This investment has subsequently been settled post year end, yielding a return of 11.1%.

Principal balance outstanding as at 30 June 2018: £623,173 Share class: Ordinary

Plastics Reprocessing Equipment

The Group entered into a 5-year lease for one infrared rotary drum and two twin screw compounder extruders used by a specialty engineering and plastics company. The £515,000 of equipment is used to reprocess polymer-based products into forms reused by a number of industries. The company won the 2014 Plastics Industry Award for the UK's Best Supplier Partnership. The lease was formally transferred to an arm's length purchaser in March 2018.

Principal balance outstanding as at 30 June 2018: £341,965 Share class: Ordinary

VAT Receivables

On certain transactions the funding amount will include VAT. When this occurs, the amount advanced accrues interest at the same rate as the rest of the transaction.

At 30 June 2018, the Group had an outstanding VAT receivable of £333,148 accruing interest at 12%.

Plant Hire Equipment

The Group purchased the receivables associated with a 5-year lease of dump trucks, excavators, bulldozers, and other heavy earth moving machinery. An unrelated leasing company holds the subordinated residual interest in this investment.

Principal balance outstanding as at 30 June 2018: £251,507 Share class: Ordinary

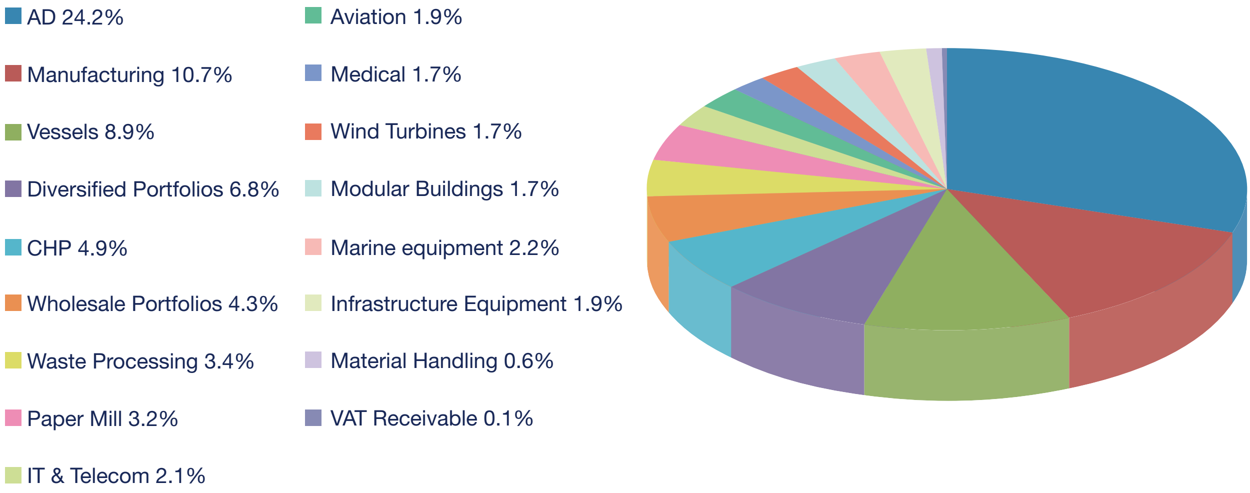
IT & Software

The Group provided financing for IT systems and software used by a major hospital group in Australia. This fully amortising 60-month investment is Sterling-denominated and made through the borrowers UK parent company.

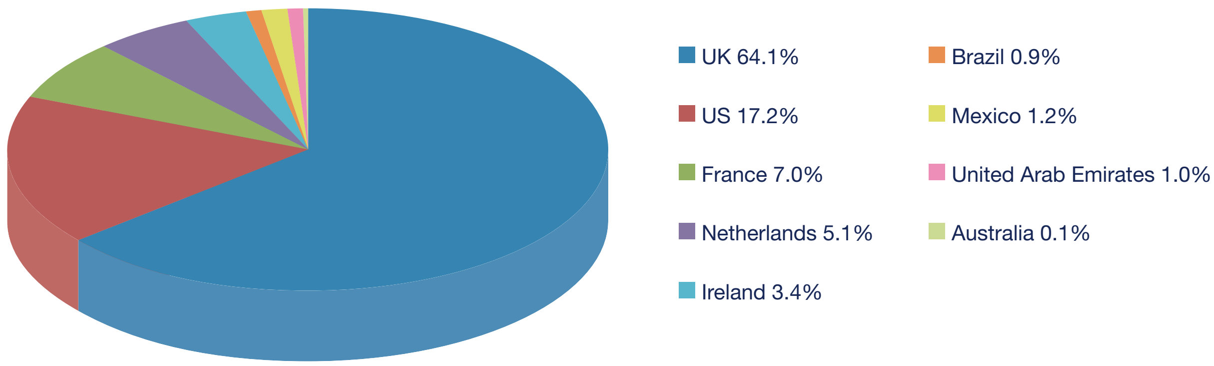
Principal balance outstanding as at 30 June 2018: £214,984 Share class: Ordinary

INVESTMENT MANAGERS’ REPORT (CONTINUED)

Asset Class Diversification

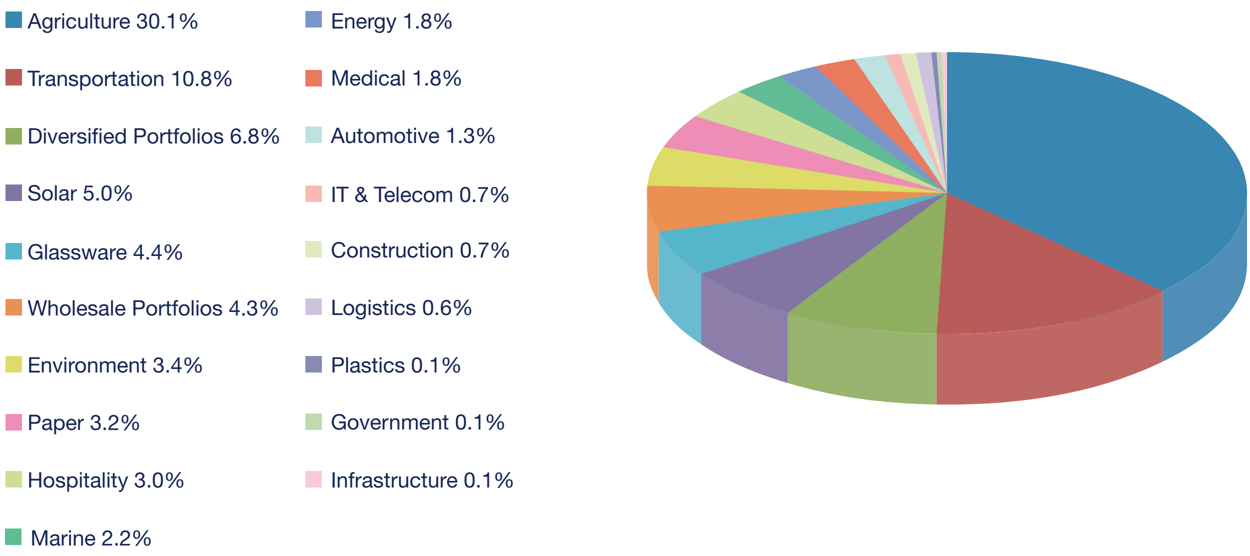


Geographic Diversification

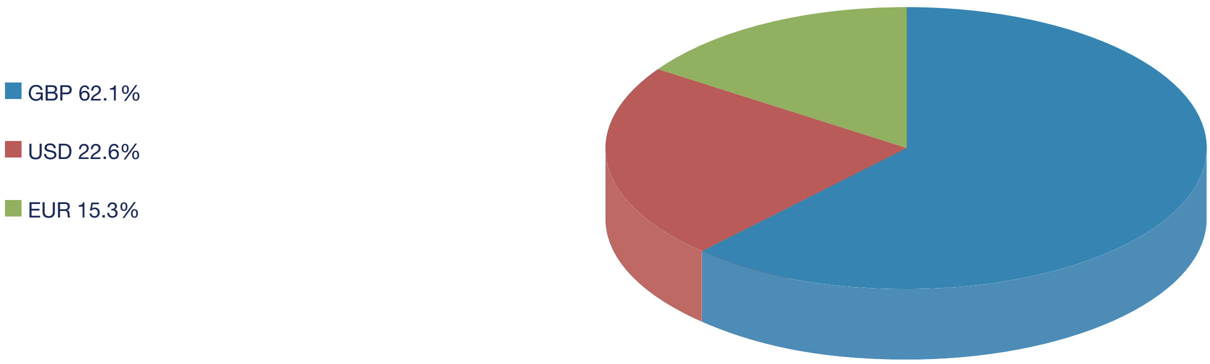


INVESTMENT MANAGERS’ REPORT (CONTINUED)

Industry Diversification



Investment by Currency



Outlook

Looking forward the Group is well positioned.

Rising interest rates are not a concern as the Group's targeted market always commands a return premium due to the high-touch nature of the underwriting and limited competition in middle market leasing outside of bank lending parameters.

A "No Deal Brexit" is of limited concern on the new-business-side as the portfolio is fully committed and the pipeline is a multiple of the natural run-off, even taking into consideration an increase in early settlements which in and of themselves are at the Group's discretion. From a performance standpoint, the Group's focus on business-essential core assets in non-cyclical circumstances is designed to endure economic downturns.

A broader market concern is the performance of new entrants into the direct lending space. Senior members of the Investment Managers have been engaged in equipment leasing and asset finance investing for between three and five decades and have all performed through market cycles. With the inevitable end to the strong market momentum, many of the new investment strategies or management styles have yet to be proven through a recession. There is a concern that weakness in the performance of unrelated but similarly classed strategies will cast a shadow over the more established traditional strategies like equipment leasing and asset finance. This should not have any material effect on the underlying performance but may inhibit the pace of growth which is somewhat inconsequential with the portfolio at its current size. The Group is already benefiting from economies of scale.

At the micro-level, as each share class gets closer to full investment, dividend cover will continue to improve. As early settlements and refinancing are strategically enabled, NAV growth should be accelerated. Delinquencies may increase but asset coverage should not be affected and with the prior year as a lesson, the market should better understand the management process and timeframes to address issues.

SQN Capital Management, LLC

2 October 2018

SQN Capital Management (UK) Limited

2 October 2018

DIRECTORS' REPORT

The Directors present the Annual Report and Audited Consolidated Financial Statements of the Group for the year ended 30 June 2018.

Board of Directors

The Directors of the Company who served during the year were:

Peter Niven (Chairman)
John Falla
Christopher Spencer
Paul Meader (appointed on 18 August 2017)
Carol Goodwin (resigned on 31 December 2017)

The biographical details of the Directors in office at the year-end are provided on page 28.

Directors' Interests

The Directors held the following interests in the Company's share capital at the year end:

Director	Number of Ordinary Shares	Number of 2016 C Shares
Peter Niven	79,858	3,860
John Falla	19,637	3,829
Christopher Spencer	19,929	3,845
Paul Meader[1]	47,000	-

There have been no changes in the interests of the Directors since the year end.

Notifications of Shareholdings

The Company had been notified in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules (which covers the acquisition and disposal of major shareholdings and voting rights), of the following shareholders that had an interest of greater than 5% in the Company's issued share capital as at 30 June 2018.

	Percentage of total voting rights (%)
Investec Wealth & Investment Limited	12.21
Schroders PLC	10.04
Sarasin & Partners LLP	7.25
Rathbone Brothers PLC	5.41

The percentage totals in the table above are as per the original TR1 notification and prior to the 2016 C share capital return in May 2018 and Ordinary Share buy backs made during the year.

Between 1 July 2018 and 1 October 2018, no additional notifications were received.

[1] The shares are held in the name of Sarah Kingwell, the spouse of Paul Meader.

Environmental and Social Issues

The Company is a closed-ended investment company which has no employees and therefore its own direct environmental impact is minimal. The Board notes that the companies in which the Group invests will have a social and environmental impact over which it has no control. The Board, the members of which are all based in Guernsey, holds all its meetings in Guernsey and, whilst the Investment Managers do travel to those meetings, the Group's greenhouse gas emissions and environmental footprint are believed to be minimal. However, many of the companies and projects in which the Group invests have a very positive environmental footprint. The numerous anaerobic digestion plants the Group finances use waste of many types to produce sustainable fertilisers and electricity or gas which are provided to the respective National Grids. Additionally, our support for other renewable energy sources likewise provide alternative energy sources to fossil and/or nuclear fuels. In these ways, the Board is pleased that the Group plays a positive part in the environmental arena.

Life of the Company

The Company has an indefinite life. At the Annual General Meeting (the "AGM") held on 20 November 2017, a resolution was passed that the Company will continue its business as a closed-ended investment company (the "Continuation Resolution"). The Directors are required to hold a Continuation Resolution every three years, with the next one proposed at the AGM in 2020. In the event that a Continuation Resolution is not passed, the Directors shall formulate proposals to be put to shareholders as soon as is practicable but, in any event, by no later than six months after the Continuation Resolution is not passed, to reorganise, unitise or reconstruct the Company or for the Company to be wound up with the aim of enabling shareholders to realise their holdings in the Company.

Dividends

The Company targets a total annual dividend of 7.25 pence per Ordinary Share. The dividend target is a target only and there can be no guarantee that this will be achieved. Dividends are declared and paid monthly for Ordinary Shares and 2016 C Shares.

Refer to note 14 for details of dividends that the Company has declared and paid to its shareholders during the year and note 19 for details on dividends declared and paid after the year end.

Ordinary Share Buybacks

At the AGM held on 20 November 2017, the Directors were granted authority to repurchase 53,620,355 Ordinary Shares (being equal to 14.99% of the number of Ordinary Shares in issue) for cancellation or to be held as treasury shares. This authority will expire at the forthcoming AGM. The Directors intend to seek annual renewal of this authority from the shareholders. Pursuant to this authority, and subject to the Companies (Guernsey) Law, 2008, as amended ("Companies Law") and the discretion of the Directors, the Company may purchase Ordinary Shares in the market if they believe it to be in shareholders' interests; in particular, as a means of correcting any imbalance between the supply and demand for the Ordinary Shares.

Indemnities

To the extent permitted by Guernsey Law, the Company's Articles provide an indemnity for the Directors against any liability except such (if any) as they shall incur by or through their own breach of trust, breach of duty or negligence.

During the year, the Group has maintained insurance cover for its Directors under a Directors' and Officers' liability insurance policy.

2018 AGM

The AGM will be held in Guernsey on 20 November 2018. The notice for the AGM sets out the ordinary and special resolutions to be proposed at the meeting. Separate resolutions are proposed for each substantive issue.

The Articles of the Company state that fourteen clear days' notice of the AGM of the Company is required. It is, however, the intention of the Board that the Notice of AGM is issued to shareholders so as to provide at least twenty business days' notice of the meeting. The Directors welcome communication with all shareholders and can be contacted in writing at the Company's registered office, which can be found on page 82.

Voting on all resolutions at the AGM is by poll. The proxy votes cast, including details of votes withheld are disclosed to those in attendance at the meeting and the results are published on the Company's website and announced via the Regulatory News Service.

DIRECTORS' STATEMENT OF RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Consolidated Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year.

Under company law the Directors must not approve financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of its profit or loss for that period.

In preparing these Consolidated Financial Statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its Consolidated Financial Statements comply with the Companies (Guernsey) Law, 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group 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, and for the preparation and dissemination of the Consolidated Financial Statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the Annual Report and financial statements

We confirm that to the best of our knowledge:

- the Consolidated Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Peter Niven
Chairman
2 October 2018

Christopher Spencer
Director
2 October 2018

DIRECTORS' BIOGRAPHIES

Peter Niven (Non-Executive Chairman)

Peter Niven, is a resident of Guernsey. He has worked in the financial services industry in the UK, offshore and internationally for over 40 years, 30 of those with the Lloyds Banking Group from which he retired in 2005 as the head of the Group's Offshore Banking Division. Since then Peter has worked for the Guernsey Government and the local financial services sector, through Guernsey Finance, with the remit to develop and promote the island on the world stage as a premier international finance centre. He retired from that role in December 2012.

He now acts as a Non-Executive Director on a broad portfolio of LSE listed and unlisted investment funds investing in asset classes including leasing, property, emerging markets and private equity with wide experience of chairing Boards and Audit and Management Committees. He is also a director of ABTA's Guernsey captive insurance entity. Peter is a Fellow of the Institute of Bankers, a Fellow of the Institute of Directors and a Chartered Director.

John Martyn Falla (Non-Executive Director)

John Falla, a Guernsey resident, is a Chartered Accountant and has a BSc Hons degree in Property Valuation and Management from The City University, London. He is a Chartered Fellow of the Chartered Institute for Securities and Investment having been awarded their diploma. He is a Non-Executive Director and consultant to a number of companies, most of which are listed on the London Stock Exchange.

John trained with Ernst & Young in London before moving to their Corporate Finance Department. On returning to Guernsey he worked for an International Bank, before joining the Channel Islands Stock Exchange as a member of the Market Authority. In 2000 John joined the Edmond de Rothschild Group in Guernsey and provided corporate finance advice to clients including open and closed-ended investment funds, and institutions with significant property interests. John was a director of a number of Edmond de Rothschild group operating and investment companies.

Christopher Paul Spencer (Non-Executive Director)

Christopher Spencer, a resident of Guernsey, qualified as a chartered accountant in London in 1975. Following two years in Bermuda he moved to Guernsey. Christopher, who specialised in audit and fiduciary work, was Managing Partner/Director of Pannell Kerr Forster (Guernsey) Limited from 1990 until his retirement in May 2000. Christopher is a member of the AIC Offshore Committee, a past President of the Guernsey Society of Chartered and Certified Accountants and a past Chairman of the Guernsey Branch of the Institute of Directors. Christopher sits on the Board of Directors of JPEL Private Equity Limited and John Laing Infrastructure Fund Limited, both of which are listed on the London Stock Exchange and Summit Germany Ltd which is an AIM listed company.

Paul Meader (Non-Executive Director)

Paul Meader, a resident of Guernsey, is an independent director of investment companies, insurers and investment funds. He was previously Head of Portfolio Management for Canaccord Genuity based in Guernsey, prior to which he was Chief Executive of Corazon Capital. He has over 30 years' experience in financial markets in London, Dublin and Guernsey, holding senior positions in portfolio management and trading. Prior to joining Corazon he was Managing Director of Rothschild's Swiss private banking subsidiary in Guernsey. Mr Meader is a Chartered Fellow of the Chartered Institute of Securities & Investments and past Chairman of the Guernsey International Business Association.

CORPORATE GOVERNANCE REPORT

Introduction

The Board is committed to high standards of corporate governance and has put in place a framework for corporate governance which it believes is appropriate for an investment company.

Compliance with Corporate Governance Codes

The Company is a member of the AIC. The UK Corporate Governance Code (the "UK Code") acknowledges that the AIC Corporate Governance Code for Guernsey domiciled member companies ("AIC Code") can assist externally managed companies in meeting their obligations under the UK Code in areas that are of specific relevance to investment companies. The Guernsey Financial Services Commission has also confirmed that companies that report against the UK Code or AIC Code are deemed to meet the Guernsey Code of Corporate Governance (the "Guernsey Code"). Copies of the AIC Code and the AIC Guide can be found at www.theaic.co.uk. The UK Code is available from the Financial Reporting Council (the "FRC") website (www.frc.co.uk).

Throughout the year ended 30 June 2018, the Company has complied with the recommendations of the AIC Code and as such also meets the requirements of the UK Code and by default the Guernsey Code, except to the extent highlighted below:

- the role of the chief executive;
- executive Directors' remuneration;
- Senior Independent Director; and
- internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of the Group, being an externally managed investment company with subsidiaries. In particular, all of the Group's day-to-day management and administrative functions are outsourced to third parties. As a result, the Group has no executive directors, direct employees or internal operations. The Group has therefore not reported further in respect of these provisions.

The Group complies with the corporate governance statement requirements pursuant to the UK Financial Conduct Authority's ("FCA") Disclosure and Transparency Rules by virtue of the information included in the Corporate Governance section of the Annual Report.

The Board believes that this Annual Report and Consolidated Financial Statements presents a fair, balanced and understandable assessment of the Group's position and prospects, and provides the information necessary for shareholders to assess the Group's performance, business model, strategy, principal risks and uncertainties.

Board Independence, Composition and Diversity

The Board is chaired by Peter Niven who is responsible for its leadership and for ensuring its effectiveness in all aspects of its role. The Board currently consists of four Non-Executive Directors. The biographical details of the Directors holding office at the date of this report are listed on page 28 and demonstrate a breadth of investment, accounting, banking and professional experience.

The Chairman and all Directors are considered independent. The Directors consider that there are no factors, as set out in Principle 1 or 2 of the AIC Code, which compromise the Chairman's or other Directors' independence and that they all contribute to the affairs of the Company in an adequate manner. The Board reviews the independence of all Directors annually.

The appointment of a Senior Independent Director has been considered but is not felt necessary as all Board members are independent Non-Executive Directors, with different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.

The Board values the importance of diversity, including gender, to the effective functioning of the Board. The Board, however, does not consider it appropriate or in the interest of the Company and its shareholders to set prescriptive targets for gender or other diversity on the Board. Any future appointments would be primarily based on merit of skills, experience and knowledge of each appointee.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Directors' Duties and Responsibilities

The Directors have adopted a set of reserved powers, which establish the key purpose of the Board and detail its major duties. These duties cover the following areas of responsibility:

- statutory obligations and public disclosure;
- approval of key investment decisions;
- strategic matters and financial reporting;
- Board composition and accountability to shareholders;
- risk assessment and management, including reporting, compliance, monitoring, governance and control; and
- other matters having material effects on the Group.

These reserved powers of the Board have been adopted by the Directors to demonstrate clearly the importance with which the Board takes its fiduciary responsibilities and as an ongoing means of measuring and monitoring the effectiveness of its actions.

The Board meets at least four times each year and monitors the Group's share price and NAV and regularly considers ways in which future share price performance can be enhanced. The Board is responsible for the safeguarding of the assets of the Group and taking reasonable steps for the prevention and detection of fraud and other irregularities. The Investment Managers together with the Company Secretary also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information relating to the Group and its portfolio of investments. Directors unable to attend a Board meeting are provided with the Board papers and can discuss issues arising in the meeting with the Chairman or another Director.

Individual Directors may, at the expense of the Group, seek independent professional advice on any matters that concerns them in the furtherance of their duties.

Board and Committees

The Board has established three committees:

- the Audit and Risk Committee;
- the Management Engagement Committee, and
- the Remuneration and Nomination Committee.

Due to the size and nature of the Company, all Directors have been appointed to all Committees. In line with current FRC guidance, Peter Niven resigned as a member of the Audit and Risk Committee post year end. The responsibilities of these Committees are described below. Each Committee reports to and is subject to the oversight of the Board. Terms of reference for each Committee have been approved by the Board and are available in full on the Company's website.

Board

Responsibilities:
- Statutory obligations and public disclosure.
- Approval of key investment decisions.
- Strategic matters and financial reporting.
- Board composition and accountability to shareholders.
- Risk assessment and management, including reporting, compliance, monitoring, governance and control.
- Responsible for financial statements.
- Other matters having material effects on the Group.

Audit and Risk Committee

Delegated Responsibilities:
- Review the financial statements, including review of the accounting policies and methods utilised.
- Review the effectiveness and internal control policies and procedures over financial reporting and identification, assessment and reporting of risk.
- Make recommendations to the Board in relation to appointment, re-appointment and removal of external auditors and approving remuneration and terms of engagement of external auditors.
- To monitor risk management and internal control systems on an ongoing basis, performing a review of their effectiveness, and recommending actions to remedy any failings or weaknesses identified.

Management Engagement Committee

Delegated Responsibilities:
- Review on a regular basis the performance of the Investment Managers and the Group's key advisers and major service suppliers (other than the external auditor) to ensure that performance is satisfactory and in accordance with the terms and conditions of the respective appointments.

Remuneration and Nomination Committee

Delegated Responsibilities:
- Review the structure, size and composition of the Board.
- Give full consideration to succession planning
- Identify suitable Board candidates to fill Board vacancies.
- Make recommendations as to the appropriate level of Directors' remuneration.
- Undertake performance evaluations of the Board and the Chairman.

Audit and Risk Committee

Christopher Spencer is the Chairman of the Audit and Risk Committee. The duties of the Audit and Risk Committee in discharging its responsibilities are outlined in the above chart. The report on the role and activities of the Audit and Risk Committee and its relationship with the external auditors is contained in the Audit and Risk Committee Report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Management Engagement Committee

John Falla is the Chairman of the Management Engagement Committee. The duties of the Management Engagement Committee in discharging its responsibilities are outlined in the chart on page 31.

The Management Engagement Committee carries out its review of the Group's key advisers and service providers through consideration of a number of objective and subjective criteria and through a review of the terms and conditions of their appointments with the aim of evaluating performance, identifying any weaknesses and ensuring value for money for the Company's shareholders.

The Management Engagement Committee reviewed the performance of the Investment Managers and other key service providers on 4 June 2018. During this review, no material weaknesses were identified. Overall the Management Engagement Committee confirmed its satisfaction with the services and advice received.

Remuneration and Nomination Committee

Paul Meader is the Chairman of the Remuneration and Nomination Committee. The duties of the Remuneration and Nomination Committee in discharging its responsibilities are outlined in the chart on page 31.

The Remuneration and Nomination Committee undertakes an evaluation of the Board on an annual basis.

The performance of each Director is considered as part of a formal review by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee may also meet without the Chairman of the Board present in order to review his performance.

Performance Evaluation

To allow for the facilitation of an external review of Director remuneration and for the completion of a thorough Director questionnaire and subsequent discussion, the 2018 Board evaluation has been delayed and is due to take place in October 2018.

Directors' Remuneration Report

The following report meets the relevant Listing Rules of the FCA and the AIC Code and describes how the Board has applied the principles relating to Directors' remuneration.

Annual Report on Remuneration

The Group paid the following fees to the Directors for the year ended 30 June 2018:

Director	Fees £
Peter Niven	60,000
Christopher Spencer	50,000
John Falla	40,000
Paul Meader – appointed 18 August 2017	34,778
Carol Goodwin – resigned 31 December 2017	20,000
Total	204,778

The Company's Articles limit the aggregation of fees payable to the Directors to a total of £300,000 per annum. Extra services are not included in the definition of fees as per the Company's Articles.

Other than as shown above, no other remuneration or compensation was paid or payable by the Company during the year to any of the Directors, other than travel expenses of £3,181.

Advisers to the Remuneration and Nomination Committee

An external review of Directors' remuneration is currently being undertaken by Optimus Group Limited. The Committee also sought outside assistance for the appointment of Paul Meader.

Directors' Appointment, Retirement and Policy on Payment of Loss of Office

No Director has a service contract with the Company. Directors have agreed letters of appointment with the Company, copies of which are available for review by shareholders at the registered office and will be available at the AGM. The dates of their letters of appointment are shown below:

Director	Date Appointed	Date Resigned
Peter Niven	28 May 2014	-
Christopher Spencer	28 May 2014	-
John Falla	28 May 2014	-
Paul Meader	18 August 2017	-
Carol Goodwin	28 May 2014	31 December 2017

The Articles of the Company require that all Directors submit themselves for election by shareholders at the first opportunity following their appointment. The Articles of the Company also require the Directors to retire by rotation on a three-yearly basis. The Directors have elected to stand for re-election on a yearly basis, so will all retire at each AGM and be eligible for reappointment.

Any Director may resign in writing to the Board at any time. Directors are not entitled to payment for loss of office.

Tenure of Non-Executive Directors

The Board has adopted a policy on tenure that is considered appropriate for an investment company. The Board does not believe that length of service, by itself, leads to a closer relationship with the Investment Managers or necessarily affects a Director's independence.

The Board's tenure and succession policy seeks to ensure that the Board is well balanced and will be refreshed from time to time by the appointment of new Directors with the skills and experience necessary to replace those lost by Directors' retirements and meet future requirements. Directors must be able to demonstrate their commitment and fiduciary responsibility to the Company. The Board seeks to encompass relevant past and current experience of various areas relevant to the Company's business.

Conflict of Interests

The Directors have a duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests. Only Directors who have no material interest in the matter being considered will be able to participate in the Board approval process. Directors are required to disclose all actual and potential conflicts of interest to the Chairman in advance of any proposed external appointment.

In deciding whether to approve an individual Director's participation, the other Directors will act in a way they consider to be in good faith in assessing the materiality of the conflict in accordance with the Company's Articles of Incorporation.

The Board believes that its procedures regarding conflicts of interest have operated effectively. The Board also confirms that its procedure for the approval of conflicts of interest, if any, has been followed by the Directors. None of the Directors had a material interest in any contract which is significant to the Group's business. Directors' holdings in the Company's shares can be found within the Directors' Report.

Induction/Information and Professional Development

Directors are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and its internal controls. Regulatory and legislative changes affecting Directors' responsibilities are advised to the Board as they arise along with changes to best practice from, amongst others, the Company Secretary and Baker Tilly CI Audit Limited (the "Auditor"). Advisers to the Group also prepare reports for the Board from time to time on relevant topics and issues.

The Directors attend relevant seminars and events to allow them to continually refresh their skills and knowledge and keep up with changes within the investment management industry.

When a new Director is appointed to the Board, they are provided with all relevant information regarding the Group and their duties and responsibilities as a Director. In addition, a new Director will also spend time with representatives of the Investment Managers in order to learn more about their processes and procedures.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Attendance at scheduled meetings of the Board and its committees for the year ended 30 June 2018

	Quarterly Board	NAV & Dividend Meetings	Audit & Risk Committee	Remuneration & Nomination Committee	Management Engagement Committee	Separate Investment Meetings
Number of meetings during the year	**4**	**10**	**5**	**1**	**1**	**2**
Peter Niven	4	10	5	1	1	2
John Falla	4	9	5	1	1	1
Carol Goodwin[1]	2 of 2	4 of 4	2 of 2	-	-	1 of 1
Chris Spencer	4	9	5	1	1	2
Paul Meader[1]	4 of 4	8 of 8	4 of 4	1 of 1	1 of 1	1 of 2

In addition to these meetings, 6 ad-hoc meetings were held during the year covering various Group matters.

Relationship with the Investment Managers, Company Secretary and the Administrator

The Board has delegated various duties to external parties including the management of the investment portfolio, the custodial services (including the safeguarding of assets), the registration services and the day-to-day company secretarial, administration and accounting services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the control systems in operation in so far as they relate to the affairs of the Group.

The Board receives and considers reports regularly from the Investment Managers, with ad hoc reports and information supplied to the Board as required. The Investment Managers take decisions as to the purchase and sale of individual investments, within the delegated authority established by the Board. The Board meet with the Investment Managers on an ad-hoc basis to discuss and approve investment decisions as necessary. The Investment Managers comply with the risk limits as determined by the Board and have systems in place to monitor cash flow and the liquidity risk of the Group.

The Investment Managers and the Administrator also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Investment Managers and Administrator attend each Board meeting as required, enabling the Directors to probe further on matters of concern. The Directors have access to the advice and service of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board, the Investment Managers and the Administrator operate in a supportive, co-operative and open environment.

Shareholder Engagement

The Board believes that the maintenance of good relations with shareholders is important for the long-term prospects of the Company. It has, since admission, sought engagement with investors. Where appropriate the Chairman, and other Directors are available for discussion about governance and strategy with major shareholders and the Chairman ensures communication of shareholders' views to the Board. During the year, the Chairman has engaged with shareholders when requested. The Board receives feedback on the views of shareholders from its Corporate Broker and the Investment Managers. Shareholders are welcome to contact the Directors at any time via the Company Secretary.

The Board believes that the AGM provides an appropriate forum for investors to communicate with the Board, and encourages participation. There is an opportunity for individual shareholders to question the Directors at the AGM. Details of proxy votes received in respect of each resolution will be made available to shareholders at the meeting and will be posted on the Company's website following the meeting.

The Annual Report and Consolidated Financial Statements, Interim Report and Consolidated Financial Statements and fact sheets are available to provide shareholders with a clear understanding of the Group's activities and its results. This information is supplemented by the monthly calculation and publication on the London Stock Exchange of the NAV of the Company's shares and the dividend declared thereon. All documents issued by the Company can be viewed on the website www.sqnassetfinance.com.

[1] Carol Goodwin and Paul Meader did not serve as a Directors for the full financial year. Paul Meader was appointed on 18th August 2017 and Carol Goodwin resigned on 31st December 2017.

AIFMD

The Company is classed as an externally managed Alternative Investment Fund under the Alternative Investment Fund Managers Directive ("AIFMD"). The US Investment Manager is the authorised Alternative Investment Fund Manager ("AIFM") for the purposes of AIFMD. The AIFM is responsible for managing the Company's investments and the risks it faces in accordance with AIFMD, subject to the overall scrutiny of the Board. The US Manager is registered with the FCA as a "third country AIFM". The requirements of AIFMD have been applied accordingly.

AIFM Remuneration

The total fees paid to the Investment Managers by the Company are disclosed in note 18. In accordance with Article 22 of the AIFM Directive and Article 107 of the AIFM Regulations, the AIFM must make certain disclosures in respect of the remuneration paid to its staff. The AIFM has identified four staff as falling within the scope of the disclosure requirements (the "Identified Staff"). The Identified Staff are senior management of the AIFM's managerial functions and a Compliance Officer in the compliance function. The remuneration amount paid to all of the Identified Staff of the AIFM in respect of their work with the AIFM for the 12 month period to 30 June 2018 was US$860,000 (equivalent to £651,416).

AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee comprised all of the Directors. All of the Audit and Risk Committee's members have recent and relevant financial experience. The Chairman of the Audit Committee, Christopher Spencer, is a chartered accountant and in addition serves as chairman of the audit committee of other listed investment companies. The Board is satisfied that Mr Spencer has recent and relevant financial experience, as required under the AIC Code. The qualifications of the members of the Audit Committee are outlined in the Directors' Biographies section.

Committee Meetings

The Audit and Risk Committee meets at least three times a year. Only members of the Audit and Risk Committee have the right to attend Audit and Risk Committee meetings. Representatives of the Investment Managers and Administrator will be invited to attend Audit and Risk Committee meetings on a regular basis and other non-members may be invited to attend all or part of the meeting as and when appropriate and necessary. The Auditor is also invited whenever it is appropriate. The Audit and Risk Committee is also able to meet separately with the Auditor without the Investment Managers being present.

Main Activities

The Audit and Risk Committee assists the Board in carrying out its overall responsibility in relation to financial reporting requirements, risk management and the assessment of internal financial and operating controls. It also manages the Group's relationship with the Auditor. Meetings of the Committee generally take place prior to a Company Board meeting. The Committee reports to the Board as part of a separate agenda item, on the activity of the Committee and matters of particular relevance to the Board in the conduct of their work.

The day to day management and administrative functions are outsourced to third parties and as a consequence there is no requirement for an internal audit function. The Committee reviews and monitors reports on the internal control and risk management systems on which the Company is reliant.

Financial Reporting

The primary role of the Committee in relation to financial reporting is to review in conjunction with the Investment Managers and the Administrator, the appropriateness of the Annual Report and Consolidated Financial Statements and the Interim Report and Consolidated Financial Statements concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the Auditor;
- in relation to the UK Corporate Governance Code and AIC Code, whether the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; and
- any correspondence from regulators in relation to the quality of the Group's financial reporting.

To aid its review, the Committee seeks the appropriate input from the Investment Managers, Administrator and also reports from the Auditor.

Significant Risks

In relation to the Annual Report and Consolidated Financial Statements for the year ended 30 June 2018, the following significant issues were considered by the Audit and Risk Committee:

(i) Revenue Recognition

The risk that revenue (classified as 'income' in the Consolidated Financial Statements and primarily comprising interest income or finance charges receivable under loans, leases and hire purchase agreements) may be materially misstated.

AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

The Committee has reviewed and is satisfied that a robust transaction reporting system is in place between the Investment Managers and Administrator to ensure that transactions and the revenue received are reflected correctly.

(ii) Investment Portfolio

The investment portfolio primarily comprises loans, hire purchase contracts and finance leases. The carrying value of these assets is key to the financial performance of the Group and drives returns to shareholders.

Where a valuation model is utilised, such a model relies upon a number of inputs, such as underlying assumptions and estimates, and inherent within any such matter of judgement is the risk that the eventual outcome will differ from that contained within these financial statements.

The Committee reviews the regular reports from the Investment Managers and Administrator regarding the valuation of the investments and with the Board reviews the NAV of the Group, together with the value of investments on a regular basis.

(iii) Compliance

The Company is required to comply with a number of rules and regulations including London Listing Rules, Transparency Rules, Corporate Governance Code and any other regulatory rules in Guernsey. In addition the Company needs to ensure that it complies with the investment strategy set out in its Prospectus, as amended from time to time.

The Board and the Committee regularly receive compliance reports from the Investment Managers and the Administrator.

(iv) Fraud Risk

The risk of fraud due to management override of controls.

The Committee reviews the reports from the Investment Managers and Administrator as to the system of checks in place to combat fraud.

(v) Related Parties and Consolidation

The Company has a number of subsidiaries and affiliated entities.

Consideration is given to financial reporting requirements – primarily around consolidation (and control) and related party disclosure.

The Administrator and Investment Manager have a number of worksheets and documents to ensure that all subsidiaries and affiliated entities are correctly reflected in the monthly valuations and fed through to the financial statements. Related party disclosure is reviewed by all parties.

Risk Management and Internal Controls

As stated earlier, the day to day management and administrative functions are outsourced to third parties. The US Investment Manager is also the AIFM and has, under AIFMD, certain specific responsibilities for risk management, subject to the oversight of the Board. The Board in turn delegates this to the Audit and Risk Committee. The Audit and Risk Committee reports their work and findings to the Board for approval.

The Company continues to review and develop a comprehensive risk management framework, with implementation outsourced to the Investment Managers and the Administrator, with a risk register that is reviewed and updated as necessary by the Board and Audit and Risk Committee. The Audit and Risk Committee considers the risks facing the Group and controls and other measures in place to mitigate the impact of risks.

The work of the Audit Committee is primarily driven by the Company's assessment of the principal risks and uncertainties as set out in the Strategic Report and in note 17, the reports received from the Investment Manager and the Company's risk evaluation process.

Risk Framework and Systems of Internal Control

The Board recognises the importance of identifying, actively monitoring and, where possible, mitigating the financial and non-financial risks facing the business. Whilst responsibility for risk management rests with the Board, the management of risk is embedded as part of the everyday business and culture of the Company and its principal advisers.

AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

The Board has considered the need for an internal audit function but because of the internal controls systems in place at the key service providers, and the independent controls process performed it has decided instead to place reliance on those control and assurance processes.

Risk Identification

The Board and Audit and Risk Committee identify risks with input from the Group's Investment Managers and Administrator. The Board also receives detailed quarterly asset management reports highlighting performance and potential risk issues on an investment-by-investment basis.

Risk Assessment

Each identified risk is assessed in terms of probability of occurrence, potential impact on financial performance and movements in the relative significance of each risk from period to period.

Action Plans to Mitigate Risk

Where new risks are identified or existing risks increase in terms of likelihood or impact, the Audit and Risk Committee assists the Group in developing, where possible, an action plan to mitigate the risk and put in place enhanced monitoring and reporting.

Re-assessment and Reporting of Risk

Such risk mitigation plans are reassessed by the Audit and Risk Committee with the relevant key service providers where applicable, and reported to the Board on a quarterly basis. The direct communication between the Group and its Investment Managers is regarded as a key element in the effective management of risk (and performance) at the underlying investment level.

External Audit

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Audit and Risk Committee received a detailed audit plan from the Auditor identifying its assessment of the significant audit risks. For the year ended 30 June 2018, the significant audit risks identified are shown on pages 36 and 37. The significant risks were tracked through the year and the Audit and Risk Committee challenged the work performed by the Auditor to test management override of controls and in addition the audit work undertaken in respect of valuations of unlisted investments.

The Audit and Risk Committee assess the effectiveness of the audit process in addressing these matters through the reporting received from the Auditor in relation to the year end. In addition, the Audit and Risk Committee seeks feedback from the Investment Managers and the Administrator on the effectiveness of the audit process. For the year ended 30 June 2018, the Audit and Risk Committee was satisfied that there had been appropriate focus and challenge on the significant and other key areas of audit risk and assessed the quality of the audit process to be good.

Appointment and Independence

In its assessment of the independence of the Auditor, the Audit and Risk Committee receives details of any relationships between the Group and the Auditor that may have a bearing on their independence and receives confirmation that they are independent of the Group.

The Audit and Risk Committee considers the reappointment of the Auditor, including the rotation of the audit engagement partner, and assesses their independence on an annual basis. The Auditor is required to consider rotation of the engagement partner responsible for the audit every five years. The current audit engagement partner, Ewan Spraggon, has overseen the audit of the Company for four audit cycles. The Auditor has been the Group's external auditor since incorporation.

The Audit and Risk Committee reviews the objectivity and effectiveness of the audit process on an annual basis and considers the audit tendering provisions of the revised UK Code in determining whether the Company should put the audit engagement out to tender. Having considered the quality and level of service currently being provided by the Auditor, the Audit and Risk Committee believes that it is in the best interests of the shareholders to retain its services and has therefore provided the Board with its recommendation that a resolution proposing the reappointment of the Auditor should be put to the shareholders at the 2018 AGM. The Auditor has indicated its willingness to continue in office. There are no contractual obligations restricting the Committee's choice of external auditor and the external auditor is not indemnified by the Group.

AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

Non-Audit Services

To safeguard the objectivity and independence of the Auditor from becoming compromised, the Committee has a formal policy governing the engagement of the Auditor to provide non-audit services. The Auditor and the Directors have agreed that all non-audit services require the pre-approval of the Audit and Risk Committee prior to commencing any work. The Auditor will only be appointed to provide non-audit services if it is in the best interests of the Company. Fees for non-audit services will be tabled annually so that the Audit and Risk Committee can consider the impact on the Auditor's objectivity.

The Auditor is remunerated as follows for their services rendered during the year ended 30 June 2018:

	£
Audit of the Group's financial statements	47,656
Interim review of the Group's financial statements	9,440
Total audit related services	57,096

The Auditor did not provide any non-audit services during the year.

For and on behalf of the Audit and Risk Committee

Christopher Spencer
Chairman of the Audit and Risk Committee
2 October 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SQN ASSET FINANCE INCOME FUND LIMITED

Opinion

We have audited the consolidated financial statements of SQN Asset Finance Income Fund Limited (referred to as "the company" and together with its subsidiaries as "the Group") for the year ended 30 June 2018 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable Guernsey law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 June 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit commentary

A: What has changed in the current year approach?

The approach followed was consistent with the 2017 audit strategy, further enhanced in the following areas:

- Heightened review and development of our approach to the audit of the investment portfolio in light of restructured investments and potentially impaired investments. As part of this we included additional procedures to confirm the value of the underlying investments.
- Heightened review of the monitoring process of the portfolio diversification limits, covenant monitoring and ongoing risk assessment.

B: An overview of the scope of our audit

Our audit approach is risk based and focusses on identification of key business risks and those areas of operation that are considered significant to the results for the year. It focuses on the robustness and effectiveness of the Company's control environment established by management to ensure sound operational and financial control and the mitigation of risk.

For purposes of the Group, management includes those 3rd parties such as the investment managers and administrator to whom the board has delegated responsibility for key operations and day to day functions. Where possible, we seek to validate and subsequently place reliance on the controls that are in place, in order to increase the efficiency of our audit work. Our audit comfort comes from evaluating and validating how management monitor and control the business and financial risks.

The Group includes the company and its 5 wholly owned subsidiaries which are all established for the primary purpose of acting as investment holding companies.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SQN ASSET FINANCE INCOME FUND LIMITED (CONTINUED)

Our audit approach covered both pre and year end procedures described as follows:

- *Pre-year end:* In conjunction with the testing of the internal controls, the pre-year end audit work included "walk through testing" which was undertaken to help us understand the control environment (including IT controls) established by management and the entire investment process of the portfolio of the Group (from deal sourcing, due diligence to recognition in the financial statements). We obtained this understanding from discussions/meetings with the administrator, the investment manager(s) and the board as well as review of relevant documentation provided.

  As part of our discussions with management and the board around the control environment and the overall business environment of the Group, we considered a number of emerging and developing areas to be significant for management and the board's attention on an on-going basis. These included but were not limited to cyber risk, development in the global tax area and market volatility as a result of the Brexit negotiation.

- *Year end:* Based on the understanding of the business, from the pre-year end testing, we undertook substantive testing on significant balances, transactions and disclosures in line with our risk assessment including the results of the work done at the pre year end.

C: Our application of materiality

The directors have primary responsibility for ensuring that the financial statements are free from material misstatement or error. In accounting terms, a material error is one that, if it were unadjusted, would cause a user of the financial statements to alter his view of those statements or the results or the financial position of the entity being reported on. Materiality, therefore, is incapable of monetary definition, since it has both quantitative and qualitative elements. It is necessary to consider not only the impact of an error on the financial statements as a whole, but also on the individual accounting items affected. Additionally, the cumulative impact of all unadjusted errors must be considered.

Auditors examine accounts on a test basis. The level of testing we have carried out is based on our assessment of the risk that an item in the financial statements may be materially misstated.

A key element of our annual audit planning is to make an assessment of the risk that the financial statements might contain material errors. We base this assessment on our cumulative knowledge of the Group and our understanding of its activities and the industry sector in which it operates. We assess risk both at the overall financial statement level and at the individual item level. The nature and volume of audit work we have conducted is directly related to our risk assessments.

Whilst the audit process is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather we plan the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant depth of work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the Responsible Individual (who signs the audit report), to subjective areas of the accounting and reporting process.

In making these assessments and in particular cognisant of the challenges of defining materiality, we considered a threshold of £4,226,000 to be an indicator of materiality for the financial statements as a whole. This threshold was based on an average of the following figures: 0.5% of revenue, 5% of profit, 1% of gross assets and 100% of the smallest disclosed balance. This is intended to avoid the distorting effect of using only one financial statement figure as the measure.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £105,650, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SQN ASSET FINANCE INCOME FUND LIMITED (CONTINUED)

D: Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified in our audit.

The key matters listed below are consistent with our 2017 audit strategy.

(i) Revenue recognition

Revenue is classified as "finance income" in the financial statements and primarily comprises of interest income including from loans, leases and hire purchase agreements. The respective Group Company enters into legal agreements with clients of varying lengths (typically up to 10 years). The terms of the agreements are summarised in a trade ticket which is reviewed by both the investment manager and administrator including on a monthly basis as part of the NAV reporting process.

The risk - As finance income is the Group's major source of revenue and is a material item in the Statement of Comprehensive Income, the recognition of finance income is considered to be a significant risk.

Our response – Our audit procedures with respect to revenue recognition included but were not limited to: tests of control over trade ticket terms; substantive analytical procedures and tests of detail over balances to corroborate the value of income and debtors during the period to the trade ticket and underlying documentation; and testing of cash receipts or debtors records to test the completeness of revenue.

(ii) Loans and receivables

The risk - The carrying value of the investment portfolio may be misstated. Qualitative information about the credit quality of the portfolio (such as on restructured and potentially impaired investments) may not be appropriately considered and/or disclosed. The investments primarily comprise of loans, hire purchase contracts and finance leases.

Our response - In conjunction with the revenue testing described above, we performed tests of control over trade ticket terms. We also performed analytical procedures to ensure that the amortisation schedule and carrying value were in line with relevant IFRS requirements. We had discussions with the investment managers around the portfolio quality as part of our audit procedures.

(iii) Compliance

The risk - The Group is required to comply with a number of rules and regulations including London Listing Rules, Transparency Rules, Corporate Governance Code and any other regulatory rules in Guernsey. In addition, the Group needs to ensure that it complies with the investment strategy set out in its prospectus, as amended from time to time.

Our response – Our audit procedures include a review for compliance with key rules e.g. London Listing Rules, Transparency Rules, Corporate Governance Code and any other regulatory rules. We also performed a review of Board Minutes to check for board oversight of the compliance work carried out by the administrator and of investment strategy compliance.

(iv) Related parties

The risk - The Company has a number of subsidiaries and affiliated entities. In addition a number of shares have been issued/redeemed with existing shareholders/investors. Consideration needs to be given to financial reporting requirements – primarily around consolidation (and control) and related party disclosure – as applicable.

Our response – Our audit procedures include use of an IFRS disclosure checklist in addition to discussions with management on key related party transactions and the substance of the transactions for the purpose of the consolidated financial statements including appropriate disclosure thereof.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SQN ASSET FINANCE INCOME FUND LIMITED (CONTINUED)

(v) Management override of internal controls

The risk – ISA (UK and Ireland) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' requires us to consider the risk of management override of controls. There is a risk of fraud due to management override of controls particularly as the group is controlled by a small number of individuals with limited segregation of duties.

Our response – Our audit work included a specific review of all significant management journals, with special focus on journals around the year end.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the director's explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Other information and matters on which we are required to report by exception

The other information comprises all of the information included in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SQN ASSET FINANCE INCOME FUND LIMITED (CONTINUED)

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

We also consider whether the section describing the work of the audit committee appropriately addresses matters communicated by us to the audit committee.

Under the Companies (Guernsey) Law 2008 we are required to report to you if, in our opinion:

- the company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations which to the best of our knowledge and belief are necessary for the purposes of our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 10 in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic Report or the Directors' Report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with applicable legislation.

Responsibilities of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SQN ASSET FINANCE INCOME FUND LIMITED (CONTINUED)

Use of this report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work is undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Baker Tilly CI Audit Limited
Chartered Accountants
St. Sampsons, Guernsey

Date: 2 October 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Year ended 30 June 2018 £	Year ended 30 June 2017 £
Income			
Finance income		33,300,234	31,429,726
Interest on cash and cash equivalents		370,856	278,468
Other income		513,338	855,267
Total income	**2.6**	**34,184,428**	**32,563,461**
Net unrealised (loss)/gain on revaluation of investments		(742,152)	245,435
Net unrealised foreign exchange loss on investments		(2,404,813)	(940,552)
Net unrealised foreign exchange (loss)/gain on forward contracts		(686,366)	12,102,788
Net realised gain on investments		1,197,803	-
Net realised foreign exchange (loss)/gain on investments		(1,982,655)	6,298,649
Net realised foreign exchange gain/(loss) on forward contracts		4,136,615	(18,157,629)
Net realised and unrealised loss		**(481,568)**	**(451,309)**
Expenses			
Investment management fees	3a	(4,532,845)	(4,355,085)
Directors' fees and travel expenses		(207,959)	(194,668)
Other operating expenses	3b,4	(1,149,593)	(1,380,560)
Depreciation	7	(748,993)	(443,056)
Impairment of loan investment	17	(2,437,876)	-
Total operating expenses		**(9,077,266)**	**(6,373,369)**
Profit and total comprehensive income for the year		**24,625,594**	**25,738,783**
Total comprehensive income/(loss) for the year analysed as follows:			
Attributable to Ordinary shareholders		21,183,259	25,762,796
Attributable to 2016 C shareholders		3,442,335	(24,013)
Total		**24,625,594**	**25,738,783**
Basic and diluted earnings per Ordinary Share	**5**	**5.92p**	**8.58p**
Basic and diluted earnings/(loss) per 2016 C Share	**5**	**1.96p**	**(0.02)p**

All results are derived from continuing operations.

The Group has no items of other comprehensive income, and therefore the profit for the year is also the total comprehensive income.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Notes	30 June 2018 £	30 June 2017 £
Non-current assets			
Residual value of finance lease investments	2.4	517,558	1,265,303
Property, plant and equipment	7	13,761,155	6,218,601
Loans and other investments	8.1	278,772,166	258,294,814
Investments designated at fair value through profit or loss	8.2	3,402,690	4,598,099
Finance lease and hire-purchase investments	9	102,015,428	103,549,225
		398,468,997	373,926,042
Current assets			
Cash and cash equivalents	2	76,795,524	154,568,616
Interest receivables	10	4,488,981	3,848,999
Other receivables and prepayments	10	12,125,032	3,809,092
Investment receivables	10	2,202,754	876,451
		95,612,291	163,103,158
Total assets		**494,081,288**	**537,029,200**
Current liabilities			
Investment payables		(154,312)	(74,946)
Derivative financial liabilities	8.2,17	(6,184,723)	(2,876,663)
Other payables and accrued expenses	11	(3,654,113)	(1,174,026)
		(9,993,148)	(4,125,635)
Net assets		**484,088,140**	**532,903,565**
Equity			
Share capital	13	489,189,319	530,606,210
Retained earnings		(5,101,179)	2,297,355
		484,088,140	**532,903,565**
NAV per Share			
- Ordinary Shares	6	97.72p	99.63p
- 2016 C Shares	6	97.62p	98.06p

These Consolidated Financial Statements were approved and authorised for issue by the Board of Directors on 2 October 2018, and signed on its behalf by:

Peter Niven
Director

Christopher Spencer
Director

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Attributable to Shareholders Share Capital £	 Retained Earnings £	 Total £
As at 1 July 2017		**530,606,210**	**2,297,355**	**532,903,565**
Total comprehensive income for the year		-	24,625,594	24,625,594
Transactions with shareholders				
Ordinary Shares repurchased	13	(1,031,187)	-	(1,031,187)
2016 C Share capital redemption	13	(40,385,704)	-	(40,385,704)
Dividends paid	14	-	(32,024,128)	(32,024,128)
Total transactions with shareholders		**(41,416,891)**	**(32,024,128)**	**(73,441,019)**
As at 30 June 2018		**489,189,319**	**(5,101,179)**	**484,088,140**

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Attributable to Shareholders Share Capital £	 Retained Earnings £	 Total £
As at 1 July 2016		**353,716,434**	**1,113,484**	**354,829,918**
Total comprehensive income for the year		-	25,738,783	25,738,783
Transactions with shareholders				
Issue of 2016 C Shares	13	180,000,000	-	180,000,000
2016 C Shares issue costs	13	(3,110,224)	-	(3,110,224)
Dividends paid	14	-	(24,554,912)	(24,554,912)
Total transactions with shareholders		**176,889,776**	**(24,554,912)**	**152,334,864**
As at 30 June 2017		**530,606,210**	**2,297,355**	**532,903,565**

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Year ended 30 June 2018 £	Year ended 30 June 2017 £
Cash flow from operating activities:			
Total comprehensive income for the year		24,625,594	25,738,783
Adjustments for:			
Unrealised loss/(gain) on revaluation of investments		742,152	(245,435)
Unrealised foreign exchange loss/(gain)		3,091,179	(11,162,236)
Depreciation	7	748,993	443,056
Realised foreign exchange loss/(gain) on investments		1,982,655	(5,539,799)
Realised gain on investments		(1,197,803)	(758,850)
Increase in interest receivable		(639,982)	(1,354,723)
Increase in investment receivables		(1,326,303)	(702,819)
Increase in other receivables and prepayments		(8,315,940)	(1,834,185)
Increase in investment payables		79,366	73,110
Increase in other payables and accrued expenses	11	2,480,087	381,431
Acquisition of investments	7,8,9	(79,395,855)	(131,535,563)
Amortisation of investment principal	8,9	47,734,214	35,620,919
Disposals	8	-	5,529,332
Impairment of loan investment	17	2,437,876	-
Net cash outflow from operating activities		**(6,953,767)**	**(85,346,979)**
Cash flow from financing activities			
Ordinary Shares repurchased	13	(1,031,187)	-
2016 C Share capital redemption	13	(40,385,704)	-
Dividends paid	14	(32,024,128)	(24,554,912)
Share issue (net proceeds)	13	-	176,889,776
Net cash used in/provided by financing activities		**(73,441,019)**	**152,334,864**
Net (decrease)/increase in cash and cash equivalents		**(80,394,786)**	**66,987,885**
Cash and cash equivalents at start of the year		154,568,616	87,815,244
Effect of exchange rate changes on cash and cash equivalents		2,621,694	(234,513)
Cash and cash equivalents at end of the year		**76,795,524**	**154,568,616**

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

The Company was incorporated on 28 May 2014 and registered in Guernsey as a Closed-ended Collective Investment Scheme. The Company's registered office is BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA. The Company's Ordinary Shares were admitted to the FCA's Official List and to trading on the Main Market of the London Stock Exchange on 14 July 2014.

In November 2015, the Group raised additional capital by the issuance of the 2015 C Shares. On 25 October 2016, the 2015 C Shares were converted to Ordinary Shares using a conversion ratio of 0.9929 Ordinary Shares for each 2015 C Share. The conversion ratio was based on the NAV per 2015 C Share as at 14 October 2016, which was the conversion date.

In December 2016, the Group raised additional capital by the issuance of the 2016 C Shares. Net proceeds of £176,889,776 were raised through the issue of 180,000,000 2016 C Shares. The 2016 C Shares are listed separately on the Main Market of the London Stock Exchange and were admitted on 12 December 2016.

The investments made with 2016 C Shares net proceeds are accounted for and managed as a separate pool of assets in accordance with the Company's investment policy until the conversion of 2016 C Shares to Ordinary Shares. The terms and timing of the conversion of the 2016 C Shares to Ordinary Shares will be announced at a later date. Expenses are split between Ordinary Shares and 2016 C Shares in proportion to their respective NAV.

On 1 May 2018, the Company announced that the speed of deployment on the investment of the 2016 C Share proceeds had been slower than anticipated and a capital return would be made to shareholders. On 25 May 2018, the Group made a compulsory redemption of 41,075,778 2016 C Shares on a pro rata basis amongst all the holders on the 2016 C Share register. The Investment Managers made a contribution to the capital return of £425,455, which was equivalent to the management fees earned on the excess capital since admission of the 2016 C Share to 31 March 2018. The contribution is payable in equal instalments over a 12 month period from May 2018 to April 2019 (no management fee was paid on the excess capital in April 2018).

During the year, 1,122,366 Ordinary Shares were repurchased and are being held in treasury.

The Company's subsidiaries, SQN Asset Finance (Guernsey) Limited, SQN AFIF (AMBER) Limited, SQN AFIF (BRONZE) Limited, SQN AFIF (Cobalt) Limited and SQN AFIF (Diamond) Limited (the "Subsidiaries") are wholly owned Subsidiaries incorporated in Guernsey and established for the primary purpose of acting as investment holding companies (refer to note 2.1(e) for further details). The Subsidiaries' registered office is BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA.

2. Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied throughout all the years presented, unless otherwise stated.

2.1 Basis of Preparation

(a) Statement of Compliance

The Audited Consolidated Financial Statements for the year ended 30 June 2018 have been prepared in accordance with IFRS. They give a true and fair view of the Group's affairs and comply with the Company (Guernsey) Law 2008, as amended.

(b) Going Concern

Going concern refers to the assumption that the Company has the resources to continue in operation for the foreseeable future, being twelve months from the date of approval of the Consolidated Financial Statements. After reviewing the Group's budget and cash flow forecast for the next financial period, the Directors are satisfied that, at the time of approving the Consolidated Financial Statements, it is appropriate to adopt the going concern basis in preparing the Consolidated Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(c) New Standards, Amendments and Interpretations

There were no new standards, amendments or interpretations effective for the first time for the current reporting period that had a material impact on the Group or Company.

Detailed below are new standards, amendments and interpretations to existing standards that become effective in future accounting periods which have not been adopted by the Group:

	Effective for periods beginning on or after
IFRS 9 – Financial Instruments	1 January 2018
IFRS 15 – Revenue from Contracts with Customers	1 January 2018
IFRS 16 – Leases (subject to EU endorsement)	1 January 2019

IFRS 9 – Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and requires financial assets to be classified into two categories: those measured at fair value and those measured at amortised cost. The determination is made on initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The main change is that, in cases where the fair value is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss.

IFRS 9 Impairment Requirements

The new impairment requirements in IFRS 9 are based on an expected credit loss model and replace the IAS 39 incurred loss model and was applicable from 1 July 2018. The expected credit loss model applies to financial assets that are debt instruments (such as bank deposits, loans, debt securities and trade receivables) recorded at amortised cost or at fair value through other comprehensive income, plus lease receivables under IAS 17, contract assets and loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss.

The guiding principle of the expected credit loss model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments.

The Standard considers credit risk low if there is a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The assessment of whether there has been a significant increase in credit risk is based on an increase in the probability of a default occurring since initial recognition.

Under IFRS 9 a financial asset is credit-impaired when one or more events that have occurred and have a significant impact on the expected future cash flows of the financial asset. It includes observable data that has come to the attention of the holder of a financial asset about the following events:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or past-due event;
- the lenders for economic or contractual reasons relating to the borrower's financial difficulty granted the borrower a concession that would not otherwise be considered;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for the financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

Impairment of financial assets is recognised in stages:

Stage 1 - as soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognised in profit or loss and a loss allowance is established. This serves as a proxy for the initial expectations of credit losses. For financial assets, interest revenue is calculated on the gross carrying amount (ie without deduction for expected credit losses).

Stage 2 - if the credit risk increases significantly and is not considered low, full lifetime expected credit losses are recognised in profit or loss. The calculation of interest revenue is the same as for Stage 1.

Stage 3 - if the credit risk of a financial asset increases to the point that it is considered credit-impaired, interest revenue is calculated based on the amortised cost (ie the gross carrying amount less the loss allowance). Financial assets in this stage will generally be assessed individually. Lifetime expected credit losses are recognised on these financial assets.

The Board has undertaken an assessment of the impact of IFRS 9 on the Group's Consolidated Financial Statements. As announced on 21 August 2018, the Group formally adopted IFRS 9 on 1 July 2018 which decreased the Ordinary Shares NAV by approximately 40 bps in addition to the 69 bps impairment in respect of Suniva taken under IAS 39 in June 2018. The decrease in the 2016 C Share NAV, due to IFRS 9, was approximately 3 bps.

Loans, receivables and construction finance will continue to be measured at amortised cost, residual value, equity and lease participation will continue to be measured at fair value through profit or loss and the derivative assets will be measured at fair value through profit or loss and not held for trading. Finance lease and hire purchase receivables will be subject to the IFRS 9 impairment model.

The Board and the Investment Managers have undertaken a review of the Group's investments and reviewed each investment for signs of impairment using the IFRS 9 impairment model. Had IFRS 9 been applied to these financial statements, as at 30 June 2018 the impairment, in addition to the Suniva impairment, would have been in the region of £1.5 million.

IFRS 15 – Revenue from Contracts with Customers
IFRS 15 will supersede IAS 11 – Construction Contracts and establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

The Board has undertaken an assessment of the impact of IFRS 15 on the Group's financial statements and concluded that there will be no material impact on the Group's Consolidated Financial Statements.

IFRS 16 – Leases
IFRS 16 will supersede IAS 17 – Leases and specifies how to recognise, measure, present and disclose leases. As a lessor, the Group will continue to classify leases as operating or finance. IFRS 16's approach to lessor accounting is substantially unchanged from IAS 17.

The Board has undertaken an assessment of the impact of IFRS 16 on the Group's Consolidated Financial Statements and concluded that there will be no material impact on the Group's financial statements.

(d) Functional and Presentation Currency

Items included in the Consolidated Financial Statements are measured using Sterling as the currency of the primary economic environment in which the Group operates (the "Functional Currency"). The Consolidated Financial Statements are presented in Sterling, which is the Group's presentation currency.

(e) Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The principal place of business of the Subsidiaries is Guernsey.

In accordance with IFRS 10 - Consolidated Financial Statements ("IFRS 10"), if the Company meets the definition of an investment entity ("IE") it qualifies for a consolidation exemption. The relevant provisions for an IE under IFRS 10 are set out below.

IFRS 10.27 – An IE is an entity that:

a. obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;

b. commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

c. measures and evaluates the performance of substantially all of its investments on a fair value basis.

IFRS 10.28 – An entity shall consider whether it has the following characteristics of an IE:

a. it has more than one investment;

b. it has more than one investor;

c. it has investors that are not related parties of the entity; and

d. it has ownership interests in the form of equity or similar interests.

The Board considered all the above factors and noted that whilst the Company might meet many of the IE criteria, as it does not measure and evaluate the performance of substantially all of its investments on a fair value basis, the Directors' have concluded that the Company does not meet the definition of an IE and does not qualify for the IFRS 10 consolidation exemption. The Subsidiaries have therefore been consolidated into these Consolidated Financial Statements.

(f) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of the Consolidated Financial Statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

In the normal course of business, the Board, under the advice of the Investment Managers, make certain assumptions about residual values (note 2.4), useful life of equipment (note 2.5), and asset impairment (note 2.3(c)).

2.2 Foreign Currency Translation

Transactions in currencies other than the functional currency are recorded using the exchange rate prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and those from the translation at year end exchange rates of monetary and non-monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.3 Financial Assets

a) Classification and Measurement

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets designated at fair value through profit or loss at inception

Financial assets designated at fair value through profit or loss at inception are financial instruments that are managed and their performance is evaluated on a fair value basis in accordance with the Group's documented investment strategy.

The Group's policy requires the Investment Managers and the Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information. Financial assets at fair value through profit are recognised at fair value and changes in fair value are recorded in profit or loss in the Statement of Comprehensive Income.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when the value of the asset is less than the carrying value. When assessing impairment, the Investment Managers consider the ability of the end-user to make all contracted payments due to the Group, the delinquency status of each account, and the value of the equipment or assets relative to all outstanding obligations in the case of defaults. In assessing residual values for the purpose of impairment, each account is reviewed at least annually and third-party appraisals used when necessary.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL. Gains and losses are recognised in profit or loss in the Statement of Comprehensive Income when loans and receivables are derecognised or impaired, as well as through the amortisation process.

b) Recognition and De-Recognition

The Group initially recognises loans and receivables on the date when they are originated. All other financial assets are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all the risk and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

c) Fair Value Estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability is conducted in either:

- the principal market for the asset or liability; or

- in the absence of a principal market, the most advantageous market for the asset or liability.

The fair value of an asset or liability is measured using the assumption that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use capacity or by selling it to another market participant that would use the asset in its highest and best use capacity.

The Board assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment of the principal on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss in the Statement of Comprehensive Income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss in the Statement of Comprehensive Income to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.4 Finance Lease and Hire-Purchase Investments

The Group, as lessor, categorises finance leases and hire purchase investments as lease arrangements where the terms of the lease transfer substantially all risks and rewards of ownership to the lessee (in accordance with the requirements of IAS 17 - Leases). Hire-purchase investments include a purchase option exercisable by the lessee upon fulfilment of specified conditions. Under such arrangements, at the commencement of the lease term, the Group records finance lease and hire-purchase investments in the Statement of Financial Position as a receivable, at an amount equal to the net investment in the lease.

The net investment in the lease is equal to the gross investment in the lease (minimum lease payments receivable by the Group under finance lease and hire-purchase investments plus any unguaranteed residual value accruing to the Group) discounted by the interest rate implicit in the lease.

On subsequent measurement, the Group splits the minimum payments received under the lease between finance income and reduction of the lease receivable.

The Group applies the principles of IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"), to lease receivables with respect to the derecognition and impairment provisions.

Residual Value on Finance Leases

The unguaranteed residual value on finance leases is calculated by estimating the fair market value of the leased assets less the lease payments from the lessee.

Estimates of market value are based on a number of assumptions including, but not limited to, the in-place value of the equipment or assets to the end-user, the secondary market value of similar assets and equipment, the replacement cost of the asset or equipment including the cost of de-installation and re-delivery, and the Investment Managers' own assumptions based on historical experience.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.5 Property, Plant and Equipment

Property, Plant and Equipment comprises operating leases of marine assets, which the Group categorises as a lease arrangement in which a significant portion of the risks and rewards of ownership are retained by the lessor (in accordance with the requirements of IAS 17- Leases).

Assets held for use under operating leases are measured at cost less depreciation and are depreciated on a straight line basis over the remaining useful life.

Estimates of the useful life of equipment are based on manufacturers' recommendations, the age of similar products in the market, the intended use and utilisation of the equipment, and the Investment Managers' own assumptions based on historical experience.

2.6 Income

Income is recognised to the extent that it is probable that economic benefits will flow to the entity and can be reliably measured.

Finance income from finance leases is recognised in the Statement of Comprehensive Income based on a pattern reflecting a constant periodic rate of return on the net investment outstanding in respect of the finance lease.

Income on cash and cash equivalents relates to interest receivable on cash and cash deposits with banks.

Other income relates to upfront commitment and facility fees received by the Group in connection to the lease and loan undertakings. The income is recognised in the Statement of Comprehensive Income immediately when the loan or lease agreements are approved and signed.

2.7 Expenses

Expenses are recognised in profit or loss in the Statement of Comprehensive Income on an accruals basis.

2.8 Issue Costs

Costs directly incurred on share issues are netted off against the share issue proceeds.

2.9 Dividends Payable

The Group pays dividends to Shareholders subject to the solvency test prescribed by Guernsey Law. Refer to note 14 for details of dividend activity during the year.

2.10 Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank, and deposits held at call with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

2.11 Taxation

Profits arising in the Company are subject to tax at the standard rate of 0%. The Subsidiaries are exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 for which they each pay an annual fee of £1,200.

2.12 Derivative Financial Instruments

The Group makes use of derivative financial instruments to manage its exposure to foreign exchange rate risk including, but not restricted to the use of foreign exchange forward contracts. A derivative with a positive fair value is recognised as a financial asset and a derivative with a negative fair value is recognised as a financial liability. Further details on derivative financial instruments are disclosed in notes 8.2 and 17.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.13 Equity Holdings

As at 30 June 2018, the Group had provided (or committed to provide) asset finance facilities in the form of construction finance and hire purchase investments to four anaerobic digestion plants (30 June 2017: six anaerobic digestion plants).

In addition to these finance arrangements the Group acquired a 25.5% equity holding in each investee company. The terms of the shareholder agreement included an option (the "Call Option"), exercisable by the developer upon or following full repayment of the asset finance/loan, to purchase the Group's shares at a price that will produce a maximum 12% per annum return on capital to the Group, taking account of both interest paid under the debt facilities and (if applicable) any dividends, assuming each project is fully delivered.

The equity holdings do not qualify for equity method accounting under IAS 28 – Investments in Associates and Joint Ventures (IAS 28) – as, although the Group holds greater than 20% of the voting power in each of the investees, the Board judge that the Group does not have significant influence due to the following factors for each investment:

- The equity holdings can be bought back at the developer's discretion once conditions per the shareholder agreement are satisfied.

- The return is fixed at a maximum of 12% per annum across the entire investment (loan and shares). If the investment performs better than expected, the developer will exercise the option to purchase the shares at the agreed price and therefore the Group has no realistic chance of participating in residual value.

In accordance with IAS 39, the separate investment in the shares is measured initially at cost and subsequently at fair value through profit or loss, taking into account all information available including possible future cash flows, progress of the projects and the call option available to the developer.

During the year, two Call Options were exercised by the developers which resulted in a gain of £154,567.

During the year, the Group acquired an effective 25% shareholding in two holding companies. The Group has not accounted for these equities using IAS 28 as the assets and liabilities are insignificant.

The Board are in ongoing communications with the Investment Managers and from discussions and review of relevant information available, believe that the fair value of all equity holdings throughout the period and as at 30 June 2018 is £nil.

3. Material Agreements

a) Investment Management Agreement

The Company's investments are managed by the Investment Managers. Under the terms of the Investment Management Agreement dated 16 June 2014, the Company appointed the Investment Managers to provide discretionary investment management services to the Company. The Investment Managers are together entitled to a management fee which is calculated and accrued monthly and payable monthly in arrears at the following rate per annum of the Group's NAV:

On first £300 million of the NAV	1.00%
On £300 million - £500 million of the NAV	0.90%
Any amount greater than £500 million of the NAV	0.80%

In addition to the above fee, the Investment Managers are entitled to receive an additional fee where either of them or their affiliates provides structuring advice and/or services in connection with the acquisition (but not the disposal) of any investment. The fee will be equal to 1% of the transaction amount.

The Investment Managers are not entitled to any incentive or performance based fees.

Refer to note 18 for details on fees paid during the year to the Investment Managers.

b) Administration and Custodian Agreement

The Company has engaged the services of the Administrator to provide administration and custodian services. The Administrator is entitled to receive:

- an annual administration fee based on the Group's gross issue proceeds on a tiered percentage basis;
- an annual fee of £36,000 for performing the function of Company Secretary plus fees for ad-hoc Board meetings;
- an annual fee of £10,000 for the provision of compliance services;
- an annual fixed fee of £5,000 for each Guernsey Subsidiary (up to seven Guernsey subsidiaries); and
- a fee of £10,000 for each share launch.

c) Registrar Agreement

Link Market Services (Guernsey) Limited (formerly Capita Registrars (Guernsey) Limited) are registrar of the Company pursuant to the Registrar Agreement dated 16 June 2014. The fee is charged at a rate of £1.60 per holder of Ordinary Shares and 2016 C Shares appearing on the register, subject to a minimum fee of £5,000 per annum, plus disbursements.

d) Broker Agreements

Winterflood Securities Limited are entitled to an annual brokerage and advisory fee of £45,000 and commission fees of 1% and 0.1% of the gross value of any share issues and repurchases respectively. Winterflood were also entitled to commission fees of 1.5% on the gross proceeds of the 2015 C Shares and the 2016 C Shares which were issued in November 2015 and December 2016 respectively.

4. Other Operating Expenses

	30 June 2018 £	30 June 2017 £
Administration and secretarial fees	503,246	429,730
Audit fees	57,196	51,692
Brokerage fees	47,129	45,530
Public relation fees	40,000	50,053
Registrar fees	101,041	44,929
Legal fees	-	17,508
Professional fees	89,064	178,853
Commission fees	-	237,204
Transaction fees	68,001	70,865
Other expenses	243,916	254,196
Total	**1,149,593**	**1,380,560**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Basic and Diluted Earnings per Share

30 June 2018	Ordinary Shares	2016 C Share
Total comprehensive income for the year	£21,183,259	£3,442,335
Weighted average number of shares in issue during the year	357,575,972	175,948,690
Basic and diluted earnings per share	5.92p	1.96p

30 June 2017	Ordinary Shares	2016 C Share
Total comprehensive income/(loss) for the year	£25,762,796	£(24,013)
Weighted average number of shares in issue during the year	300,418,537	100,602,740
Basic and diluted earnings/(loss) per share	8.58p	(0.02)p

6. NAV per Share

30 June 2018	Ordinary Shares	2016 C Shares
NAV	£348,466,944	£135,621,196
Number of shares in issue at year end	356,585,141	138,924,222
NAV per share	97.72p	97.62p

30 June 2017	Ordinary Shares	2016 C Shares
NAV	£356,397,803	£176,505,762
Number of shares in issue at year end	357,707,507	180,000,000
NAV per share	99.63p	98.06p

7. Property, Plant and Equipment

Property, Plant and Equipment comprises plant and machinery originally subject to:

a) a hire purchase agreement which was re-leased to an alternative third party under an operating lease. The asset has a remaining useful life of 11.5 years (30 June 2017: 12.5 years).

b) a finance lease which was re-leased to an alternative third party under an operating lease. The asset has a remaining useful life of 13 years (30 June 2017: 14 years).

c) a finance lease which was re-leased to an alternative third party under an operating lease during the year ended 30 June 2018. The asset has a remaining useful life of 8 years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The carrying amount is detailed in the table below:

	30 June 2018 £	30 June 2017 £
Cost		
Opening balance	**7,130,681**	**5,100,572**
Additions during the year	674,824	44,522
Reclassified investments[1]	7,616,723	1,985,587
Closing balance	**15,422,228**	**7,130,681**
Accumulated depreciation		
Opening balance	**(912,080)**	**(469,024)**
Depreciation during the year	(748,993)	(443,056)
Closing balance	**(1,661,073)**	**(912,080)**
Net book value	**13,761,155**	**6,218,601**

8. Financial Instruments

8.1 Loans and Other Investments

The following table summarises the changes in investments measured at amortised cost using the effective interest method:

30 June 2018	Loans £	Construction Finance £	Receivables £	Total £
Opening balance	**143,465,130**	**109,273,777**	**5,555,907**	**258,294,814**
Advances and purchases during the year	34,263,467	31,494,301	-	65,757,768
Principal amortisation during the year	(18,625,872)	(6,501,915)	(5,200,159)	(30,327,946)
Impairment[2]	(2,437,876)			(2,437,876)
Reclassified investments[3]	-	(8,408,584)	-	(8,408,584)
Realised foreign exchange loss on investments	(3,030,426)	299,112	639,819	(2,091,495)
Realised gain on investments	83,906	-	90,975	174,881
Unrealised foreign exchange loss on revaluation	(896,519)	(672,826)	(620,051)	(2,189,396)
Closing balance	**152,821,810**	**125,483,865**	**466,491**	**278,772,166**

[1] This item relates to an investment that has been reclassified from the Finance Lease investments category (as detailed in note 7(c) above). Please refer to note 9 for additional information.

[2] This item relates to an impairment made against one of the investments held by the Group, please refer to note 17 for further details.

[3] This item relates to advances in the Construction Finance investments category that were reclassified as additions in the Finance Lease and Hire-Purchase investment categories in the sum of £5,649,673 and £2,758,911 respectively, as detailed in note 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 June 2017	Loans £	Construction Finance £	Receivables £	Total £
Opening balance	**92,965,222**	**103,530,815**	**9,448,317**	**205,944,354**
Advances and purchases during the year	43,474,375	75,989,773	-	119,464,148
Principal amortisation during the year	(11,145,150)	(8,231,726)	(4,173,990)	(23,550,866)
Disposals	(5,401,127)	(128,205)	-	(5,529,332)
Reclassified investments[1]	21,139,325	(63,995,135)	-	(42,855,810)
Realised foreign exchange gain on investments	1,442,156	3,891,701	533,765	5,867,622
Unrealised foreign exchange gain on revaluation	990,329	(1,783,446)	(252,185)	(1,045,302)
Closing balance	**143,465,130**	**109,273,777**	**5,555,907**	**258,294,814**

Construction Finance investments comprise initial drawings or advances made under loan agreements, finance leases or hire-purchase agreements during a period of procurement or construction of underlying assets (the “Construction Period”). During the Construction Period, interest or similar service payments on the advances may be paid or (more usually) rolled-up and capitalised on expiry of the Construction Period, typically when the assets have been commissioned and (if applicable) commercial operations have commenced.

The amortisation period (in the case of a loan) or lease/hire term (in the case of a finance lease or hire-purchase) commences at the end of the Construction Period and the service payments or lease/hire payments rentals are calculated by reference to the total advances during the Construction Period plus interest accrued (if not paid). In the case of a finance lease, the advances (and accrued interest) are repayable in full if a default or insolvency event occurs or if the Construction Period has not ended by a specified long-stop date.

Receivables comprise the legal right to streams of contracted payments arising under lease, hire, licence or similar agreements made between an end-user, lessee or licensee and lessor, owner or licensor of goods or other assets, in respect of which the right to receive payment has been sold or assigned absolutely to the Group by a third party, but legal title to the goods or other assets lies with that third party.

8.2 Fair Value Investments

The Group’s accounting policy on fair value measurements is discussed in note 2.3(c).

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Inputs that reflect unadjusted price quotes in active markets for identical assets or liabilities that the Group has the ability to access at the measurement date;

Level 2: Inputs that reflect price quotes of similar assets and liabilities in active markets, and price quotes of identical assets and liabilities in markets that are considered to be less than active as well as inputs other than price quotes that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are unobservable for the asset or liability and reflect the Investment Managers’ own assumptions based upon experience of similar assets and/or on third party appraised values. This category includes instruments that are valued based on price quotes for which the inputs are unobservable or price quotes for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

[1] This item relates to advances in the Construction Finance investments category that were reclassified as additions in the Loans investment category in the sum of £21,139,325 as noted above, and Finance Lease and Hire-Purchase investment categories in the sum of £31,933,393 and £10,922,417 respectively, as detailed in note 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The fair values of derivative instruments are calculated using quoted prices. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

For financial assets not carried at amortised cost, the Investment Managers determine fair value using valuation techniques approved by the Directors.

The following table details the Company's fair value hierarchy.

30 June 2018	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets				
Designated at fair value through profit or loss (Lease Participation)	-	-	3,402,690	3,402,690
Finance lease residual value	-	-	517,558	517,558
Equity holding[1]	-	-	-	-
Total financial assets	**-**	**-**	**3,920,248**	**3,920,248**
Financial liabilities				
Derivative liabilities	-	(6,184,723)	-	(6,184,723)
Total financial liabilities	**-**	**(6,184,723)**	**-**	**(6,184,723)**

30 June 2017	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets				
Designated at fair value through profit or loss (Lease Participation)	-	-	4,598,099	4,598,099
Finance lease residual value	-	-	1,265,303	1,265,303
Equity holding[1]	-	-	-	-
Total financial assets	**-**	**-**	**5,863,402**	**5,863,402**
Financial liabilities				
Derivative liabilities	-	(2,876,663)	-	(2,876,663)
Total financial liabilities	**-**	**(2,876,663)**	**-**	**(2,876,663)**

[1] Refer to note 2.13 for further details on the equity holding.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following table summarises the changes in the fair value of the Group's Level 3 investments:

	30 June 2018 £	30 June 2017 £
Opening balance	**5,863,402**	**5,415,324**
Additions during the year	46,429	235,549
Principal amortisation during the year	(2,034,980)	(162,332)
Realised foreign exchange gain on investments	108,840	24,676
Realised gain on investments	894,126	-
Unrealised foreign exchange (loss)/gain on revaluation	(215,417)	350,185
Unrealised (loss) on revaluation	(742,152)	-
Closing balance	**3,920,248**	**5,863,402**

Transfers between Levels are deemed to have occurred at the date of the event or change in circumstances that caused the transfer. There were no transfers of investments between the Levels during the year.

The Lease Participation investments represent a single participation investment in a portfolio of leases. The carrying value of £3,402,690 (30 June 2017: £4,598,099) represents the value attributable to the 'principal' element of the participation interest, determined in accordance with the participation agreement.

The participation agreement entitles the Group to receive interest on the principal balance at the rate of 10.5%. Payment amounts are not fixed and are dependent on the actual proceeds received on the Lease Portfolio each month. Any shortfall in interest payments is added to the principal balance and accrues interest at the same rate. The Group does not have any rights to any amounts received on the portfolio over and above the repayment of their principal plus any interest accrued at the rates stated above.

The Directors and the Investment Managers believe this is a reasonable approximation of the fair value. The Group has therefore not presented quantitative information on the valuation of the Lease Participation investments.

Information about the Secondary Market for Level 3 Investments

The Investment Managers make assumptions about the residual value of certain assets and equipment. As determined by the Investment Managers, the residual value is a function of the in-place value and/or the secondary market value of the equipment or assets.

The in-place value is an assessment of the value of the equipment or assets if the equipment or assets were to continue to operate and provide value to the end-user. This takes into account the marginal cost of keeping the asset in place as well as the cost to the end-user of decommissioning, redelivering, and replacing the equipment. In some cases, this amount (or a maximum value) is negotiated in advance with the end-user.

The secondary market value is determined utilising the Investment Managers' historical experience, quotes from dealers, third party appraisals and recent sales. The secondary market value also takes into account the geography of the equipment or assets, the timeframe required to conduct a sale, and the associated costs that are not passed on to the end-user.

Equity Holdings

The equity holdings as detailed in note 2.13 are valued by the Board, taking into consideration a range of factors including the NAV of the investee, (if available), the existence of the Call Option exercisable on the holding and other relevant available information, including the price of recent transactions of equity holdings, (if any), and advice received from the Investment Managers and such other factors as the Board, in their sole discretion, deem relevant in considering a positive or negative adjustment to the valuation.

The estimated fair values of the equity holdings may differ from the values that would have been realised had a ready market existed and the difference could be material.

The fair value of the equity holdings is reassessed on an ongoing basis by the Board.

8.3 Valuation Process

The following table provides information about fair value measurements using significant unobservable inputs:

30 June 2018 Description	Fair Value £	Valuation Techniques	Unobservable Inputs
Lease participation	3,402,690	Principal balance	Third party appraisal
Finance lease residual value	517,558	Market approach	In place value / secondary market value
Equity holding	-	Market approach	Market value

30 June 2017 Description	Fair Value £	Valuation Techniques	Unobservable Inputs
Lease participation	4,598,099	Principal balance	Third party appraisal
Finance lease residual value	1,265,303	Market approach	In place value / secondary market value
Equity holding	-	Market approach	Market value

9. Finance Lease and Hire-Purchase Investments

The Group's investments include a portfolio of leases of plant and machinery leased under finance lease agreements that transfer substantially all the risks and rewards incidental to ownership to the lessee and in hire-purchase agreements that include a purchase option exercisable by the lessee upon fulfilment of specified conditions. Under these agreements, the lessee pays periodic rent for the use of the assets for a fixed or minimum initial term of typically 3 to 10 years. At the end of the fixed or minimum term, the lessee can typically elect to:

- return the asset to the Group;
- in the case of hire-purchase, exercise an option to purchase the assets, typically at a 'bargain' price;
- extend the lease for a further minimum term or from year to year on payment of a pre-agreed rent (which is typically substantially lower than the rent paid during the initial term); or
- arrange a sale of the asset to a third party and (typically) receive all or the majority of the proceeds of sale. Legal title to the leased assets remains with the Group at all times prior to such sale.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following tables summarise the changes in finance lease and hire-purchase investments:

30 June 2018	Finance Lease £	Hire-Purchase £	Total £
Opening balance	**51,287,178**	**52,262,047**	**103,549,225**
Additions during the year	4,935,621	7,981,213	12,916,834
Reclassified Construction Finance investments[1]	5,649,673	2,758,911	8,408,584
Reclassified Property, Plant and Equipment investment[2]	(7,616,723)	-	(7,616,723)
Realised gain on investment	151,927	(23,131)	128,796
Principal amortisation during the year	(6,101,070)	(9,270,218)	(15,371,288)
Closing balance	**48,306,606**	**53,708,822**	**102,015,428**

30 June 2017	Finance Lease £	Hire-Purchase £	Total £
Opening balance	**23,662,205**	**38,726,823**	**62,389,028**
Additions during the year	1,372,288	10,419,056	11,791,344
Reclassified Construction Finance investments[1]	31,933,393	10,922,417	42,855,810
Reclassified Property, Plant and Equipment investment[2]	(1,985,587)	-	(1,985,587)
Realised gain on investment	9,026	397,325	406,351
Principal amortisation during the year	(3,704,147)	(8,203,574)	(11,907,721)
Closing balance	**51,287,178**	**52,262,047**	**103,549,225**

Assets leased to third parties under finance leases had an unguaranteed residual value at the end of the year of £517,558 (30 June 2017: £1,265,303).

During the year ended 30 June 2018, residual investments were sold for £178,376 (30 June 2017: £27,627). One residual value investment with an unrealised gain of £566,777 was reclassified to Property, Plant and Equipment as part of the restructuring of a finance lease, refer to notes 7 and 8 for further information.

[1] This item relates to advances that previously appeared in the Construction Finance investment category in note 8.1 and have been reclassified as Finance Lease or Hire-Purchase Investments. The item has been reclassified as construction was completed during the year.

[2] This item relates to an investment that has been reclassified to the Property, Plant and Equipment investments category. Please refer to notes 7 and 17 for additional information.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following table summarises the changes in finance lease investments:

	30 June 2018 £	30 June 2017 £
Non-current receivables		
Finance leases – net receivables	44,730,947	46,609,514
Unearned future finance income[1]	25,003,982	23,630,478
	69,734,929	**70,239,992**
Current receivables		
Finance leases – net receivables	3,575,659	4,677,664
Unearned future finance income[1]	4,649,462	4,867,152
	8,225,121	**9,544,816**
Gross investment in finance leases	**77,960,050**	**79,784,808**
Net receivables from finance leases		
No later than 1 year	3,575,659	4,677,660
Later than 1 year and no later than 5 years	17,953,407	21,125,424
Later than 5 years	26,777,540	25,484,094
	48,306,606	**51,287,178**
Unearned future income on finance leases[1]	29,653,444	28,497,630
Gross investment in finance leases	**77,960,050**	**79,784,808**
Reconciliation		
No later than 1 year	8,225,120	9,544,812
Later than 1 year and no later than 5 years	32,116,646	35,632,669
Later than 5 years	37,618,284	34,607,327
Gross investment in finance leases	**77,960,050**	**79,784,808**

[1] Unearned future income on finance leases is not recognised in the Consolidated Statement of Financial Position as it is a future asset.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following table summarises the changes in hire purchase investments:

	30 June 2018 £	30 June 2017 £
Non-current receivables		
Hire purchase – net receivables	48,375,473	48,502,878
Unearned future income[1]	20,356,040	24,680,726
	68,731,513	**73,183,604**
Current receivables		
Hire purchase – net receivables	5,333,349	3,759,169
Unearned future income[1]	4,957,271	4,839,825
	10,290,620	**8,598,994**
Gross investment in hire purchase	**79,022,133**	**81,782,598**
Net receivables from hire purchase		
No later than 1 year	5,333,348	3,761,514
Later than 1 year and no later than 5 years	25,388,828	20,607,502
Later than 5 years	22,986,646	27,893,031
	53,708,822	**52,262,047**
Unearned future income on hire purchase[1]	25,313,311	29,520,551
Gross investment in hire purchase	**79,022,133**	**81,782,598**
Reconciliation		
No later than 1 year	10,290,619	8,601,338
Later than 1 year and no later than 5 years	39,186,137	35,830,388
Later than 5 years	29,545,377	37,350,872
Gross investment in hire purchase	**79,022,133**	**81,782,598**

10. Receivables

Interest Receivables

Interest receivables represent accrued interest receivable on leases and loans.

The Group has financial risk management policies in place to ensure that all receivables are received within the credit time frame. The Directors consider that the carrying amount of all receivables approximates to their fair value.

[1] Unearned future income on hire purchase is not recognised in the Consolidated Statement of Financial Position as it is a future asset.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Other Receivables and Prepayments

	30 June 2018 £	30 June 2017 £
Funds transferred for new investment[1]	5,385,692	-
Debtor-in-possession financing (refer to note 12)	3,547,077	1,595,601
UK VAT	1,288,393	1,349,982
Prepaid transaction fees	669,002	676,240
Restructuring costs	374,670	-
Investment management fees[2]	390,000	-
Other receivables	470,198	187,269
	12,125,032	**3,809,092**

Investment Receivables

Investment receivables represent amounts due from the lessee or loan counterpart with regards to ongoing contractual obligations that remain outstanding at the reporting date.

11. Other Payables and Accrued Expenses

	30 June 2018 £	30 June 2017 £
Investment management fees	383,035	416,426
Administration and secretarial fees	76,396	73,466
Audit fees	42,900	42,900
Printing fees	19,945	14,944
Brokerage fees	7,375	7,375
Rental reserve	452,998	498,168
Other payables	93,270	120,747
Director fees	47,500	-
Dividend payable[3]	2,530,694	-
	3,654,113	**1,174,026**

The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

The Directors consider that the carrying amount of all payables approximates to their fair value.

[1] On 29 June 2018 the Group transferred funds to SQN Asset Finance (Ireland) DAC to finance a new loan that commenced post year end on 2 July 2018.

[2] As detailed in note 1 and in regard to the 2016 C Share capital return, £425,455 of management fees were receivable from the Investment Managers, payable in 12 equal instalments from May 2018 to April 2019.

[3] The dividend for May 2018 went ex-dividend on 28 June 2018 and is included in the financial statements as a payable. There is no comparative as the dividend for May 2017 went ex-dividend on 6 July 2017.

12. Commitments and Contingent Liabilities

As at 30 June 2018, the Group had committed to invest a further £64,673,807 (30 June 2017: £18,427,179). These commitments are classified as 'hard commitments' of £38,968,807 (30 June 2017: £9,052,605) which represent investments for which the documentation is finalised and 'soft commitments' of £25,705,000 (30 June 2017: £9,374,574) which represent investments at varying stages of documentation.

The Group has committed up to US$4.75 million as part of a debtor-in-possession financing for a US solar manufacturing company, in order to protect the Group's interest in the equipment that secures its loan. As at 30 June 2018, US$4.68 million (equivalent to £3.55 million) was drawn as part of a senior priority loan facility (30 June 2017: US$2.07 million).

The Group did not have any contingent liabilities as at 30 June 2018 and 30 June 2017.

13. Share Capital

The authorised share capital of the Company is represented by an unlimited number of shares of no par value which may be designated as Ordinary Shares, C Shares or otherwise as the Directors may from time to time determine. All shares hold equal rights with no restrictions and no shares carry special rights with regard to the control of the Company. There are no special rights attached to the shares in the event that the Company is wound up.

The 2016 C Share net proceeds and the investments made with the net proceeds will be accounted for and managed as a separate pool of assets in accordance with the Company's investment policy until the conversion of 2016 C Shares to Ordinary Shares. The terms and timing of the conversion of 2016 C Shares to Ordinary Shares will be announced at a later date. The un-invested proceeds were held in cash and on fixed deposit as at 30 June 2018. Expenses are split between Ordinary Shares and 2016 C Shares.

Ordinary Share Buybacks

On 20 November 2017 the Directors were granted authority to repurchase 53,620,355 Ordinary Shares (being equal to 14.99% of the number of Ordinary Shares in issue) for cancellation or to be held as treasury shares. This authority will expire at the forthcoming AGM. The Directors intend to seek annual renewal of this authority from shareholders. Pursuant to this authority, and subject to Companies Law and the discretion of the Directors, the Company may purchase Ordinary Shares in the market if they believe it to be in shareholders' interests; in particular, as a means of correcting any imbalance between the supply and demand for Ordinary Shares.

During the year, 1,122,366 Ordinary Shares were repurchased and are being held in treasury as at 30 June 2018. Repurchases subsequent to the year end are detailed in note 19.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Company's share capital is denominated in Sterling.

	30 June 2018		30 June 2017	
	Number of Shares in Issue	Stated Capital £	Number of Shares in Issue	Stated Capital £
Ordinary Shares[1]	356,585,141	352,685,247	357,707,507	353,716,434
2016 C Shares[2]	138,924,222	136,504,072	180,000,000	176,889,776
Total	**495,509,363**	**489,189,319**	**537,707,507**	**530,606,210**

Issued Share Movements

	30 June 2018		30 June 2017	
	Number	Stated Capital £	Number	Stated Capital £
Balance at the start of the year	**537,707,507**	**530,606,210**	**358,985,507**	**353,716,434**
Ordinary Shares repurchased[1]	(1,122,366)	(1,031,187)	-	-
Redemption of 2016 C Shares[2]	(41,075,778)	(40,385,704)	-	-
Conversion of 2015 C Shares to Ordinary Shares	-	-	(1,278,000)	-
2016 C Shares issued	-	-	180,000,000	176,889,776
Balance at the end of the year	**495,509,363**	**489,189,319**	**537,707,507**	**530,606,210**

[1] The number of shares in issue does not include 1,122,366 treasury shares.

[2] On 1 May 2018, the Company announced that the speed of deployment on the investment of the 2016 C Share proceeds had been slower than anticipated and a capital return would be made to shareholders. On 25 May 2018, the Group made a compulsory redemption of 41,075,778 2016 C Shares on pro rata basis amongst all the holders of 2016 C Shares on the 2016 C Share register.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Dividends

The Company targets a dividend of 7.25 pence per Ordinary Share. The dividend target is a target only and there can be no guarantee that this will continue to be achieved or that any dividends will be paid. Dividend payments to shareholders will be subject to the Company being able to satisfy the solvency test immediately after payment of such dividend.

The table below details the dividends declared and paid by the Company to its shareholders each month from May 2017 to April 2018. The dividend for May 2018 went ex-dividend on 28 June 2018 and was paid to shareholders post year end on 16 July 2018.

Period	Announcement Date	Payment Date	Amount per Share	Amount £
Ordinary Shares				
1 to 31 May 2017	21 June 2017	19 July 2017	0.6042p	2,161,269
1 to 30 June 2017	21 July 2017	18 August 2017	0.6042p	2,161,269
1 to 31 July 2017	21 August 2017	19 September 2017	0.6042p	2,161,269
1 to 31 August 2017	21 September 2017	19 October 2017	0.6042p	2,161,269
1 to 30 September 2017	20 October 2017	17 November 2017	0.6042p	2,161,269
1 to 31 October 2017	21 November 2017	19 December 2017	0.6042p	2,161,269
1 to 30 November 2017	21 December 2017	23 January 2018	0.6042p	2,161,269
1 to 31 December 2017	22 January 2018	19 February 2018	0.6042p	2,161,269
1 to 31 January 2018	21 February 2018	19 March 2018	0.6042p	2,161,269
1 to 28 February 2018	21 March 2018	18 April 2018	0.6042p	2,161,269
1 to 31 March 2018	20 April 2018	21 May 2018	0.6042p	2,161,269
1 to 30 April 2018	23 May 2018	18 June 2018	0.6042p	2,154,487
1 to 31 May 2018	21 June 2018	16 July 2018	0.6042p	2,154,487
Total				**28,082,933**
2016 C Shares				
1 April 2017 to 30 June 2017	21 July 2017	18 August 2017	0.3000p	540,000
1 to 31 July 2017	21 August 2017	19 September 2017	0.1042p	187,560
1 to 31 August 2017	21 September 2017	19 October 2017	0.1500p	270,000
1 to 30 September 2017	20 October 2017	17 November 2017	0.1500p	270,000
1 to 31 October 2017	21 November 2017	19 December 2017	0.1667p	300,060
1 to 30 November 2017	21 December 2017	23 January 2018	0.1667p	300,060
1 to 31 December 2017	22 January 2018	19 February 2018	0.1667p	300,060
1 to 31 January 2018	21 February 2018	19 March 2018	0.1667p	300,060
1 to 28 February 2018	21 March 2018	18 April 2018	0.2083p	374,940
1 to 31 March 2018	20 April 2018	21 May 2018	0.2083p	374,940
1 to 30 April 2018	23 May 2018	18 June 2018	0.2500p	347,308
1 to 31 May 2018	21 June 2018	16 July 2018	0.2708p	376,207
Total				**3,941,195**
Grand Total				**32,024,128**

The Dividend for June 2018 had an ex-dividend date after the year end and is detailed in note 19.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Company declared and paid the following dividends to its shareholders during the prior year:

Period	Announcement Date	Payment Date	Amount per Share	Amount £
Ordinary Shares				
1 to 31 May 2016	21 June 2016	25 July 2016	0.6042p	1,081,430
1 to 30 June 2016	21 July 2016	22 August 2016	0.6042p	1,081,430
1 to 31 July 2016	18 August 2016	19 September 2016	0.6042p	1,081,430
1 to 31 August 2016	21 September 2016	24 October 2016	0.6042p	1,081,430
1 to 30 September 2016	21 October 2016	21 November 2016	0.6042p	2,161,269
1 to 31 October 2016	15 November 2016	19 December 2016	0.6042p	2,161,269
1 to 30 November 2016	19 December 2016	23 January 2017	0.6042p	2,161,269
1 to 31 December 2016	23 January 2017	20 February 2017	0.6042p	2,161,269
1 to 31 January 2017	17 February 2017	17 March 2017	0.6042p	2,161,269
1 to 28 February 2017	21 March 2017	20 April 2017	0.6042p	2,161,269
1 to 31 March 2017	25 April 2017	23 May 2017	0.6042p	2,161,269
1 to 30 April 2017	23 May 2017	21 June 2017	0.6042p	2,161,269
Total				**21,615,872**
2016 C Shares				
Inception to 31 March 2017	25 April 2017	23 May 2017	0.2000p	360,000
Total				**360,000**
2015 C Shares				
1 to 31 May 2016	21 June 2016	25 July 2016	0.2000p	360,000
1 to 30 June 2016	21 July 2016	22 August 2016	0.3300p	594,000
1 to 31 July 2016	18 August 2016	19 September 2016	0.4167p	750,060
1 to 31 August 2016	21 September 2016	24 October 2016	0.4861p	874,980
Total				**2,579,040**
Grand Total				**24,554,912**

15. Capital Management Policies and Procedures

The Board defines capital as financial resources available to the Group.

The Group's total capital at 30 June 2018 was £484,088,140 (30 June 2017: £532,903,565) and comprised equity share capital and reserves. The Group was ungeared at the year end.

The Group's capital management objectives are:

- to ensure that the Group will be able to continue as a going concern; and
- provide returns to shareholders.

In accordance with the Group's investment policy, the Group's principal use of cash has been to fund investments sourced by the Investment Managers, as well as initial expenses related to the issue, ongoing operational expenses, currency hedging and payment of dividends and other distributions to shareholders in accordance with the Group's dividend policy.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Board, with the assistance of the Investment Managers, monitors and reviews the broad structure of the Group's capital on an ongoing basis.

The Group has no externally imposed capital requirements.

16. Segmental Reporting

There are two reportable segments as at 30 June 2018: Ordinary Shares and 2016 C Shares. Each Share Class has its own portfolio, is listed separately on the Main Market of the London Stock Exchange and the Directors review internal management reports for each segment separately on a quarterly basis.

The Directors view the operations of the two reportable segments as one operating segment, being investment business and both segments have the same investment objectives. All significant operating decisions are based upon analysis of the Group's investments as one segment. The financial results from this segment are equivalent to the financial results of the Group as a whole.

The tables below provide a breakdown of the condensed Consolidated Statement of Comprehensive Income between the reportable segments:

For the year ended 30 June 2018	Ordinary Shares £	2016 C Shares £	Total £
Total income	28,833,198	5,351,230	34,184,428
Net realised and unrealised loss	(158,328)	(323,240)	(481,568)
Total operating expenses	(7,491,611)	(1,585,655)	(9,077,266)
Total comprehensive income for the year	**21,183,259**	**3,442,335**	**24,625,594**

For the year ended 30 June 2017	Ordinary Shares £	2016 C Shares £	Total £
Total income	31,427,097	1,136,364	32,563,461
Net realised and unrealised loss	(391,652)	(59,657)	(451,309)
Total operating expenses	(5,272,649)	(1,100,720)	(6,373,369)
Total comprehensive income for the year	**25,762,796**	**(24,013)**	**25,738,783**

The tables below provide a breakdown of the condensed Consolidated Statement of Financial Position between the reportable segments:

30 June 2018	Ordinary Share £	2016 C Share £	Total £
Non-current assets	328,478,714	69,990,283	398,468,997
Current assets	29,084,959	66,527,332	95,612,291
Total assets	**357,563,673**	**136,517,615**	**494,081,288**
Current liabilities	(9,096,729)	(896,419)	(9,993,148)
Net assets	**348,466,944**	**135,621,196**	**484,088,140**
Equity	**348,466,944**	**135,621,196**	**484,088,140**

30 June 2017	Ordinary Share £	2016 C Share £	Total £
Non-current assets	336,488,805	37,437,237	373,926,042
Current assets	23,658,367	139,444,791	163,103,158
Total assets	**360,147,172**	**176,882,028**	**537,029,200**
Current liabilities	(3,749,369)	(376,266)	(4,125,635)
Net assets	**356,397,803**	**176,505,762**	**532,903,565**
Equity	**356,397,803**	**176,505,762**	**532,903,565**

17. Financial Risk Management

The Group's financial assets mainly comprise investments and cash balances. Note 2 sets out the accounting policies, including criteria for recognition and the basis for measurement, applied to significant financial assets and liabilities. Note 2 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised.

The Group finances its investment activities through the Group's Ordinary Share and 2016 C Share capital and reserves.

Principal risks and uncertainties are detailed in the Strategic Report, the Directors and the Investment Managers work together to mitigate these risks by employing the following risk mitigation strategies:

(i) Credit Management – sound credit management is a prerequisite for an entity's stability and profitability. Prudent management of credit risk can minimise both operational and credit risks. The Board and the Investment Managers pre-emptively begin to manage risk through the comprehensive underwriting process to ensure that there is not more than an acceptable amount of risk within the transaction. The risk is continually managed throughout the term of the lease (or other finance agreement) until the ultimate disposition of the asset(s). Stringent underwriting procedures are applied to mitigate risk.

(ii) Loss Prevention Management – when available, insurance is required for assets that the Group owns or which have been charged or pledged to the Group as security. Insurance is in place for the full term that an asset is owned by (or charged to) the Group, thereby reducing the risk of loss from physical damage or theft.

(iii) Due Diligence – the Investment Managers perform comprehensive due diligence on all counter parties, individuals and businesses relevant to the investment strategy of the Group.

(iv) On-going Portfolio Management – ensures that if a problem starts to arise, it is identified giving the capability to address it and put into action whatever remediation steps are necessary to help mitigate a potentially larger risk down the line.

(v) Legal Review – the Investment Managers engage legal professionals in order to ensure, on an on-going basis, that all rights, title and interests, held as security for the Company's investments are being protected and preserved.

(vi) Records Management – this is a critical way by which risk is managed and mitigated. The Investment Managers' internal systems are utilised to ensure the Group is not exposed from a record maintenance standpoint. The Investment Managers have a comprehensive electronic documentation system that is subject to their internal/external backup procedure, maintaining information access and retrieval 24/7 with offsite redundant backup in case of a disaster when recovery would need to be deployed.

The Investment Managers, in close cooperation with the Directors and the Administrator, coordinate the Group's risk management.

Additional risks arising from the Group's activities listed in order of severity and likelihood and the policies for managing each of these risks are summarised below and have been applied throughout the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17.1. Credit Risk

This is the risk of the failure of a lessee to make lease payments, the failure of the issuer of a security or borrower to pay interest or principal in a timely manner, or that the effect of negative perceptions of the issuer's ability to make such payments causing the value of the investment to decline. Counterparties with debt securities rated below investment-grade (or unrated) are especially susceptible to this risk. The Group looks to source investments that can provide various credit and structural enhancements to attempt to mitigate credit exposure to any single counterparty or asset class.

There is a risk that the bank used by the Group to hold cash balances could fail and that the Group's assets may not be returned. Associated with this is the additional risk of fraud or theft by employees of those third parties. The Board manages this risk through the Investment Managers monitoring the financial position of the bank used by the Group.

BNP Paribas Securities Services S.C.A., Guernsey Branch, as Custodian (which is the bank used by the Group), is a branch of BNP Paribas whose credit rating is A with Standard & Poor's.

(a) Investment past due and impaired

Ref	Industry	Carrying Amount (£ 000)	Comment
(a)1	Solar	23,827 (including debtor-in-possession financing)	An investee business to which the Group has provided a secured loan entered chapter 11 bankruptcy in the USA as a result of being unable to compete with an overcapacity of foreign imports. The investee business sought relief under the Trade Act of 1974, Import Relief for Domestic Industries and on 8 February 2018, the US government implemented protective tariffs intended to restore the viability of the investee's industry and of the investee in particular. As at 30 June 2018, the Group continues to hold this investment and the Directors believe that the full recovery of the investment will be achieved. This is expected to be through the lease or sale of the investee's equipment and, to the extent required, by pursuing the guarantee. The Company has examined the minimum expected recovery under the lease or sale of the investee's equipment and, considering the potential time required to realise the guarantee, the Group has reflected an impairment of £2.1m to the Suniva investment and a doubtful debt provision of £0.3 to the debtor-in-possession financing (refer to note 12 for further information) to account for the risk adjusted time value of money on such proportion of the investment should a full recovery not be achieved through a sale or re-lease. There is no income accruing on the investment.

(b) Investments past due not impaired

During the year, 3 investments totalling £27,537,181 (2017: 5 investments totalling £61,302,686) were past due but not impaired. The Directors, after taking advice from and consulting with the Investment Managers, do not consider these investments to be impaired due to the security held and consider the full carrying amount to be recoverable.

The table below details the investments that are past due but not impaired:

Ref	Industry	Carrying Amount (£ 000)	Comment
(b)1	Medical	9,812	An investee business to which the Group has provided a secured loan entered chapter 11 bankruptcy in the USA. As at 30 June 2018, the Directors do not consider this investment to be impaired. The investment was restructured subsequent to the year end.
(b)2	Transportation	13,635	This finance investment (a secured loan) is past due. As at 30 June 2018, the Directors do not consider this investment to be impaired following the restructuring of the finance agreement.
(b)3	IT & Telecom	4,090	This finance investment (a secured loan) is past due. As at 30 June 2018, the Directors do not consider this investment to be impaired.
		27,537	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(c) Restructurings

During the year, 5 investments totalling £41,052,100 (2017: 8 investments totalling £59,671,296) were restructured resulting in repayment terms being amended. The Directors, after taking advice from and consulting with the Investment Managers, do not consider these investments to be impaired subsequent to the restructuring of the finance agreement.

The below details the investments that have been restructured:

Ref	Industry	Carrying Amount (£ 000)	Comment
(c) 1	Transportation	3,403	This finance investment (a lease participation) was restructured, resulting in payment terms being amended. As at 30 June 2018, the Directors do not consider this investment to be impaired following the restructuring of the finance agreement.
(c) 2	Energy	1,312	This finance investment (a finance lease) was restructured, resulting in payment terms being amended. As at 30 June 2018, the Directors do not consider this investment to be impaired following the restructuring of the finance agreement.
(c) 3	Plastics	342	This finance investment (a finance lease) was acquired by an arms' length purchaser who agreed to assume the obligation to meet the original payment obligations. The lease was formally transferred to the purchaser who has continued to make all payments as they fall due. As at 30 June 2018, the Directors do not consider this investment to be impaired following the restructuring of the finance agreement.
(c) 4	Hospitality	8,034	This finance investment (an operating lease) was restructured from a finance lease resulting in payment terms being amended. As at 30 June 2018, the Directors do not consider this investment to be impaired following the restructuring of the finance agreement.
(c) 5	Agriculture	27,961	This finance investment (a finance lease) was restructured, resulting in payment terms being amended. As at 30 June 2018, the Directors do not consider this investment to be impaired following the restructuring of the finance agreement.
		41,052	

17.2. Liquidity Risk

This is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities or funding commitments.

The Group's investments (excluding cash deposits) are asset-backed loan or finance transactions with commercial entities. The investments are substantially less liquid than traded securities and will have a highly limited (if any) secondary market. Some transactions may incorporate provisions that restrict transfer or disposal of the investment.

The Group may be required to satisfy margin calls in respect of foreign exchange forward if the current market rate varies from the contract rate.

In accordance with the Group's policy, the Investment Managers manage the Group's liquidity risk, and the Directors monitor it.

17.3. Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Group's activities with financial instruments either internally within the Group or externally at the Group's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour.

The Group's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective. The Group manages this risk by having regular Board meetings to ensure oversight of the Investment Managers and the Administrator.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17.4. Market Risk

The fair value of future cash flows of a financial instrument held by the Group may fluctuate. This market risk comprises currency risk and interest rate risk. The Board reviews and agrees policies for managing these risks.

Currency Risk

The functional and presentation currency of the Group is Sterling and, therefore, the Group's principal exposure to foreign currency risk comprises investments denominated in other currencies, principally US Dollars and Euros. The Investment Managers monitor the Group's exposure to foreign currencies and reports to the Board on a regular basis. The Investment Managers measure the risk to the Group of the foreign currency exposure by considering the effect on the NAV and income of a movement in the rates of exchange to which the Group's assets, liabilities, income and expenses are exposed. The Investment Managers are mandated to undertake a hedging strategy and to report its effectiveness and costs to the Board on an on-going basis.

The table below details the carrying amounts of the Company's assets and liabilities that have foreign currency risk exposure:

30 June 2018	GBP £	USD £	EUR £	Total £
Investments	225,642,759	106,888,448	65,937,790	398,468,997
Cash and cash equivalents	68,359,572	6,771,204	1,664,748	76,795,524
Interest receivables	1,441,101	754,787	2,293,093	4,488,981
Investment receivables, other receivables and prepayments	3,228,100	4,116,129	6,983,557	14,327,786
Other payables and accrued expenses	(3,778,140)	(30,285)	-	(3,808,425)
Derivative financial liabilities	(6,184,723)	-	-	(6,184,723)
Total net foreign currency exposure	**288,708,669**	**118,500,283**	**76,879,188**	**484,088,140**
Percentage of total	**59.64%**	**24.48%**	**15.88%**	**100.00%**

30 June 2017	GBP £	USD £	EUR £	Total £
Investments	196,762,961	107,016,095	70,146,986	373,926,042
Cash and cash equivalents	149,657,485	3,659,716	1,251,415	154,568,616
Interest receivables	1,894,286	798,306	1,156,407	3,848,999
Investment receivables, other receivables and prepayments	2,140,205	1,689,046	856,292	4,685,543
Other payables and accrued expenses	(1,248,972)	-	-	(1,248,972)
Derivative financial liabilities	(2,876,663)	-		(2,876,663)
Total net foreign currency exposure	**346,329,302**	**113,163,163**	**73,411,100**	**532,903,565**
Percentage of total	**64.98%**	**21.24%**	**13.78%**	**100.00%**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Currency sensitivity analysis

Should the value of Sterling against the Euro and the US Dollar increase or decrease by 5% with all other variables held constant and excluding the impact of currency hedging described below, the impact on the net assets of the Company would be as follows:

	30 June 2018		30 June 2017	
Currency	£ Increase of 5%	£ Decrease of 5%	£ Increase of 5%	£ Decrease of 5%
USD	(5,925,014)	5,925,014	(5,658,158)	5,658,158
EUR	(3,843,959)	3,843,959	(3,670,555)	3,670,555

The foreign currency risk assumed by the Group in making and retaining investments denominated in foreign currencies is hedged by placing contracts for the sale of the future foreign currency payments anticipated to be received in connection with such investments ("FX Receivables"). Due to the limited availability, inflexibility and cost of placing a matched forward contract for each foreign currency investment (which may have a tenor of five years or longer), the FX Receivables in respect of two or more underlying investments are aggregated and a single forward contract placed with short-term maturity (typically between three and nine months). On maturity, the forward sale contract is part-settled from actual foreign currency receipts and a new forward contract is placed for the then applicable aggregate FX Receivables, adjusted for payments received, contract variations and new investments.

The Group may be required to deposit initial cash collateral against fluctuations in the applicable exchange rates and/or to meet margin calls if the current market rate varies from the contract rate. The Investment Managers monitor the Group's currency risk, and the Directors review it.

As at 30 June 2018, the Group had the following open forward foreign exchange contracts:

	Notional			
Buy/Sell Currency	Foreign Currency	GBP	Fair Value / GBP Equivalent	Settlement Date Month/Year
GBP/USD	105,521,498	74,806,700	(5,086,049)	July 2018
GBP/EUR	57,470,940	50,429,935	(407,636)	July 2018
GBP/USD	14,600,724	10,749,659	(290,718)	August 2018
GBP/USD	6,186,957	4,661,661	(6,536)	September 2018
GBP/EUR	13,160,000	11,650,079	(15,765)	September 2018
GBP/USD	27,689,331	20,677,843	(198,000)	October 2018
GBP/EUR	15,192,238	13,296,758	(180,019)	October 2018
			(6,184,723)	

As at 30 June 2017, the Group had the following open forward foreign exchange contracts:

	Notional			
Buy/Sell Currency	Foreign Currency	GBP	Fair Value / GBP Equivalent	Settlement Date Month/Year
GBP/USD	132,094,320	102,424,539	759,035	July 2017
GBP/USD	21,473,953	16,491,152	(749)	September 2017
GBP/EUR	61,870,687	50,921,828	(3,538,366)	October 2017
GBP/USD	6,113,025	4,826,707	132,856	October 2017
GBP/EUR	41,652,312	36,476,322	(229,439)	December 2017
			(2,876,663)	

Interest Rate Risk

The value of fixed income securities usually rises and falls in response to changes in interest rates. Declining interest rates generally increase the value of existing instruments, and rising interest rates generally decrease the value of existing instruments. Changes in value usually will not affect the amount of interest income or final principal repayments, but will affect the interim carrying value of the investment prior to maturity. Interest rate risk is generally greater for investments with longer maturities.

Certain income generating securities pay interest at variable or floating rates. Variable rate securities reset at specified intervals, while floating rate securities reset whenever there is a change in a specified index rate. The market prices of these securities may fluctuate significantly when interest rates change.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions. The Board reviews on a regular basis the values of the financial instruments.

18. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or the parties are under common control.

The Investment Managers

The Group is party to an Investment Management Agreement with the Investment Managers under which the Investment Managers are entitled to the payment of management fees based on the Group's NAV. During the year, the management fees due to the Investment Managers amounted to £4,532,845 (30 June 2017: £4,355,085). At 30 June 2018, £383,035 (30 June 2017: £416,426) of the management fees was payable to the Investment Managers and £390,000 (30 June 2017: £Nil) was receivable from the Investment Managers, refer to notes 1 and 11 for further information.

Under the Investment Management Agreement, the Investment Managers are also entitled to structuring fees, which are based on the value of new investments (these are not paid by the Group). During the year, structuring fees of £415,444 (30 June 2017: £777,886) were received by the Investment Managers.

The Investment Managers also receive commitment fees, that are paid by investees direct (these are not paid by the Group). During the year, commitment fees of £402,810 (30 June 2017: £700,123) were received by the Investment Managers.

The Investment Managers as Servicer, Manager, Administrative/Collateral Agent, Security Trustee

In relation to certain investment transactions made during the period, typically those involving parallel investors or lenders, the US Manager or the UK Manager are appointed to act as servicer, manager or administrative agent for general management and servicing purposes, which may include collection and distribution of service payments from underlying obligors, and/or as collateral agent or security trustee to hold and enforce security. In such cases, the Investment Managers receive no remuneration for the performance of such duties other than the management fee provided for in the Investment Management Agreement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Luxembourg Investment Company 26 S.à r.l. (*LuxCo*)

LuxCo is a special purpose company wholly owned by the US Investment Manager for the purpose of holding investments. LuxCo holds for the benefit of the Company a loan and mortgage on two commercial marine vessels under a comprehensive loan and security agreement including a corporate guarantee.

SQN Helo, LLC

SQN Helo is a special purpose company owned by SQN Portfolio Acquisition Company, LLC and SQN AIF IV, L.P., both being investment funds managed by the US Investment Manager. SQN Helo was established to purchase and hold legal ownership of a portfolio of leases and related assets. The carrying value of the investment is £3,402,690 (30 June 2017: £4,598,099) and further details can be found in note 8.2.

SQN Asset Finance (Ireland) DAC

The Group holds the following bonds issued by SQN Asset Finance (Ireland) DAC ("SQN Ireland"), an unconsolidated structured entity in the Republic of Ireland:

	30 June 2018	30 June 2017
EUR denominated bonds	€57,135,000	€49,740,000
USD denominated bonds	$23,452,200	$23,452,200
GBP denominated bonds	£24,014,484	£15,277,984

The UK Investment Manager acts as investment advisor to SQN Ireland.

Share Interest

The table below details the Ordinary Shares and 2016 C Shares held by Directors of the UK Investment Manager in the Company:

	30 June 2018		30 June 2017	
Director	Number of Ordinary Shares	Number of 2016 C Shares	Number of Ordinary Shares	Number of 2016 C Shares
Neil Roberts	149,645	45,734	149,645	59,256
Tim Spring	162,816	61,802	157,690	75,032

The table below details the Ordinary Shares and 2016 C Shares held by the Directors in the Company:

	30 June 2018		30 June 2017	
Director	Number of Ordinary Shares	Number of 2016 C Shares	Number of Ordinary Shares	Number of 2016 C Shares
Peter Niven	79,858	3,860	59,858	5,000
John Falla	19,637	3,829	19,637	4,961
Christopher Spencer	19,929	3,845	19,929	4,982
Paul Meader[1]	47,000	-	-	-
Carol Goodwin[2]	-	-	44,893	5,000

[1] The shares are held in the name of Sarah Kingwell, the spouse of Paul Meader.

[2] Carol Goodwin was not a Director of the Company as at 30 June 2018

19. Events After the Reporting Period

On 23 July 2018, the Company declared a dividend of 0.6042p per Ordinary Share and 0.3333p per 2016 C Share, for the month ended 30 June 2018. The dividends were paid to shareholders on 16 August 2018.

On 21 August 2018, the Company declared a dividend of 0.6042p per Ordinary Share and 0.4167p per 2016 C Share, for the month ended 31 July 2018. The dividends were paid to shareholders on 17 September 2018.

On 21 September 2018, the Company declared a dividend of 0.6042p per Ordinary Share and 0.6042p per 2016 C Share, for the month ended 31 August 2018. The dividends will be paid to the shareholders on 17 October 2018.

The Company repurchased 321,316 Ordinary Shares subsequent to the year end at a total cost of £295,530, which are being held as treasury shares. The current number of shares in issue is 356,263,825 Ordinary Shares, excluding the 1,443,682 Ordinary Shares held in treasury.

20. Ultimate Controlling Party

In the opinion of the Directors, there is no single ultimate controlling party.

COMPANY INFORMATION

Non-Executive Directors

Peter Niven (Chairman of the Board)
John Falla (Chairman of Management Engagement Committee)
Carol Goodwin (to 31 December 2017)
Christopher Spencer (Chairman of Audit and Risk Committee)
Paul Meader (from 18 August 2017) (Chairman of Remuneration and Nomination Committee)

Registered Office

BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA

US Investment Manager

SQN Capital Management, LLC, 100 Wall Street, 28th Floor, New York, New York, 10005, USA

UK Investment Manager

SQN Capital Management (UK) Limited, Melita House, 124 Bridge Road, Chertsey, Surrey, KT16 8LA

Financial Adviser and Broker

Winterflood Securities Limited, The Atrium Building, Cannon Bridge House, 25 Dowgate, Hill, London, EC4R 2GA

Auditor

Baker Tilly CI Audit Limited, Mont Crevelt House, Bulwer Avenue, St Sampsons, Guernsey, GY2 4LH

Registrar

Link Market Services (Guernsey) Limited (formerly Capita Registrars (Guernsey) Limited), Mont Crevelt House, Bulwer Avenue, St Sampsons, Guernsey, GY2 4LH

Principal Bankers

BNP Paribas Securities Services S.C.A., BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA

Designated Administrator, Custodian and Secretary

BNP Paribas Securities Services S.C.A., Guernsey Branch, BNP Paribas House, St Julian's Avenue, St. Peter Port, Guernsey, GY1 1WA

Receiving Agent

Link Market Services Limited (formerly Capita Asset Services Corporate Actions), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Legal Advisers to the Group (English Law)

Stephenson Harwood LLP, 1 Finsbury Circus, London EC2M 7SH

Legal Advisers to the Group (Guernsey Law)

Mourant Ozannes, PO Box 186, 1 Le Marchant Street, St Peter Port, , Guernsey, GY1 4HP

Website www.sqnassetfinance.com

SINE QUA NON

Latin: without which it could not be