# SQN ASSET FINANCE INCOME FUND LIMITED

## Interim Report and Unaudited Condensed Consolidated Financial Statements for the six months ended 31 December 2018

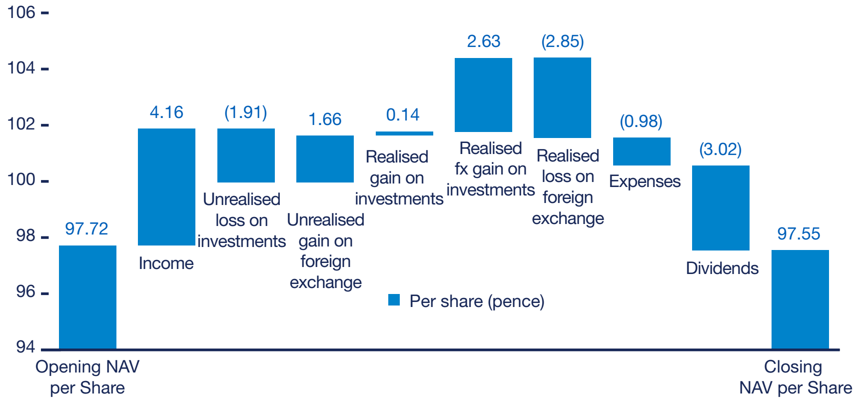
# GROUP HIGHLIGHTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

The investment objective of SQN Asset Finance Income Fund Limited (the "Company" and together with its subsidiaries, the "Group") 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.

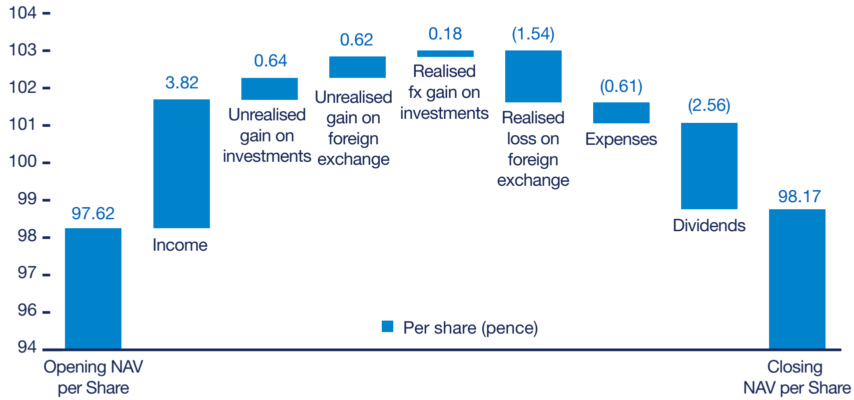
| | | |
|---|---|---|
| **2.84p** per Ordinary Share<br>**3.12p** per 2016 C Share | **0.52%** Ordinary Share<br>**7.25%** 2016 C Share | **£471 million** |
| Earnings per share for the period ended 31 December 2018 | Share price discount to NAV as at 31 December 2018 | Combined market capitalisation of Ordinary Shares and 2016 C Shares as at 31 December 2018 |
| **9.41%** | **7.49%** Ordinary Share<br>**7.53%** 2016 C Share | **84** |
| Weighted average yield of invested portfolio as at 31 December 2018 | Dividend yield for the period based on the share price as at 31 December 2018 | Weighted average remaining term of invested portfolio (in months) |

The key drivers of the change in net asset value ("NAV") between 1 July 2018 and 31 December 2018 are highlighted in the graphs below:

## Ordinary Share




## 2016 C Share



# SQN Asset Finance Income Fund Limited

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**for the six months ended 31 December 2018**

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# FINANCIAL HIGHLIGHTS AND PERFORMANCE SUMMARY

## FINANCIAL HIGHLIGHTS

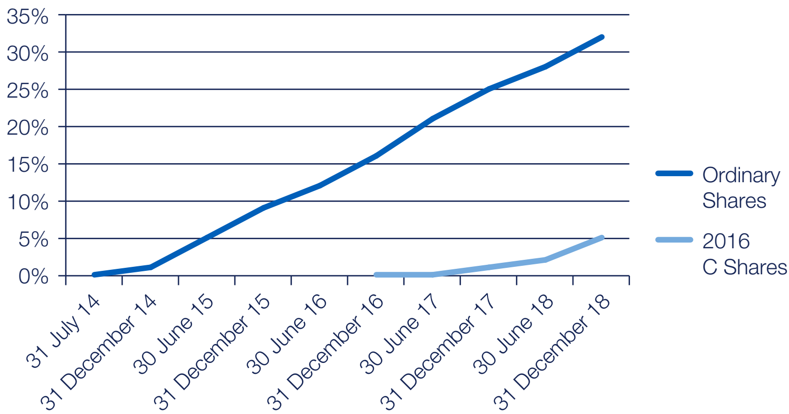
### NAV Total Return

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 is detailed in the table below:

| Period | Ordinary shares | 2016 C shares |
|---|---|---|
| Year to 31 December 2018 | 5.6% | 4.5% |
| 3 year annualised[1] | 6.7% | - |
| Since inception | 31.7% | 5.3% |

[1]NAV total return annualised over a 3 year period from 1 January 2016 to 31 December 2018.

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




### Dividend History

The Company targets an annual dividend of 7.25 pence per Ordinary Share. Please refer to note 15 for details on dividends paid during the period.

# FINANCIAL HIGHLIGHTS AND PERFORMANCE SUMMARY (CONTINUED)

## PERFORMANCE SUMMARY

| Sterling in millions, except per share data and number of shares in issue | 31 December 2018 | 30 June 2018 | 31 December 2017 |
|---|---|---|---|
| **Number of shares in issue** | | | |
| - Ordinary Shares | 356,263,825 | 356,585,141 | 357,707,507 |
| - 2016 C Shares | 138,924,222 | 138,924,222 | 180,000,000 |
| **NAV** | | | |
| - Ordinary Shares | £346.69 | £348.47 | £354.97 |
| - 2016 C Shares | £136.35 | £135.62 | £176.11 |
| **NAV per share** | | | |
| - Ordinary Shares | 97.31p | 97.72p | 99.24p |
| - 2016 C Shares | 98.14p | 97.62p | 97.84p |
| **Share price[1]** | | | |
| - Ordinary Shares | 96.80p | 90.80p | 90.25p |
| - 2016 C Shares | 91.02p | 93.79p | 93.50p |
| **Market capitalisation[1]** | | | |
| - Ordinary Shares | £344.86 | £323.78 | £322.83 |
| - 2016 C Shares | £126.45 | £130.30 | £168.30 |
| **Earnings per share** | | | |
| - Ordinary Shares | 2.84p | 5.92p | 3.23p |
| - 2016 C Shares | 3.12p | 1.96p | 0.65p |
| **Dividend paid per share** | | | |
| - Ordinary Shares | 3.02p | 7.85p | 3.63p |
| - 2016 C Shares | 2.56p | 2.31p | 0.87p |
| **Comprehensive income before dividends** | £14.44 | £24.63 | £12.72 |
| **Investments** | £430.54 | £398.81 | £373.39 |
| **Cash and cash equivalents** | £40.84 | £76.80 | £149.12 |
| **Weighted average yield[2]** | 9.41% | 9.50% (in excess of) | 9.50% (in excess of) |
| **Weighted average remaining term[2]** | 84.19 months | 77.34 months | 77.35 months |

[1] Source: Bloomberg

[2] Of the invested portfolio

# COMPANY OVERVIEW

| | |
|---|---|
| **Company** | **SQN Asset Finance Income Fund Limited**<br>Incorporated in Guernsey on 28 May 2014.<br>Registered Guernsey Closed-ended Collective Investment Scheme.<br>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 and 12 December 2016 for the C Shares (the "2016 C Shares").<br>Registration number 58519. |
| **Investment Managers** | **SQN Capital Management, LLC (the "US Investment Manager")**<br><br>Incorporated in the United States of America on 7 December 2007.<br>A Registered Investment Adviser with the United States Securities and Exchange Commission.<br>File number 4466472.<br><br>**SQN Capital Management (UK) Limited (the "UK Investment Manager")**<br><br>Incorporated in England & Wales on 12 May 2014.<br>A wholly owned subsidiary of the US Investment Manager.<br>Registration number 09033846.<br><br>**(together the "Investment Managers")** |

Details of other service providers are provided on pages 71-72.

# CHAIRMAN'S STATEMENT

I am once again pleased to report at the half year to 31 December 2018 that the Group continues to produce consistent, non-correlated positive performance and regular income on the underlying portfolio of business-essential assets and is positioned well for this to continue.

Some highlights of the last six months of 2018 are that £67.4 million of new investments were acquired, the 2016 C Shares achieved their target of paying a fully covered monthly dividend of 7.25p annually, and the Group realised a 9.95% compounded return on the marine vessel transaction that had previously been reported as being behind schedule on payments.

Dividend cover on the Ordinary Shares remains our primary focus and we anticipate this being restored in the coming months as our investment schedule continues, which includes in excess of £15 million from the marine vessel repayment. The Board is also in the process of negotiating a working capital facility which will further improve income and therefore dividend cover.

At year-end, the Ordinary Shares were trading close to par while the 2016 C Shares, paying the fully covered dividend with no material delinquencies, traded at a discount. Since then, however, there has been some convergence between the two as we approach the June 2019 conversion date.

Significant progress has been made on the Suniva issue, although some challenges still remain due to the counterparties involved. A settlement agreement has largely been reached which, if concluded, would minimise the moving parts and lay out a multi-faceted plan for recovery. In addition, legal action is also underway to enforce and collect on the parental guarantee. The Investment Managers' Report contains additional details on this matter.

Total Comprehensive Income was up 13.5% against the same period in the prior year despite a slight drop in the weighted average yield on the portfolio which is still commendable at 9.41%.

NAV per 2016 C Share grew with the net income exceeding distributions and expenses while the NAV per Ordinary Share experienced a decline following the necessary IFRS 9 impairment adjustments and shortfalls in dividend cover in certain periods. This situation should however be viewed in the context of the longer-term investment strategy where investments, once made, have a weighted average term of seven years over which period the excess income will make up for prior shortfalls. This can be seen when looking at the weighted average yield on the almost £80 million transactions that have been concluded to date which is 11.7%; well in excess of the 9.41% running rate on which the dividend cover is calculated.

At the end of 2018, the Group's investments were spread over 20 industries and 17 asset classes. The average investment size was just short of £8 million and, currently, the average investment size in the Ordinary Shares is almost £8.5 million and £6.6 million in the 2016 C Shares.

Overall, the Group has increased its exposure to the Waste Processing and Environmental industries as attractive investments have been made around recycling as landfill taxes are increasing and other government incentives are drawing attention to this area. Together, the two industries account for approximately 20% of the Group's investments at year end.

As has been the case in previous years, Anaerobic Digestion ("AD") plants, which are classified as assets in the agricultural industry, remain the single largest asset class constituting approximately 27% of the portfolio. These long-lived assets are typically subject to leases of 10 to 15 years at rates between 9.5% and 10.5%.

Two of the Group's AD positions have already been refinanced delivering premiums over the booked yields. Further refinancings are expected to occur over the next 18 months which will reduce the Group's exposure to this asset class generating excess returns that will contribute to NAV growth. Further uplift can be potentially achieved through the Group's equity holdings in some of these plants that are currently held at no value in the financial statements. Due to the nature of these assets there may, at times, be interruptions in cash flows but this does not undermine the long-term value or income generating potential these investments have for the Group.

The portfolio consists primarily of finance leases and secured asset financings with more than 95% of expected revenue from fixed term contracts where generally early repayment provides for a yield uplift similar to the AD plants.

The portfolio is geographically diverse. The majority, 67.7%, of assets are in the United Kingdom. The US has the second largest concentration of assets, but that exposure has been reduced from 17.2% of the portfolio to 16.5%. This is due to natural run-off and the increased hedging cost associated with making new US Dollar-based investments which distort the risk profile.

As at 31 December 2018, the Group also held direct investments in France (6.6%), Ireland (3.2%), the Netherlands (1.9%), and Iceland (1.3%) and investments through US or UK counterparties in Brazil (1.0%), Mexico (0.9%), and the UAE (0.9%). The capital value of all non-UK investments continues to be hedged back into Sterling.

## CONCLUSION

The Group's investment strategy in equipment leasing and asset finance has been proven over decades and through multiple cycles. The individually constructed security packages provide downside protection for investments which are spread over many different asset classes, industries, and geographies. The Group's focus on the middle market, where there is limited competition, has allowed it to build a portfolio with an attractive weighted average yield relative to its risk profile based on the tangible underlying collateral. Workouts are an expected part of the process but results such as with Snoozebox and the marine vessels have proven the effectiveness of the strategy.

Looking forward; with the forthcoming conversion of the 2016 C Shares and a path to recovery laid out for Suniva, this should ensure that investors can rely on consistent performance and regular income, together with the bonus of the occasional realisation of embedded value.

# INVESTMENT MANAGERS' REPORT

During the six months to 31 December 2018, the share prices for both the Ordinary and 2016 C Shares have stabilised as the 2016 C Share began paying a fully covered dividend, progress continued on the Suniva recovery and a number of previously identified investments requiring attention came to positive resolutions. The loans and leases in the portfolio continue to perform consistently with the investment strategy.

Dividend cover in the Ordinary Shares remains tight, in part because of the non-performance of Suniva and the overlap of several of the previously identified work-outs. Also contributing to the tightness was the off-schedule return of more than £15 million that resulted from the sale of four vessels subject to a delinquent loan. That transaction brought a satisfactory resolution to the issue and netted the portfolio a 9.95% IRR but left significant cash on-hand at the end of 2018. Four courses of action are intended to improve the dividend cover; i) reinvestments are being made at attractive rates; ii) nominal cash proceeds are expected from Suniva; iii) cash reserves related to hedging contracts have been materially reduced releasing additional funds for investment; and iv) returns on early terminated and matured investments consistently outperform the book income on which the dividend cover is calculated. In addition to this, negotiations are in process for a working capital facility to ensure an optimal amount of cash is consistently deployed.

While Suniva continues to be a drag on the Ordinary Share portfolio, it is worth noting that the portfolio has generated income significantly in excess of the Suniva position. To date, more than £78 million of transactions have either matured or repaid with a weighted average yield of 11.7%. As referenced above, the running rate on which dividend cover is calculated is in the 9.5% range. Actual results have proven that measuring dividend cover month to month (or even year to year) does not necessarily capture the true economic performance especially given the additional distortion created by hedging positions that shift income and losses into different periods.

## Investments repaid since 30 June 2018

### Wind Turbines

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

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.

# INVESTMENT MANAGERS' REPORT (CONTINUED)

Both of these investments were settled in July 2018. The return on investment across the seven wind turbines ranged from 12.0% to 14.6%.

**Marine Support Equipment (Reel Drive System) – (used in subsea flexible pipe and cable laying)**

The Group entered into a transaction to refinance a 400-ton reel drive system along with a spares container and a control van. The Group provided £1.0 million against the equipment and paid off the outstanding debt. 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. This investment was settled in August 2018, yielding a return of 11.1%.

## Ten Largest Investments as at 31 December 2018

At 31 December 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 |
|---|---|---|---|---|---|---|---|---|
| 1 | AD Plant at Hartlepool[2] | GBP | 34,220,518 | 7.08% | 9.80% | Agricultural | UK | Ordinary |
| 2 | Marine Vessels | USD | 33,073,369 | 6.85% | 10.28% | Transportation | US | Ordinary and C |
| 3 | Diversified Portfolios | USD | 31,838,037 | 6.59% | 9.55% | Diversified | US | Ordinary |
| 4 | AD Plant at Imperial Park[2] | GBP | 27,928,287 | 5.78% | 9.65% | Agricultural | UK | Ordinary |
| 5 | Solar Manufacturing Equipment (Suniva) | USD | 24,698,747[3] | 5.11% | N/A | Solar | US | Ordinary |
| 6 | Glass Manufacturing Plant | EUR | 22,774,991 | 4.71% | 9.14% | Glassware | France | Ordinary |
| 7 | AD Plant at Donegal[2] | GBP | 21,081,148 | 4.36% | 10.00% | Agricultural | UK | Ordinary |
| 8 | AD Plant at Peterhead[2] | GBP | 20,330,152 | 4.21% | 10.00% | Agricultural | UK | Ordinary |
| 9 | Waste Processing Equipment | GBP | 19,397,050 | 4.02% | 9.45% | Environment | UK | C |
| 10 | Combined Heat and Power Units | GBP | 17,372,386 | 3.60% | 9.41% | Agricultural | UK | Ordinary |
| | **Total** | | **252,714,685** | **52.31%** | | | | |

[1] In local currency

[2] Anaerobic Digestion Plants

[3] Includes £3.7 million of debtor in possession financing and is net of a £2.5 million impairment

# INVESTMENT MANAGERS’ REPORT (CONTINUED)

### AD Plants

The Group’s largest exposure to a single asset class continues to be in AD Plants which includes the first, fourth, seventh and eighth largest investments. The Group has invested approximately £115.0 million which, with rolled up accrued interest, represents 27.3% 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 monetised 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 £27.5 million in a 5 MW waste to energy project in Hartlepool in the North East of England. This plant is capable of treating up to 110,000 tonnes of commercially-sourced food waste per year. The Group also holds equity in the underlying operating company which is currently held at nil value but which has the potential to provide a further additional return on the investment.

### 2. Marine Vessels

This investment in marine vessels combined with a structured helicopter financing makes up the largest exposure to any one group of companies, amounting to an initial investment of £38.2 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, 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 six container feeder marine vessels through two 48-month transactions totalling £18.6 million.

In December 2018, the Group also entered into a single master loan agreement, consolidating the three existing loans and resulting in a reduced loan to value on the investment. This agreement currently covers one Supramax bulk carrier, one chemical tanker and four container feeder vessels. The Investment Managers have reset the target LTV to be reached within the next six months; this could be via an appreciation in the value of the asset pool over time or via an asset swap.

**3. 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+ by Egan-Jones.

**4. AD Plant at Imperial Park**

The Group's initial investment was £27.3 million in a 5 MW waste to energy project in Imperial Park, Middlesbrough, UK. The fully operational plant has recently been granted the first commercial licence to process treated urban waste and is being transitioned to this new feedstock. The economics that will result from this change should be very positive over the investment term. The Group also holds equity, carried at nil value, in the underlying operating company which has the potential to further enhance the investment return.

**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 $0.75 million was approved and drawn down under the secured loan facility. This was to cover the legal cost associated with protecting the Group's assets.

Under normal circumstances, a work-out would involve either repossessing the equipment or finding a new operator to lease the equipment in-place. The Suniva situation is highly unusual in that it involves an entire domestic industry that was destroyed in an extremely short period of time by questionable trade practices. The Group then had to take the extraordinary action to petition the United States Government for specific relief which was ultimately granted. The high-profile nature of the undertaking along with the amount of money at stake drew numerous well-financed adversaries into the fray who otherwise would not be a party to a simple recovery in a traditional loan or lease.

Despite having reached a settlement agreement with numerous parties led by the co-debtor in possession ("DIP") lender, whose investment strategy is litigation-based, the Group is yet to finalise the documentation that will allow it to move forward. The current impediment stems from a dispute over who is responsible for certain property taxes related to the equipment which amount to approximately $1.6 million.

Assuming the property tax matter can be resolved, the settlement agreement includes the following:

- A sale of the DIP loan to an investor group comprised of three hedge funds.
- A lease for a two-year term at a nominal rental amount while distribution of the already-collected tariffs are pursued.
- A commitment from the investor group to infuse $15 million to $20 million to secure the distribution of the tariffs to Suniva.
- A second lease for which rental payments are determined by the amount of the distribution of tariffs received by Suniva.
- An agreement for SQN to bring in a third-party operator to restart the factory to generate recovery proceeds.

Separate and in addition to the above, the Group is actively pursuing the guarantee from the parent company with a trial date in late April 2019 or early May 2019 following the conclusion of depositions.

Inevitably, there will be additional legal fees incurred on both fronts before material recovery proceeds are expected. However, the combination of the multiple avenues enabled by the settlement agreement along with the guarantee should generate sufficient proceeds to recover the Group's current principal balance outstanding over time. On 30 June 2018, the Group applied an impairment of £2.4 million, and has since also made an additional impairment of £0.1 million and provided for legal costs incurred.

**6. Glass Manufacturing Plant**

The Group's initial investment was £27.2 million through a sale and lease back of seven furnaces, 10 production lines and ancillary equipment for one of the largest plate and glassware 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.

**7. AD Plant in Donegal**

The Group's initial investment was £18.5 million in a 4 MW AD Plant located in Donegal in the Republic of Ireland. The assets include gas clean up, compression, and $CO_2$ capture equipment, together with 14 hexagon gas road tanker trailers and two Volvo tractor units to transport gas to five sites in Belfast utilising combined heat and power units and site transformers for grid connection. The plant commissioning was delayed by the collapse of the lead Engineering Procurement Construction contractor, but the calling of bonds and the cooperation of the joint contractor means the plant will be operating at full performance in the near term, at which point the owner intends to refinance the lease. The Group holds warrants in the underlying operating company, currently held at nil value, which have the potential to further enhance the investment return.

**8. AD Plant at Peterhead**

The Group's initial investment was £16.3 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 related to the financial difficulties experienced by the Engineering Procurement Construction contractor as with number 7 above. The plant is now operating though not yet at the warrantied level but the guarantees will enable satisfactory performance levels to be achieved. The Group also holds warrants in the underlying operating company, carried at nil value, which may provide some upside return once the plant is fully commissioned and operational.

**9. Waste Processing Equipment**
The Group entered into a £19.4 million secured loan for a 10-year term to support the acquisition of an organic waste management and waste processing business based in Belfast. The company acquired was the largest organic waste company in Northern Ireland, processing 176k tonnes of organic waste per year. The company's services include the collection, recycling and treatment of a variety of waste streams including source-segregated food, brown bin and green waste collected from households, civic amenity sites, councils and commercial customers across Northern Ireland.

Following the acquisition, the Group made an additional investment in four new composting tunnels and a biomass boiler to expand the business operations and establish a fully integrated organic waste group.

**10. 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 UK's largest tomato farm. 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.

## Other Assets in the Portfolio

**Remotely Operated Vehicles ("ROVs")**
ROVs are a widely used type of underwater robotics that have applications across multiple industries in high-value operations ranging from scientific research to the laying of undersea cables and pipelines. ROVs are crucial in building, inspecting, and maintaining major bridges all over the world.

In the second half of 2018, the Group made a 7-year secured term loan of approximately £16.5 million to refinance a temporary funding arrangement which enabled the acquisition of 11 ROVs plus spare parts.

Principal balance outstanding as at 31 December 2018: £16,665,000   Share class: C

The Group made a smaller investment of £1.3 million in ROVs with the same operator in April 2015.

Principal balance outstanding as at 31 December 2018: £289,253   Share class: Ordinary

The Group made an unrelated 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. These repositioned assets continue to perform satisfactorily.

Principal balance outstanding as at 31 December 2018: £3,752,128   Share class: Ordinary

**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 industrial reel wrappers, speciality and colour paper manufacturing machines, bespoke paper production equipment and 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.

The Scottish company has been put up for sale following financial difficulties for its French parent. A suitable offer has been accepted and the Group expects to be repaid under the terms of the original investment.

Principal balance outstanding as at 31 December 2018: £14,012,958   Share class: Ordinary

# INVESTMENT MANAGERS' REPORT (CONTINUED)

**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 were 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.

In July 2018, the investment was restructured as a $5 million equipment lease and a 15% equity holding in the hospital which is held at fair value. All payments under the restructured note have been made on time.

Principal balance outstanding as at 31 December 2018: £10,285,606 Share class: Ordinary

**Wholesale Lending Arrangements**

Wholesale lending arrangements are an efficient 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 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 31 December 2018: £8,590,004 Share class: Ordinary

The Group made two investments through a firm that specialises in providing financing to small and medium-sized enterprises 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 Group's borrower. 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 31 December 2018: £8,516,900 Share class: C
Principal balance outstanding as at 31 December 2018: £4,040,000 Share class: Ordinary

**AD Plants in Nottinghamshire and 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 31 December 2018: £7,957,882 Share class: Ordinary

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, if exercised, would enhance the Group's return on investment.

Principal balance outstanding as at 31 December 2018: £7,532,428 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 in March 2018, whilst the other commenced in December 2018. 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 31 December 2018: £2,014,971 Share class: Ordinary
Principal balance outstanding as at 31 December 2018: £1,980,857 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 £3.4 million. All four plants are currently operating. Three of the plants are already commissioned, whilst the fourth is on course to begin commissioning.

Principal balance outstanding as at 31 December 2018: £8,988,125     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 towards 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. Failing to meet the projected schedule, the company entered administration in November 2017.

In April 2018, the Investment Manager successfully completed the restructuring of this investment 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 Group also holds warrants equal to 10% of the fully diluted equity, currently held at nil value.

Principal balance outstanding as at 31 December 2018: £7,543,496     Share class: Ordinary

**Helicopters**

The Group has provided 70% deposit financing for the acquisition of seven newly built helicopters for an affiliate of the company identified above (Number 2. Marine Vessels) as the largest exposure to a single group of companies. The investment is structured as a 24-month revolving 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 31 December 2018: £6,345,679     Share class: C

In July 2018, the Group provided a short-term loan facility for the acquisition of a newly built helicopter, the demand for which is two times the current order book. The state-of-the-art helicopter can be operated by either civil or government contractors for different applications including passenger transport and tourism, border control and firefighting. The advance rate on the facility is approximately 70%. The financing is now converting, as planned, to a long-term lease now that a suitable sub-lessee has been contracted.

Principal balance outstanding as at 31 December 2018: £5,738,037 Share class: Ordinary

The Group has also 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 31 December 2018: £3,148,808 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 first half of 2018, the company entered into an agreement to sell a majority interest to a private investor. The private investor failed to close on the acquisition despite actively participating in the decisions made by the company during the prolonged closing process. As a result of this, the company became the target of multiple hostile takeover bids. As a protective measure, the operating subsidiary of the company was put into Administration to manage the sale process. The company has over €20 million of annual revenue securing the Group's debt which is expected to be assumed in its entirety by whichever group prevails in the bidding process.

Principal balance outstanding as at 31 December 2018: £6,302,660 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 31 December 2018: £6,111,433 Share class: C

### 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 31 December 2018: £6,060,332 Share class: Ordinary

### Infrastructure and Construction Equipment

The Group made a total investment of £4.7 million for the construction and operation of a composting plant for a consortium of 27 mushroom growers across Northern Ireland and the Republic of Ireland. The 10 year fully-amortising investment was made through a leveraged facility with senior debt provided by a lower cost traditional bank. The plant will be fully commissioned in April 2019 and will be able to process 65k tonnes of mushroom compost annually.

Principal balance outstanding as at 31 December 2018: £5,069,761 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 31 December 2018: £3,022,813 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 31 December 2018: £786,419 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 31 December 2018: £4,981,837 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 in April 2019.

Principal balance outstanding as at 31 December 2018: £4,758,799 Share class: C

**Infrastructure**

The Group provided a 5-year secured term loan to a construction and property development company based in Newry, Northern Ireland. The investment is secured by the receivables from seven Private Public Partnership contracts for the construction and maintenance of schools and a medical centre which includes all the heating systems and equipment.

Principal balance outstanding as at 31 December 2018: £4,950,610 Share class: C

In June 2018, the Group made an investment in the senior portion of a diversified portfolio of US dollar manufacturing and industrial leases which includes leases in the United States and Mexico. The investment has 30% subordinated equity below it and the investment term is 58 months.

Principal balance outstanding as at 31 December 2018: £3,998,576     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. Following the death of the company's president and primary equity holder, there has been a delay in the sale of the portfolio of assets beyond the maturity date of the loan. The Investment Manager has prioritised this asset for resolution before 31 December 2019. Based on the strength of the assets and the insurance arrangement, there is no reason for impairment.

Principal balance outstanding as at 31 December 2018: £4,239,837     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 oil and gas 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 Vehicles and a vessel-mounted deep water drilling rig. The investment term is 60 months.

Subsequent to the Group's investment, the company was purchased by a much larger competitor which enhanced the credit profile of the exposure.

Principal balance outstanding as at 31 December 2018: £3,713,477     Share class: C

### Material Handling Equipment

In conjunction with large equity investments made by two Fortune 100 Companies, the Group financed material handling equipment located at Walmart Distribution Centres throughout the United States. The counterparty in the 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 31 December 2018: £2,953,122 Share class: C

### Marine Vessel

In May 2016, the Group entered into a sale and lease back for a brand new, state-of-the-art crew transport vessel equal to 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 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 rolling 6 month term which has been continuously renewed. 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 31 December 2018: £1,728,599 Share class: Ordinary

### Wind Turbines

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 31 December 2018: £1,391,861 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 31 December 2018: £1,288,936 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 31 December 2018: £799,212    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 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 31 December 2018: £897,362    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 31 December 2018: £762,658    Share class: C

**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 31 December 2018, the Group had an outstanding VAT receivable of £357,182 accruing interest at 12%.

# INVESTMENT MANAGERS' REPORT (CONTINUED)

**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 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.

Principal balance outstanding as at 31 December 2018: £288,585 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. Subsequent to the year-end, the lease matured and paid-out in full netting the Group a 9.4% IRR.

Principal balance outstanding as at 31 December 2018: £214,984 Share class: Ordinary

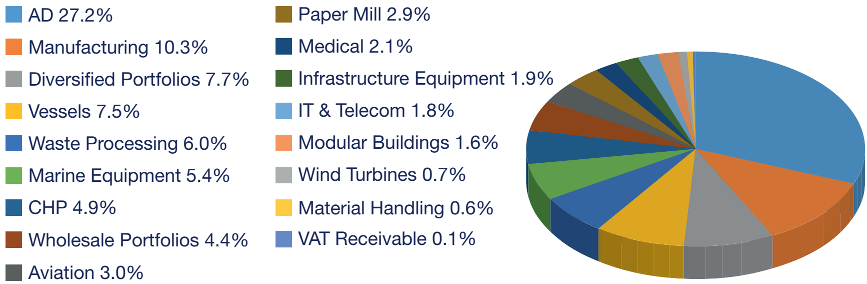
**Plant Hire Equipment**

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.

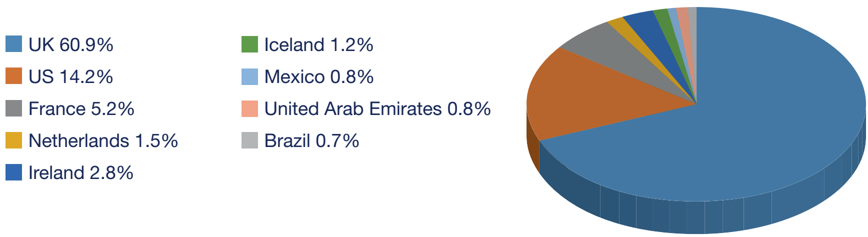
Principal balance outstanding as at 31 December 2018: £212,528 Share class: Ordinary

# INVESTMENT MANAGERS' REPORT (CONTINUED)

## Asset Class Diversification



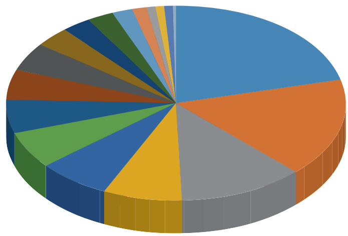

## Geographic Diversification



# INVESTMENT MANAGERS' REPORT (CONTINUED)

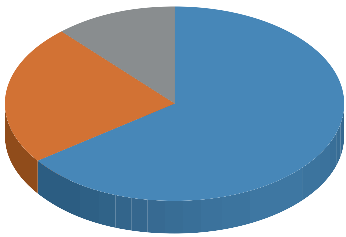
## Industry Diversification

- Agriculture 18.8%
- Waste Processing 14.4%
- Transportation 10.5 %
- Diversified Portfolios 6.7%
- Environment 6.0%
- Marine 5.4%
- Solar 5.0%
- Wholesale Portfolios 4.4%
- Glassware 4.0%
- Paper 2.9%
- Hospitality 2.6%
- Medical 2.1%
- Construction 1.7%
- Automotive 1.2%
- Energy 0.9%
- IT & Telecom 0.7%
- Logistics 0.6%
- Government 0.1%
- Plastics 0.1%



## Investment by Currency

- GBP 65.0%
- USD 23.4%
- EUR 11.6%



All non-Sterling principal balances outstanding are hedged back to Sterling in accordance with the Group's policies.

# INVESTMENT MANAGERS' REPORT (CONTINUED)

## Outlook

The portfolio is solid with an attractive risk profile despite the unique circumstances surrounding Suniva and taking into account the expected volume of reworked transactions. The Investment Manager's focus remains on improving dividend cover and growing NAV. This will be assisted immediately through greater utilisation of equity capital once a working capital facility which is presently in negotiation is put in place.

There are no additional capital raises planned for the near future as the portfolio has achieved a critical mass that enables sufficient liquidity and low operating expenses. Should larger opportunities present themselves, the size of the Group also enables the ability to tap the market in meaningful increments.

The natural run-off of investments combined with strategic trades and early terminations should result in £50 million to £75 million of reinvestment per year which will keep the portfolio fresh and able to respond to changes in interest rates.

For the balance of the year to 30 June 2019, it is expected that a number of the assets requiring attention will be resolved. Of course, others currently performing may require attention but, overall, the proportion of this activity is consistent with the Investment Managers' long-term experience and expectations when it set the return targets.

Maturities and early terminations are expected to continue to outperform book yields. In addition, as certain individual positions become seasoned, equity and warrant values could become significant enhancements to NAV which should provide evidence of the strength of the investment strategy over time.

**SQN Capital Management, LLC**
25 March 2019

**SQN Capital Management (UK) Limited**
25 March 2019

# DIRECTORS' STATEMENT OF RESPONSIBILITIES

The principal risks and uncertainties of the Group remain unchanged from those disclosed in the Annual Report and Audited Consolidated Financial Statements for the year ended 30 June 2018. The Board's view is that these risks and uncertainties remain unchanged as at 31 December 2018.

We confirm to the best of our knowledge that:

- the Unaudited Condensed Consolidated Financial Statements within the Interim Report have been prepared in accordance with International Accounting Standard 34 – "Interim Financial Reporting" ("IAS 34") as adopted by the European Union ("EU"); and

- the Chairman's Statement, the Investment Managers' Report and the notes to the Unaudited Condensed Consolidated Financial Statements include a fair view of the information required by:

a) Rule 4.2.7R of the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority ("DTR"), being an indication of important events that have occurred during the first six months of the financial year and their impact on the set of Unaudited Condensed Consolidated Financial Statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

b) Rule 4.2.8R of the DTR, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the last Annual Report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.

Signed on behalf of the Board of Directors on 25 March 2019 by:

**Peter Niven**
Chairman

**Christopher Spencer**
Director

# INDEPENDENT REVIEW REPORT TO SQN ASSET FINANCE INCOME FUND LIMITED

## Introduction

We have been engaged by SQN Asset Finance Income Fund Limited (referred to as the "Company" and together with its subsidiaries as "the Group") to review the unaudited condensed consolidated financial statements in the interim report of the Group for the six months to 31 December 2018 ("interim financial information"), which comprise the unaudited condensed consolidated statement of comprehensive income, unaudited condensed consolidated statement of financial position, unaudited condensed consolidated statement of changes in equity, unaudited condensed consolidated statement of cash flows and the related explanatory notes to the unaudited condensed consolidated financial statements.

We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the unaudited condensed consolidated financial statements.

## Directors' responsibilities

The interim report is the responsibility of, and has been approved, by the directors. The directors are responsible for preparing the interim report in accordance with the letter of engagement, the London Stock Exchange's Rules for Premium Listed companies and other applicable legislation and regulations.

As disclosed in note 2 of the interim financial information, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The unaudited condensed consolidated financial statements included in the interim report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union ("IAS 34").

## Our responsibility

Our responsibility is to express to the Group a conclusion on the unaudited condensed consolidated financial statements in the interim report based on our review.

# INDEPENDENT REVIEW REPORT TO SQN ASSET FINANCE INCOME FUND LIMITED (CONTINUED)

Our report has been prepared in accordance with the terms of our engagement and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

## Scope of review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the unaudited condensed consolidated financial statements in the interim report for the six months to 31 December 2018 are not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union and other applicable legislation and regulations.

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

**Date: 25 March 2019**

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

| | Notes | Six months ended 31 December 2018 (Unaudited) £ | Six months ended 31 December 2017 (Unaudited) £ |
|---|---|---|---|
| **Income** | | | |
| Finance income | | 19,472,582 | 16,654,603 |
| Interest on cash and cash equivalents | | 42,584 | 157,065 |
| Other income | | 557,630 | 227,899 |
| **Total income** | | **20,072,796** | **17,039,567** |
| Net unrealised loss on revaluation of investments | | (1,123,881) | (199,300) |
| Net unrealised foreign exchange loss on investments | | (4,776,319) | (4,250,794) |
| Net unrealised foreign exchange gain on forward contracts | | 6,779,376 | 1,009,034 |
| Net realised gain on investments | | 501,899 | 536,437 |
| Net realised foreign exchange gain on investments | | 9,630,995 | 801,003 |
| Net realised foreign exchange (loss)/gain on forward contracts | | (12,294,092) | 1,136,648 |
| **Net realised and unrealised loss** | | **(1,282,022)** | **(966,972)** |
| **Expenses** | | | |
| Investment management fees | | (2,347,577) | (2,549,561) |
| Directors' fees and travel expenses | | (140,562) | (110,919) |
| Other operating expenses | 5 | (1,031,274) | (446,849) |
| Depreciation | 8 | (764,203) | (245,958) |
| Impairment\expected credit loss provision | | (67,392) | - |
| **Total expenses** | | **(4,351,008)** | **(3,353,287)** |
| **Total comprehensive income for the period** | | **14,439,766** | **12,719,308** |
| **Total comprehensive income for the period analysed as follows:** | | | |
| Attributable to Ordinary shareholders | | 10,112,235 | 11,543,114 |
| Attributable to 2016 C shareholders | | 4,327,531 | 1,176,194 |
| **Total** | | **14,439,766** | **12,719,308** |
| **Basic and diluted earnings per Ordinary Share** | 6 | 2.84p | 3.23p |
| **Basic and diluted earnings per 2016 C Share** | 6 | 3.12p | 0.65p |

All results are derived from continuing operations.

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

*The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.*

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2018

| | Notes | 31 December 2018 (Unaudited) £ | 30 June 2018 (Audited) £ |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | 13,017,711 | 13,761,155 |
| Residual value of finance lease investments | 9.2 | 322,647 | 517,558 |
| Investments designated at fair value through profit or loss | 9.2 | 3,140,935 | 3,402,690 |
| Finance lease and hire-purchase investments | 10 | 96,664,945 | 102,015,428 |
| Loans and other investments | 9.1 | 311,819,766 | 278,772,166 |
| Equity | 9.2 | 5,577,269 | - |
| | | 430,543,273 | 398,468,997 |
| **Current assets** | | | |
| Cash and cash equivalents | | 40,837,133 | 76,795,524 |
| Interest receivables | | 4,825,899 | 4,488,981 |
| Other receivables and prepayments | 11 | 5,335,952 | 12,125,032 |
| Investment receivables | | 3,278,920 | 2,202,754 |
| | | 54,277,904 | 95,612,291 |
| **Total assets** | | **484,821,177** | **494,081,288** |
| **Current liabilities** | | | |
| Other payables and accrued expenses | 12 | (1,141,749) | (3,654,113) |
| Investment payables | | (81,233) | (154,312) |
| Derivative financial liabilities | 9.2,18 | (564,938) | (6,184,723) |
| | | (1,787,920) | (9,993,148) |
| **Net assets** | | **483,033,257** | **484,088,140** |
| **Equity** | | | |
| Share capital | 14 | 488,893,790 | 489,189,319 |
| Retained earnings | | (5,860,533) | (5,101,179) |
| | | **483,033,257** | **484,088,140** |
| NAV per Share | | | |
| - Ordinary Shares | 7 | 97.31p | 97.72p |
| - 2016 C Shares | 7 | 98.14p | 97.62p |

These Condensed Consolidated Financial Statements were approved and authorised for issue by the Board of Directors on 25 March 2019, and signed on its behalf by:

**Peter Niven**
Director

**Christopher Spencer**
Director

*The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.*

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE SIX MONTHS ENDED 31 DECEMBER 2018 (UNAUDITED)

| | Note | Share Capital £ | Retained Earnings £ | Total £ |
|---|---|---|---|---|
| **As at 1 July 2018** | | **489,189,319** | **(5,101,179)** | **484,088,140** |
| Impact of transition to IFRS 9 | 2.1 | - | (876,318) | (876,318) |
| **As at 1 July 2018 – revised for the application of IFRS 9** | | **489,189,319** | **(5,977,497)** | **483,211,822** |
| Total comprehensive income for the period | | - | 14,439,766 | 14,439,766 |
| **Transactions with shareholders** | | | | |
| Ordinary Shares repurchased | | (295,529) | - | (295,529) |
| Dividends paid | 15 | - | (14,322,802) | (14,322,802) |
| **Total transactions with shareholders** | | **(295,529)** | **(14,322,802)** | **(14,618,331)** |
| **As at 31 December 2018** | | **488,893,790** | **(5,860,533)** | **483,033,257** |

## FOR THE SIX MONTHS ENDED 31 DECEMBER 2017 (UNAUDITED)

| | Note | Share Capital £ | Retained Earnings £ | Total £ |
|---|---|---|---|---|
| **As at 1 July 2017** | | **530,606,210** | **2,297,355** | **532,903,565** |
| Total comprehensive income for the period | | - | 12,719,308 | 12,719,308 |
| **Transactions with shareholders** | | | | |
| Dividends paid | 15 | - | (14,535,233) | (14,535,233) |
| **Total transactions with shareholders** | | **-** | **(14,535,233)** | **(14,535,233)** |
| **As at 31 December 2017** | | **530,606,210** | **481,430** | **531,087,640** |

*The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.*

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

| | Notes | Six months ended 31 December 2018 (Unaudited) £ | Six months ended 31 December 2017 (Unaudited) £ |
|---|---|---|---|
| **Operating activities:** | | | |
| Total comprehensive income for the period | | 14,439,766 | 12,719,308 |
| Adjustments for: | | | |
| Unrealised loss on investments | | 1,123,881 | 199,300 |
| Net unrealised foreign exchange (gain)/loss in the period | | (2,003,057) | 3,241,760 |
| Depreciation | 8 | 764,203 | 245,958 |
| Realised gain on investments | | (501,899) | (536,437) |
| Realised foreign exchange gain on investments | | (9,630,995) | (801,003) |
| Increase in interest receivable | | (336,918) | (757,296) |
| Decrease/(increase) in investment receivables | | 6,789,080 | (763,871) |
| Increase in other receivables and prepayments | | (1,076,166) | (1,014,631) |
| Decrease in investment payables | | (73,079) | (34,709) |
| Decrease in other payables and accrued expenses | 12 | (2,512,364) | (12,220) |
| Acquisition of investments | 8,9,10 | (67,425,017) | (25,319,466) |
| Amortisation of investment principal during the period | 9,10 | 37,775,204 | 22,492,478 |
| Impairment/expected credit loss provision | 8,9,10 | 167,708 | - |
| **Net cash outflow (used in)/provided by operating activities** | | **(22,499,653)** | **9,659,171** |
| **Cash flow from financing activities** | | | |
| Ordinary Shares repurchased | 14 | (295,529) | - |
| Dividends paid | 15 | (14,322,802) | (14,535,233) |
| **Net cash flows used in financing activities** | | **(14,618,331)** | **(14,535,233)** |
| **Net decrease in cash and cash equivalents** | | **(37,117,984)** | **(4,876,062)** |
| Cash and cash equivalents at start of the period | | 76,795,524 | 154,568,616 |
| Effect of exchange rate changes on cash and cash equivalents | | 1,159,593 | (574,887) |
| **Cash and cash equivalents at end of the period** | | **40,837,133** | **149,117,667** |

*The accompanying notes form an integral part of these unaudited condensed consolidated financial statements.*

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED 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 Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange on 14 July 2014.

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 the 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).

1,443,682 Ordinary Shares have been 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. The Subsidiaries' registered office is BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2. Accounting Policies

The preparation of the Unaudited Condensed Consolidated Financial Statements in accordance with IAS 34 requires the application of certain critical accounting estimates and also requires the Directors to exercise judgement in applying its accounting policies. The areas where significant judgements and estimates have been used are included in note 3.

The Group has applied the same accounting policies as in its Annual Report and Audited Consolidated Financial Statements for the year ended 30 June 2018, except the new standards described in note 2.1.

## 2.1 Basis of Preparation

The Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34. They do not include all the disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Annual Report and Audited Consolidated Financial Statements for the year ended 30 June 2018, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

These financial statements have been prepared on a going concern basis. After reviewing the Group's projections and cash flow forecast for the next financial period, the Directors are satisfied that, at the time of approving these financial statements, it is appropriate to adopt the going concern basis.

The Company applies, for the first time, *IFRS 15 – Revenue from Contracts with Customers* ("IFRS 15") and *IFRS 9 – Financial Instruments* ("IFRS 9") that became effective on 1 January 2018. These standards do not result in a restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

*IFRS 15 replaces IAS 11 – Construction Contracts, IAS 18 – Revenue and Related Interpretations*
The Board has undertaken an assessment of the impact of IFRS 15 on the Group's financial statements and concluded there is no material impact on the Group's Consolidated Financial Statements.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

*IFRS 9 replaces IAS 39 - Financial Instruments: Recognition and Measurement*

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.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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;
- 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 (i.e. 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.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

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

The Group has not restated prior periods, however the classification and measurement requirements of IFRS 9 have been adopted retrospectively as of the date of initial application on 1 July 2018. The difference between the carrying amounts in the 30 June 2018 consolidated financial statements and those determined under IFRS 9 at the date of initial application have been included in opening retained earnings in these condensed consolidated financial statements.

The Board and the Investment Managers reviewed each the Group's investment for signs of impairment using the IFRS 9 impairment model as at 30 June 2018 and during the period ended 31 December 2018. Below is a summary of the impairment/expected credit loss provision:

| | |
|---|---|
| Impairment as at 30 June 2018 | £2.4 million |
| Impact of transition to IFRS 9 | £0.9 million |
| Impairment/movement in expected credit loss provision during the period ended 31 December 2018 | £0.2 million |
| Impairment/expected credit loss provision as at 31 December 2018 | £3.5 million |

## 3. Use of Estimates and Judgements

There have been no material revisions to the estimates and judgements reported in the Annual Report and Audited Consolidated Financial Statements for the year ended 30 June 2018.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 4. Changes to Material Agreements

There were no changes to any material agreements during the six month period ended 31 December 2018.

## 5. Other Operating Expenses

| | 31 December 2018 (Unaudited) £ | 31 December 2017 (Unaudited) £ |
|---|---|---|
| Administration and secretarial fees | 228,074 | 238,027 |
| Audit fees[1] | 33,488 | 30,890 |
| Brokerage fees | 27,282 | 23,516 |
| Public relation fees | 25,000 | 20,112 |
| Registrar fees | 32,689 | 38,989 |
| Professional fees | 57,039 | 18,556 |
| Legal fees[2] | 536,478 | - |
| Transaction fees | - | 7,464 |
| Other expenses | 91,224 | 69,295 |
| **Total** | **1,031,274** | **446,849** |

## 6. Basic and Diluted Earnings per Share

| 31 December 2018 | Ordinary Shares | 2016 C Share |
|---|---|---|
| Total comprehensive income for the period | £10,112,235 | £4,327,531 |
| Weighted average number of shares in issue during the period | 356,270,151 | 138,924,222 |
| Basic and diluted earnings per share | 2.84p | 3.12p |

[1] The Group's auditor, Baker Tilly CI Audit Limited ("Baker Tilly"), provided no non-audit services for the six months ended 31 December 2018 or during the six months ended 31 December 2017.

[2] The legal fees related to expensed legal fees in regard to the Suniva investment and are in addition to the DIP financing detailed in note 13.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

| 31 December 2017 | Ordinary Shares | 2016 C Share |
|---|---|---|
| Total comprehensive income for the period | £11,543,114 | £1,176,194 |
| Weighted average number of shares in issue during the period | 357,707,507 | 180,000,000 |
| Basic and diluted earnings per share | 3.23p | 0.65p |

## 7. NAV per Share

| 31 December 2018 | Ordinary Shares | 2016 C Shares |
|---|---|---|
| NAV | £346,687,078 | £136,346,179 |
| Number of shares in issue at period end | 356,263,825 | 138,924,222 |
| NAV per share | 97.31p | 98.14p |

| 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 |

## 8. 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 years (30 June 2018: 11.5 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 12.5 years (30 June 2018: 13 years).

c) a finance lease which was re-leased to an alternative third party under an operating lease. The asset has a remaining useful life of 7.5 years (30 June 2018: 8 years).

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The carrying amount is detailed in the table below:

| Cost | 31 December 2018 (Unaudited) £ | 30 June 2018 (Audited) £ |
|---|---|---|
| **Opening balance** | **15,422,228** | **7,130,681** |
| Additions during the period/year | 27,271 | 674,824 |
| Reclassified investments[1] | - | 7,616,723 |
| **Closing balance** | **15,449,499** | **15,422,228** |
| **Impairment** | | |
| **Opening balance** | **-** | **-** |
| Impairment during the period/year | (6,512) | - |
| **Closing balance** | **(6,512)** | **-** |
| **Accumulated depreciation** | | |
| **Opening balance** | **(1,661,073)** | **(912,080)** |
| Depreciation during the period/year | (764,203) | (748,993) |
| **Closing balance** | **(2,425,276)** | **(1,661,073)** |
| **Net book value** | **13,017,711** | **13,761,155** |

[1] This item relates to an investment that has been reclassified from the Finance Lease investments category (as detailed in note 8(c) above). Please refer to note 10 for additional information.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 9. Financial Instruments

### 9.1 Loans and Other Investments

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

| 31 December 2018 (Unaudited) | Loans £ | Construction Finance £ | Receivables £ | Total £ |
|---|---|---|---|---|
| **Opening balance** | **155,259,686** | **125,483,865** | **466,491** | **281,210,042** |
| Advances and purchases during the period | 41,152,477 | 24,219,469 | - | 65,371,946 |
| Principal amortisation during the period | (23,684,184) | (3,948,243) | (38,979) | (27,671,406) |
| Reclassified investments[1] | 12,726,000 | (14,668,525) | - | (1,942,525) |
| Reclassified investments[2] | (6,244,482) | - | - | (6,244,482) |
| Realised foreign exchange gain on investments | 6,389,342 | 3,189,580 | - | 9,578,922 |
| Realised gain on investments | (181,187) | - | - | (181,187) |
| Unrealised foreign exchange loss on investments | (3,095,397) | (1,954,246) | - | (5,049,643) |
| **Closing balance** | **182,322,255** | **132,321,900** | **427,512** | **315,071,667** |
| | | | | |
| **Impairment/expected credit loss provision** | | | | |
| **Opening balance** | **(2,437,876)** | **-** | **-** | **(2,437,876)** |
| Impact of transition to IFRS 9 | (124,085) | (531,045) | (233) | (655,363) |
| Impairment / movement of expected credit loss provision during the period | (111,915) | (46,766) | 19 | (158,662) |
| **Closing balance** | **(2,673,876)** | **(577,811)** | **(214)** | **(3,251,901)** |
| | | | | |
| **Closing balance** | **179,648,379** | **131,744,089** | **427,298** | **311,819,766** |

[1] This item relates to advances in the Construction Finance investments category that were reclassified as additions in the Loans and Hire-Purchase investment categories in the sum of £12,726,000 and £1,942,525 respectively, as detailed in the table and note 10.

[2] This item relates to an investment that has been reclassified to the Equity investments category following a restructuring. Please refer to notes 9.2 and 17 (d) for additional information.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

| 30 June 2018 (Audited) | 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) |
| Reclassified investments[1] | - | (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** | **155,259,686** | **125,483,865** | **466,491** | **281,210,042** |
| Impairment[2] | **(2,437,876)** | **-** | **-** | **(2,437,876)** |
| **Closing balance** | **(2,437,876)** | **-** | **-** | **(2,437,876)** |
| **Closing balance** | **152,821,810** | **125,483,865** | **466,491** | **278,772,166** |

[1] 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 10.

[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.

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.

### 9.2 Fair Value Investments

Investments held at fair value comprise the Group's share of financial assets and financial liabilities designated at fair value through profit and loss.

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.

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.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

| 31 December 2018 (Unaudited) | Level 1 £ | Level 2 £ | Level 3 £ | Total £ |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Designated at fair value through profit or loss (Lease Participation) | - | - | 3,140,935 | 3,140,935 |
| Residual value of finance lease investments | - | - | 322,647 | 322,647 |
| Equity holding | - | - | 5,577,269 | 5,577,269 |
| **Total financial assets** | **-** | **-** | **9,040,851** | **9,040,851** |
| **Financial liabilities** | | | | |
| Derivative liabilities | - | (564,938) | - | (564,938) |
| **Total financial liabilities** | **-** | **(564,938)** | **-** | **(564,938)** |

| 30 June 2018 (Audited) | 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 | - | - | - | - |
| **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)** |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

| | 31 December 2018 (Unaudited) £ | 30 June 2018 (Audited) £ |
|---|---|---|
| **Opening balance** | **3,920,248** | **5,863,402** |
| Additions during the period/year | 73,992 | 46,429 |
| Principal amortisation during the period/year | (585,898) | (2,034,980) |
| Reclassified investments[1] | 6,244,482 | - |
| Unrealised loss on revaluation | (168,509) | (742,152) |
| Unrealised foreign exchange loss on revaluation | (682,050) | (215,417) |
| Realised gain on investments | 186,513 | 894,126 |
| Realised foreign exchange gain on investments | 52,073 | 108,840 |
| **Closing balance** | **9,040,851** | **3,920,248** |

[1] This item relates to an investment that has been reclassified from the Loans investments category following a restructuring. Please refer to notes 9.1 and 17 (d) for additional information.

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 period ended 31 December 2018 or the year ended 30 June 2018.

The Lease Participation investments represent a single participation investment in a portfolio of leases. The carrying value of £3,140,935 (30 June 2018: £3,402,690) 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.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 Board, as advised by the Investment Managers, make assumptions about the residual value of certain assets and equipment. As determined by the Board, 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 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.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9.3 Valuation Process

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

### 31 December 2018 (Unaudited)

| Description | Fair Value £ | Valuation Techniques | Unobservable Inputs |
|---|---|---|---|
| Lease participation | 3,140,935 | Principal balance | Third party appraisal |
| Finance lease residual value | 322,647 | Market approach | In place value / secondary market value |
| Equity holding | 5,577,269 | Adjusted cost | - |
| Equity holding[1] | - | Market approach | Market value |

### 30 June 2018 (Audited)

| 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[1] | - | Market approach | Market value |

[1] Equity investments held at nil value.

### 10. 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;

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- 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.

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

| 31 December 2018 (Unaudited) | Finance Lease £ | Hire-Purchase £ | Total £ |
|---|---|---|---|
| **Opening balance** | **48,306,606** | **53,708,822** | **102,015,428** |
| Additions during the period | 3,337,797 | 889,271 | 4,227,068 |
| Reclassified Construction Finance investments[1] | - | 1,942,525 | 1,942,525 |
| Realised gain on investment | 496,573 | - | 496,573 |
| Principal amortisation during the period | (9,264,416) | (2,528,744) | (11,793,160) |
| **Closing balance** | **42,876,560** | **54,011,874** | **96,888,434** |
| **Impairments / expected credit loss provision** | | | |
| Opening balance | - | - | - |
| Impact of transition to IFRS 9 | (188,860) | (32,095) | (220,955) |
| Impairment / movement of expected credit loss provision during the period | (4,778) | 2,244 | (2,534) |
| **Closing balance** | **(193,638)** | **(29,851)** | **(223,489)** |
| **Closing balance** | **42,682,922** | **53,982,023** | **96,664,945** |

[1] This item relates to advances that previously appeared in the Construction Finance investment category in note 9.1 and have been reclassified as Hire-Purchase Investments. The item has been reclassified as construction was completed during the period.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

| 30 June 2018 (Audited) | 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** |

Assets leased to third parties under finance leases had an unguaranteed residual value at the end of the period of £322,647 (30 June 2018: £517,558).

During the period, seven residual investments were sold for £212,915. During the year ended 30 June 2018, a residual investment was sold for £178,376.

[1] This item relates to advances that previously appeared in the Construction Finance investment category in note 9.1 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 note 8 for additional information.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 11. Other Receivables and Prepayments

| | 31 December 2018 (Unaudited) £ | 30 June 2018 (Audited) £ |
|---|---|---|
| Funds transferred for new investment | - | 5,385,692 |
| Debtor-in-possession financing (refer to note 13) | 3,676,862 | 3,547,077 |
| UK VAT | 16,940 | 1,288,393 |
| Prepaid transaction fees | 682,126 | 669,002 |
| Restructuring costs | 199,790 | 374,670 |
| Investment management fees[1] | 177,273 | 390,000 |
| Other receivables | 582,961 | 470,198 |
| | **5,335,952** | **12,125,032** |

## 12. Other Payables and Accrued Expenses

| | 31 December 2018 (Unaudited) £ | 30 June 2018 (Audited) £ |
|---|---|---|
| Investment management fees | 395,004 | 383,035 |
| Administration and secretarial fees | 74,499 | 76,396 |
| Audit fees | 31,114 | 42,900 |
| Printing fees | 29,945 | 19,945 |
| Brokerage fees | 11,250 | 7,375 |
| Rental reserve | 157,290 | 452,998 |
| Other payables | 442,647 | 93,270 |
| Director fees | - | 47,500 |
| Dividend payable | - | 2,530,694 |
| | **1,141,749** | **3,654,113** |

[1] 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.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

## 13. Commitments and Contingent Liabilities

As at 31 December 2018, the Group had committed to invest a further £21,351,890 (30 June 2018: £64,673,807). These commitments are classified as 'hard commitments' of £10,851,890 (30 June 2018: £38,968,807) which represent investments for which the documentation is finalised and 'soft commitments' of £10,500,000 (30 June 2018: £25,705,000) 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 31 December 2018, US$4.68 million (30 June 2018: US$4.68 million) was drawn as part of a senior priority loan facility. During the period, an additional $0.75 million was approved and drawn down under the secured loan facility, to cover the legal cost associated with protecting the Group's assets.

The Group did not have any contingent liabilities as at 31 December 2018 and 30 June 2018.

## 14. 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 31 December 2018. Expenses are split pro-rata between Ordinary Shares and 2016 C Shares.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## Ordinary Share Buybacks

On 20 November 2018 the Directors were granted authority to repurchase 53,403,947 Ordinary Shares and 20,824,741 2016 C Shares (being equal to 14.99% of the number of Ordinary Shares and 2016 C 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 and 2016 C 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 and 2016 C Shares.

During the period, 321,316 Ordinary Shares were repurchased and are being held in treasury. Nil 2016 C Shares were repurchased during the period. As at 31 December 2018, 1,443,682 shares are held in treasury.

The Company's share capital is denominated in Sterling.

| | Number of Shares 31 December 2018 (Unaudited) | Stated Capital 31 December 2018 (Unaudited) £ | Number of Shares 30 June 2018 (Audited) | Stated Capital 30 June 2018 (Audited) £ |
|---|---|---|---|---|
| Ordinary Shares[1] | 356,263,825 | 352,389,718 | 356,585,141 | 352,685,247 |
| 2016 C Shares | 138,924,222 | 136,504,072 | 138,924,222 | 136,504,072 |
| **Total** | **495,188,047** | **488,893,790** | **495,509,363** | **489,189,319** |

[1] The number of shares in issue does not include 1,443,682 treasury shares.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Issued Share Movements

| | 31 December 2018 Number | 31 December 2018 Stated Capital £ | 30 June 2018 Number | 30 June 2018 Stated Capital £ |
|---|---|---|---|---|
| **Balance at the start of the period** | **495,509,363** | **489,189,319** | **537,707,507** | **530,606,210** |
| Ordinary Shares repurchased | (321,316) | (295,529) | (1,122,366) | (1,031,187) |
| Redemption of 2016 C Shares | - | - | (41,075,778) | (40,385,704) |
| **Balance at the end of the period** | **495,188,047** | **488,893,790** | **495,509,363** | **489,189,319** |

## 15. 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 June 2018 to October 2018. The dividend for May 2018 went ex-dividend on 28 June 2018 and was paid to shareholders on 16 July 2018.

| Period Ordinary Shares | Announcement Date | Payment Date | Amount per Share | Amount £ |
|---|---|---|---|---|
| 1 to 30 June 2018 | 23 July 2018 | 16 August 2018 | 0.6042p | 2,152,546 |
| 1 to 31 July 2018 | 21 August 2018 | 17 September 2018 | 0.6042p | 2,152,546 |
| 1 to 31 August 2018 | 21 September 2018 | 17 October 2018 | 0.6042p | 2,152,546 |
| 1 to 30 September 2018 | 19 October 2018 | 19 November 2018 | 0.6042p | 2,152,546 |
| 1 to 31 October 2018 | 21 November 2018 | 17 December 2018 | 0.6042p | 2,152,546 |
| **Total** | | | | **10,762,730** |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

| 2016 C Shares | Announcement Date | Payment Date | Amount per Share | Amount £ |
|---|---|---|---|---|
| 1 to 30 June 2018 | 23 July 2018 | 16 August 2018 | 0.3333p | 463,035 |
| 1 to 31 July 2017 | 21 August 2018 | 17 September 2018 | 0.4167p | 578,897 |
| 1 to 31 August 2017 | 21 September 2018 | 17 October 2018 | 0.6042p | 839,380 |
| 1 to 30 September 2018 | 19 October 2018 | 19 November 2018 | 0.6042p | 839,380 |
| 1 to 31 October 2018 | 21 November 2018 | 17 December 2018 | 0.6042p | 839,380 |
| **Total** | | | | **3,560,072** |
| **Grand Total** | | | | **14,322,802** |

The dividends for November 2018 and December 2018 had an ex-dividend date after the period end and are detailed in note 20.

The Company declared and paid the following dividends to its shareholders during the period ended 31 December 2017:

| Period<br>Ordinary Shares | Announcement Date | Payment Date | Amount per Share | Amount £ |
|---|---|---|---|---|
| 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 |
| **Total** | | | | **12,967,614** |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

| 2016 C Shares | Announcement Date | Payment Date | Amount per Share | Amount £ |
|---|---|---|---|---|
| 1 April 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 | 187,559 |
| 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 |
| **Total** | | | | **1,567,619** |
| | | | | |
| **Grand Total** | | | | **14,535,233** |

## 16. Segmental Reporting

There are two reportable segments as at 31 December 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.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

| 31 December 2018 (Unaudited) | Ordinary Shares £ | 2016 C Shares £ | Total £ |
|---|---|---|---|
| Total income | 14,766,763 | 5,306,033 | 20,072,796 |
| Net realised and unrealised loss | (1,157,709) | (124,313) | (1,282,022) |
| Total expenses | (3,496,819) | (854,189) | (4,351,008) |
| **Total comprehensive income for the period** | **10,112,235** | **4,327,531** | **14,439,766** |

| 31 December 2017 (Unaudited) | Ordinary Shares £ | 2016 C Shares £ | Total £ |
|---|---|---|---|
| Total income | 14,538,544 | 2,501,023 | 17,039,567 |
| Net realised and unrealised loss | (645,546) | (321,426) | (966,972) |
| Total expenses | (2,349,884) | (1,003,403) | (3,353,287) |
| **Total comprehensive income for the period** | **11,543,114** | **1,176,194** | **12,719,308** |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

| 31 December 2018 (Unaudited) | Ordinary Share £ | 2016 C Share £ | Total £ |
|---|---|---|---|
| Non-current assets | 317,855,137 | 112,688,136 | 430,543,273 |
| Current assets | 30,183,615 | 24,094,289 | 54,277,904 |
| **Total assets** | **348,038,752** | **136,782,425** | **484,821,177** |
| Current liabilities | (1,351,679) | (436,241) | (1,787,920) |
| **Net assets** | **346,687,073** | **136,346,184** | **483,033,257** |
| **Equity** | **346,687,073** | **136,346,184** | **483,033,257** |

| 30 June 2018 (Audited) | 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** |

## 17. Credit Risk

The Group has applied IFRS 9 from 1 July 2018 and this is the first set of financial statements where IFRS 9 has been applied. Changes in accounting policies resulting from the adoption of IFRS 9 have not been applied retrospectively.

The IFRS 9 impairment requirements are based on an expected credit loss model. 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 (i.e. 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 (i.e. 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 effect of the Group adopting IFRS 9 on the carrying amounts of financial assets as at 1 July 2018 relates solely to the new impairment requirements.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The tables below detail the impairment/expected credit loss provision of financial assets in each stage:

### Ordinary Share

| 31 December 2018 (Unaudited) | Stage 1 £ | Stage 2 £ | Stage 3 £ | Total £ |
|---|---|---|---|---|
| Property, Plant and Equipment | 6,512 | - | - | 6,512 |
| Finance Lease and Hire Purchase | 35,900 | 179,589 | - | 215,489 |
| Loans and Other Investments | 48,170 | 3,145,458 | - | 3,193,628 |
| **Total** | **90,582** | **3,325,047** | **-** | **3,415,629** |

### 2016 C Share

| 31 December 2018 (Unaudited) | Stage 1 £ | Stage 2 £ | Stage 3 £ | Total £ |
|---|---|---|---|---|
| Property, Plant and Equipment | - | - | - | - |
| Finance Lease and Hire Purchase | 5,757 | 2,243 | - | 8,000 |
| Loans and Other Investments | 58,273 | - | - | 58,273 |
| **Total** | **64,030** | **2,243** | **-** | **66,273** |
| **Grand Total** | **154,612** | **3,327,290** | **-** | **3,481,902** |

The tables below detail the impairment/expected credit loss provision of financial assets in each stage if IFRS 9 had been applied for the year ended 30 June 2018:

### Ordinary Share

| 30 June 2018 (Unaudited) | Stage 1 £ | Stage 2 £ | Stage 3 £ | Total £ |
|---|---|---|---|---|
| Property, Plant and Equipment | 6,863 | - | - | 6,863 |
| Finance Lease and Hire Purchase | 38,008 | 174,755 | - | 212,763 |
| Loans and Other Investments | 49,752 | 3,009,212 | - | 3,058,964 |
| | **94,623** | **3,183,967** | **-** | **3,278,590** |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2016 C Share

| 30 June 2018 (Unaudited) | Stage 1 £ | Stage 2 £ | Stage 3 £ | Total £ |
|---|---|---|---|---|
| Property, Plant and Equipment | - | - | - | - |
| Finance Lease and Hire Purchase | 8,192 | - | - | 8,192 |
| Loans and Other Investments | 34,276 | - | - | 34,276 |
| | **42,468** | **-** | **-** | **42,468** |
| **Grand Total** | **137,091** | **3,183,967** | **-** | **3,321,058** |

### (a) Stage 1

The Directors, after taking advice from and consulting with the Investment Managers, consider these financial assets to have a low probably of default.

During the period, two investments were restructured and would have moved from Stage 2 to Stage 1 (based on classifications if IFRS 9 had been applied as at 30 June 2018).

| Ref | Industry | Carrying Amount (£ 000) | Description |
|---|---|---|---|
| (a) 1 | Medical | 3,759 | This finance investment (a secured loan), under IRFS 9 would have been classified as stage 2 as at 30 June 2018, it was restructured during the period and split into two new investments, a secured loan and equity. The secured loan has been classified stage 1 as at 31 December 2018 and is now performing. For further details refer to the description in ref (d) 1. |
| (a) 2 | Transportation | 1,121 | This finance investment (a loan), under IRFS 9 would have been classified as stage 2 as at 30 June 2018, the underlying investments were sold during the period and the loan was substantially repaid. As part of the sale, a new loan was entered into by the Group. The loan has been classified stage 1 as at 31 December 2018 as it is now performing. For further details refer to the description in ref (d) 2. |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## (b) Stage 2

The Directors, after taking advice from and consulting with the Investment Managers, consider these financial assets to have a higher probably of default than stage 1.

| Ref | Industry | Carrying Amount (£ 000) | Description |
|---|---|---|---|
| (b) 1 | Manufacturing | 24,699 | 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.<br>This finance investment (a secured loan) has been classified as stage 2 as at 31 December 2018. The Directors, after taking advice from and consulting with the Investment Managers, have applied an IFRS 9 impairment/expected credit loss provision of £2,527,076 as at 31 December 2018. There is no income accruing on the investment. |
| (b) 2 | IT & Telecom | 4,203 | This finance investment (a variable loan) has been classified as stage 2 as at 31 December 2018. The Directors, after taking advice from and consulting with the Investment Managers, have applied an IFRS 9 impairment/expected credit loss provision of £36,960 as at 31 December 2018. |
| (b) 3 | Anaerobic Digestion | 34,007 | This finance investment (construction finance) has been classified as stage 2 as at 31 December 2018. The Directors, after taking advice from and consulting with the Investment Managers, have applied an IFRS 9 impairment/expected credit loss provision of £213,878 as at 31 December 2018. |
| (b) 4 | Anaerobic Digestion | 20,203 | This finance investment (construction finance) has been classified as stage 2 as at 31 December 2018. The Directors, after taking advice from and consulting with the Investment Managers, have applied an IFRS 9 impairment/expected credit loss provision of £127,063 as at 31 December 2018. |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

| Ref | Industry | Carrying Amount (£ 000) | Description |
|---|---|---|---|
| (b) 5 | Anaerobic Digestion | 1,193 | This finance investment (construction finance) has been classified as stage 2 as at 31 December 2018. The Directors, after taking advice from and consulting with the Investment Managers, have applied an IFRS 9 impairment/expected credit loss provision of £133,990 as at 31 December 2018. |
| (b) 6 | Anaerobic Digestion | 27,749 | This finance investment (a finance lease) has been classified as stage 2 as at 31 December 2018. The Directors, after taking advice from and consulting with the Investment Managers, have applied an IFRS 9 impairment/expected credit loss provision of £179,589 as at 31 December 2018. |
| (b) 7 | Anaerobic Digestion | 3,964 | This finance investment (construction finance) has been classified as stage 2 as at 31 December 2018. The Directors, after taking advice from and consulting with the Investment Managers, have applied an IFRS 9 impairment/expected credit loss provision of £24,933 as at 31 December 2018. |
| (b) 8 | Anaerobic Digestion | 7,908 | This finance investment (construction finance) has been classified as stage 2 as at 31 December 2018. The Directors, after taking advice from and consulting with the Investment Managers, have applied an IFRS 9 impairment/expected credit loss provision of £49,737 as at 31 December 2018. |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

During the period, two financial assets would have moved from Stage 1 to Stage 2 (based on classifications if IFRS 9 had been applied as at 30 June 2018).

| Ref | Industry | Carrying Amount (£ 000) | Description |
|---|---|---|---|
| (b) 9 | Hospitality | 6,271 | This finance investment (a variable loan) under IRFS 9 would have been classified as stage 1 as at 30 June 2018 and moved to stage 2 as at 31 December 2018. The Directors, after taking advice from and consulting with the Investment Managers, have applied an IFRS 9 impairment/expected credit loss provision of £31,821 as at 31 December 2018. |
| (b) 10 | Marine | 895 | This finance investment (a finance lease) under IRFS 9 would have been classified as stage 1 as at 30 June 2018 and moved to stage 2 as at 31 December 2018. The Directors, after taking advice from and consulting with the Investment Managers, have applied an IFRS 9 impairment/expected credit loss provision of £2,243 as at 31 December 2018. |

## (c) Stage 3

The Directors, after taking advice from and consulting with the Investment Managers, consider that none of the Group's financial assets are stage 3.

## (d) Restructurings

During the period, 3 investments totalling £15,434 (30 June 2018: 5 investments totalling £41,052,100) were restructured resulting in repayment terms being amended. As at year end, the Group continues to hold them at the carrying value in the financial statements.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The table below details the investments that have been restructured:

| Ref | Industry | Carrying Amount (£ 000) | Description |
|---|---|---|---|
| (d) 1 | Medical | 9,336 | This finance investment (a secured loan) was restructured during the period and split into two new investments, a secured loan and equity. The secured loan has been classified stage 1 as at 31 December 2018 and is now performing. |
| (d) 2 | Transportation | 1,121 | As at 30 June 2018, the Group held a loan which was past due but not impaired, underlying investments were sold during the period and the loan was substantially repaid. As part of the sale, a new loan was entered into by the Group. The loan has been classified stage 1 as at 31 December 2018 and is now performing. For further details refer to the description in ref (a) 2. |
| (d) 3 | Environment | 4,977 | This finance investment (a finance lease) was restructured during the period, resulting in payment terms being amended. The finance lease has been classified stage 1 as at 31 December 2018 and is now performing. |
| | | **15,434** | |

## 18. Derivative Financial Liabilities

As at 31 December 2018, the Group had the following open forward foreign exchange contracts:

| Buy/Sell Currency | Notional Foreign Currency | Notional GBP | Fair Value / GBP Equivalent | Settlement Date Month/Year |
|---|---|---|---|---|
| GBP/EUR | 15,522,418 | 13,758,474 | (181,972) | January 2019 |
| GBP/USD | 105,982,571 | 84,005,718 | 1,143,017 | March 2019 |
| GBP/EUR | 7,070,000 | 6,315,319 | (46,890) | March 2019 |
| GBP/EUR | 41,697,847 | 36,839,367 | (725,619) | April 2019 |
| GBP/USD | 40,550,000 | 30,921,153 | (753,474) | April 2019 |
| | | | **(564,938)** | |

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

| Buy/Sell Currency | Notional 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)** | |

## 19. Related Party Transactions

Below are details of any significant updates to the related party disclosure in the Annual Report and Audited Consolidated Financial Statements for the year ended 30 June 2018.

During the period, the management fees due to the Investment Managers amounted to £2,347,577 (31 December 2017: £2,549,561). At 31 December 2018, £395,004 (30 June 2018: £383,035) of the management fees was payable to the Investment Managers and £177,273 (30 June 2018: £390,000) 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 period, structuring fees of £11,702 (31 December 2017: £176,690) 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 period, commitment fees of £476,339 (31 December 2017: £111,914) were received by the Investment Managers.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 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:

| | 31 December 2018 | 30 June 2018 |
|---|---|---|
| EUR denominated bonds | €45,894,303 | €41,873,813[1] |
| USD denominated bonds | $42,259,745 | $22,273,980[1] |
| GBP denominated bonds | £50,574,335 | £25,089,897[1] |

[1] Comparatives were restated to disclose the principal balance and not the total drawings.

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:

| | 31 December 2018 | | 30 June 2018 | |
|---|---|---|---|---|
| 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 | 45,734 |
| Tim Spring | 162,816 | 61,802 | 162,816 | 61,802 |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

| | 31 December 2018 | | 30 June 2018 | |
|---|---|---|---|---|
| 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 | 79,858 | 3,860 |
| John Falla | 19,637 | 3,829 | 19,637 | 3,829 |
| Christopher Spencer | 19,929 | 3,845 | 19,929 | 3,845 |
| Paul Meader[1] | 47,000 | - | 47,000 | - |

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

## 20. Events after the Reporting Period

On 21 December 2018, the Company declared a dividend of 0.6042p per Ordinary Share and per 2016 C Share, for the month ended 30 November 2018. The dividends were paid to shareholders on 21 January 2019.

On 28 January 2019, the Company declared a dividend of 0.6042p per Ordinary Share and per 2016 C Share, for the month ended 31 December 2018. The dividends were paid to shareholders on 1 March 2019.

On 25 February 2019, the Company declared a dividend of 0.6042p per Ordinary Share and per 2016 C Share, for the month ended 31 January 2019. The dividends will be paid to shareholders on 29 March 2019.

On 21 March 2019, the Company declared a dividend of 0.6042p per Ordinary Share and per 2016 C Share, for the month ended 28 February 2019. The dividends will be paid to shareholders on 26 April 2019.

## 21. Ultimate Controlling Party

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

# COMPANY INFORMATION

## Non-Executive Directors

Peter Niven
*(Chairman)*
John Falla
*(Chairman of Management Engagement Committee)*

Christopher Spencer
*(Chairman of Audit and Risk Committee)*
Paul Meader
*(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, Mont Crevelt House, Bulwer Avenue, St Sampsons, Guernsey, GY2 4LH (formerly Capita Registrars (Guernsey) Limited)

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

## 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

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