REAL ESTATE CREDIT INVESTMENTS PCC LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2015

Contents

About the Company

Real Estate Credit Investments PCC Limited is a protected cell company (the "Company"), being a cellular company governed by the Companies (Guernsey) Law 2008, comprising a core segment (the "Core" or "RECI") and a cell segment (the "Cell" or "ERII") which has been wound down and no longer has any material value.

The RECI Ordinary Shares (ticker RECI LN) reflect the performance of the Company's Core real estate debt strategy. The RECI Ordinary Shares are currently listed on the premium segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc. RECI Ordinary Shares offer investors a levered exposure to a portfolio of real estate credit investments and aim to pay a quarterly dividend. Such leverage is provided by the RECI Preference Shares (ticker RECP) which confer the right to a preferential cumulative preference dividend (which is an amount in Sterling equal to 8 per cent per annum of the Preference Share Notional Value) payable quarterly on each Payment Date. The RECP Preference Shares are currently listed on the standard segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc.

The Core real estate debt strategy focuses on secured residential and commercial debt in the UK and Western Europe, seeking to exploit opportunities in publicly traded securities and real estate loans. In making these investments the Company uses the expertise and knowledge of its investment manager, Cheyne Capital Management (UK) LLP. The Company has adopted a long term strategic approach to investing and focuses on identifying value.

The Cell within the Company is known as 'European Residual Income Investments Cell' or 'ERII'. The trading of the Cell Shares on the Specialist Funds Market of the London Stock Exchange (ticker ERII LN) was cancelled on 23 December 2014 following the realisation of ERII's substantive assets. There is one Residual Income Position remaining as at 31 March 2015. That position has been held at zero value since the ERII Cell was created.

Investment Objective and Investment Policy

The Investment Policy of Real Estate Credit Investments PCC Limited (the "Company") is subdivided into an Investment Policy for the core segment (the "Core" or "RECI") and an Investment Policy for the cell segment (the "Cell" or "ERII Cell"). This reflects the fact that the Investment Manager is responsible for managing two discrete pools of assets, one, represented by the Core, into which Core Ordinary Shareholders are invested and one, represented by the Cell, into which Cell Shareholders were invested.

Investment Policy for the Core

Asset Allocation
In order to achieve its investment objective for the Core, the Company invests and will continue to invest primarily in debt secured by commercial or residential properties in Western Europe and the United Kingdom (**"Real Estate Debt Investments"**). The Real Estate Debt Investments may take different forms but will likely be: (i) securitised tranches of secured real estate related debt securities, for example, RMBS and CMBS, together MBS; and (ii) secured real estate loans, debentures or any other form of debt instrument.

The Company generally invests, either directly or through SPVs and subsidiaries in new Real Estate Debt Investments on a buy-to-hold basis based on an analysis of the credit-worthiness of the underlying assets in the applicable investment. Therefore, the total return from any given investment (if held to maturity) will be driven by actual performance of the underlying real estate loans rather than by market prices. However, the Company will actively manage the Core Portfolio, and may from time to time dispose of an investment prior to its maturity if the Company so decides for reasons including, but not limited to, the price offered being sufficiently attractive, the credit view of the underlying assets changing or superior alternative investments being available. The Company's investments in Real Estate Debt Investments will have some or all of the following key characteristics:

- investments will be backed, directly or indirectly, by real-estate primarily located in Western Europe and the UK;
- investments will have a varied weighted average life profile, with the weighted average life of the individual investments generally ranging from six months to 15 years;
- investments in securities will be rated by one of Fitch, Moody's, Standard and Poor's or another recognised rating agency; and/or
- investments in loans must be secured by one or more commercial or residential properties and loans may not exceed 85 per cent LTV at the time of the investment.

For the purposes of the paragraph above, "Western Europe" shall mean Andorra; Austria; Belgium; Denmark; Finland; France; Germany; Gibraltar; Guernsey; Iceland; Ireland; Isle of Man; Italy; Jersey; Liechtenstein; Luxembourg; Monaco; the Netherlands; Norway; Portugal; San Marino; Spain; Sweden; and Switzerland.

While the Company will have the flexibility to invest in assets to be held in the Core that do not have some or all of the characteristics listed above, such as, inter alia, direct real estate investments, it has adopted a policy which requires that at least 70 per cent of the Core Portfolio comprises Real Estate Debt Investments. The Investment Manager has agreed with the Company to take such action, including the sale of assets, as would be necessary to correct this imbalance prior to acquiring any further assets which do not qualify as Real Estate Debt Instruments.

The Company will not make investments via derivatives unless the Company has fully collateralised the derivative position or cannot be exposed to margin calls. However, the Company intends to (but shall not be obliged to) reduce exposure to interest rate and currency fluctuations through the use of currency and interest rate hedging arrangements in respect of the Core for the purposes of efficient portfolio management. From time to time, the Company may also enter into derivative transactions to hedge the value of the Core Portfolio.

Investment Policy for the Cell
Following the realisation of ERII's substantive assets, there is one Residual Income Position remaining as at 31 March 2015. That position has been held at zero value since the ERII Cell was created.

Directors and Advisers

Directors
Tom Chandos (Chairman)
Bob Cowdell (Appointed 1 June 2015)
Graham Harrison
Talmai Morgan
Christopher Spencer
Mark Burton

Administrator and Secretary of the Company
State Street (Guernsey) Limited
PO Box 543
First Floor, Dorey Court
Admiral Park
St. Peter Port
Guernsey GY1 6HJ

Corporate Brokers
Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London EC2Y 9LY

Investec Bank Plc
2 Gresham Street
London EC2V 7QP

Registrar
Capita Registrars (Guernsey) Limited
Mount Crevelt House
Bulwer Avenue
St. Sampson
Guernsey GY2 4LH

Depositary (from 25 July 2014)
State Street Custody Services (Guernsey) Limited,
First Floor, Dorey Court,
Admiral Park,
St. Peter Port,
Guernsey GY1 6HJ

Registered Office
First Floor Dorey Court
Admiral Park
St. Peter Port
Guernsey GY1 6HJ

Alternative Investment Fund Manager
Cheyne Capital Management (UK) LLP
Stornoway House
13 Cleveland Row
London SW1A 1DH

Independent Auditor
Deloitte LLP
Regency Court
Glategny Esplanade
St. Peter Port
Guernsey GY1 3HW

UK Transfer Agent
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Sub-Administrator
State Street Fund Services (Ireland) Limited
78 Sir John Rogerson's Quay
Dublin 2
Ireland

Depositary (until 24 July 2014)
State Street Custodial Services (Ireland) Limited,
78 Sir John Rogerson's Quay,
Dublin 2
Ireland

Alternative Investment Fund Managers ("AIFM") Directive

Certain regular and periodic disclosures required by the Directive may be found either in this Annual Report or on the website at HYPERLINK "http://www.recreditinvest.com/regulatory.html" www.recreditinvest.com/regulatory.html

Chairman's Statement

Real Estate Credit Investments PCC Limited (the "Company") has enjoyed strong performance in the financial year ended 31 March 2015 from both its bond and loan portfolios, with the latter increasing significantly as a proportion of the total assets of the Real Estate Credit Investments Core ("RECI" or the "Core").

Net asset value ("NAV") at 31 March 2015 was £1.623 per RECI ordinary share, a 5.3% increase on the 31 March 2014 year end figure of £1.541, which, when combined with dividends, has generated a NAV total return to ordinary shareholders of 12.3%.

RECI reported operating income of £15.8 million in the financial year ended 31 March 2015, up from £13.7 million in 2013/14. In addition, net gains taken through the profit and loss account, principally comprising revaluation gains on the bond portfolio, amounted to £5.7 million, so that, after deducting operating and financing expenses, total net profits for the year were £13.8 million, compared to £8.1 million for the previous financial year.

A dividend of 2.7p per ordinary share has been declared for the quarter ended 31 March 2015. Total dividends declared in respect of the financial year will therefore be 10.8p per ordinary share, at a cost of £8.0 million, covered 1.2 times by net operating income.

Evolving Asset Portfolio
During the year RECI increased its total loan commitments from £63 million to £102 million, up from 40% of Gross Asset Value ("GAV") to 63%, through nine new loans and the extension of another, which was partially offset by three earlier loans being profitably repaid.

While the majority of attractive new opportunities for investment over the past twelve months have been in the loan space, RECI has also made a promising new primary investment in the CMBS bond market, as well as seeing some exceptional returns from earlier positions taken in that market.

European Central Bank purchases and other factors continue to put upward pressure on valuations in the CMBS market generally (to the benefit of RECI's existing portfolio of bonds), so it is likely that new business written by RECI will predominantly be in the form of loans, of which there is a continuous pipeline through the Investment Manager.

ERII
European Residual Income Investments ("ERII"), created as a cell in August 2011 to hold the Company's non-core assets, enjoyed a high level of realisations in the year at significantly higher aggregate valuations than expected. In November 2014 the Company announced the return of predominantly all of the Cell's capital to ERII shareholders, which was completed early in the New Year. Over EUR 49.8 million of distributions have taken place since the Cell's creation, being over 2.4 times the valuation of its assets at the time of its creation and 4.9 times its market capitalisation on the first day of trading. There is one remaining investment asset, which is currently held at zero valuation; any future realisation of this asset would be distributed to shareholders in the Cell on the register at the time the shares were delisted.

Outlook
The structural changes in the European real estate debt market in recent years, with a significant reduction in bank lending capacity, have generated the opportunity for RECI to build an exceptional portfolio of real estate debt. RECI has the ability, through the Investment Manager, to structure and underwrite relatively complex and specialised loans, in order to maximise risk-adjusted returns, as competition from other non-bank lenders has progressively increased, as well as there being some rebound in the bank market itself.

I am delighted that, as previously announced, Bob Cowdell will, following the release of these results, be taking over from me in the leadership of the Board, just short of the tenth anniversary of the Company's original IPO. He has an ideal mix of skills and experience to lead the Company through the next stage of its life cycle and I am sure that, with the same support from the Board and the Investment Manager, he will preside over further success for the Company.

Tom Chandos
Chairman

10th June 2015

Strategic Report

The Strategic Report describes the business of the Group and details the principal risks and uncertainties associated with its activities.

Objective, Investment Policy and Business Model
The Objective and Investment Policy set out on page 4 describes the Group's strategy and business model.

There is also an 'About the Company' section on page 3 explaining in more detail the corporate structure and listings of the Shares.

Real Estate Credit Investments PCC Limited is externally managed by Cheyne Capital Management (UK) LLP ("Cheyne Capital"), a UK investment manager authorised and regulated by the Financial Conduct Authority ("FCA"). Cheyne Capital is a limited liability partnership registered in England and Wales on 8 August 2006 and is authorised and regulated in the conduct of investment business in the United Kingdom by the FCA. Cheyne Capital is also the Alternative Investment Fund Manager ("AIFM") of the Company.

Current and Future Development
A review of the year and outlook is contained in the Investment Manager's Report and also within the Chairman's Statement.

Performance
A review of performance is contained in the Financial Highlights / Key Performance Indicators section and the Investment Manager's Report.

A number of performance measures are considered by the Board and the Investment Manager in assessing the Company's success in achieving its objectives, and considering its progress and performance. The Key Performance Indicators ("KPIs") used are as follows:
- Movement in NAV per Ordinary Share
- NAV total return
- Operating Income and Net Profit; and
- Weighted average LTV for the loan portfolio.

Details of the Financial Highlights and KPIs are shown on page 10.

Role and Composition of the Board
The Board is the Company's governing body and has overall responsibility for maximising the Company's success by directing and supervising the affairs of the business and meeting the appropriate interests of shareholders and relevant stakeholders, while enhancing the value of the Company and also ensuring protection of investors. A summary of the Board's responsibilities is as follows:
- Statutory obligations and public disclosure;
- Strategic matters and financial reporting;
- Risk assessment and management including reporting compliance, governance, monitoring and control; and
- Other matters having a material effect on the Company.

Risk Management
It is the role of the Board of Directors (the "Board") to review and manage all risks associated with the Group, mitigating these either directly or through the delegation of certain responsibilities to the Audit Committee and Investment Manager. The Board performs a review of a risk matrix at each Board meeting.

The Board considers that the following risks are the principal risks and uncertainties faced and has identified the mitigating actions in place to manage them.

For further information on risks please refer to Note 14 on pages 55 to 68.

Long-term Strategic Risk
The Company is subject to the risk that its long-term strategy and its level of performance fail to meet the expectations of its shareholders. The shares may trade at a discount to Net Asset Value ("NAV") per share and shareholders may be unable to realise their investments through the secondary market at NAV per share. The Board monitors the level of premium or discount of share price to NAV per share.

The Board monitors investment strategy and performance on an on-going basis and regularly reviews the Objective and Investment Policy in light of prevailing investor sentiment to ensure the Company remains attractive to its shareholders. While the Board may seek to mitigate any discount to NAV per share, there can be no guarantee that they will do so and the Board accepts no responsibility for any failure of any such strategy to effect a reduction in any discount or premium.

Strategic Report (continued)

Target Portfolio Returns and Dividend

The Group's targeted returns are based on estimates and assumptions that are inherently subject to significant business and economic uncertainties and contingencies, and the actual rate of return may be materially lower than the targeted returns. In addition, the pace of investment may be slower than expected, or principal may be repaid earlier than anticipated, causing the return on affected investments to be less than expected. In addition if repayments are not promptly re-invested this may result in cash drag which may lower portfolio returns. As a result the level of dividends and other distributions to be paid by the Company may fluctuate and there is no guarantee that any such distributions will be paid.

The Investment Manager regularly provides the Board with reports on pipeline opportunities, which include analysis of the returns available. The Directors also regularly receive information on the performance of the existing loans which includes analysis of the likelihood of any early repayments which may impact returns.

Valuation

Valuation of the Core's investments in Real Estate Debt Bonds and Real Estate Loan Portfolio are the key value driver for the Core's NAV and interest income. Judgements over fair value estimates could significantly affect these key performance indicators.

IFRS 13 requires disclosures surrounding the level in the fair value hierarchy in which fair value measurement inputs are categorised for assets and liabilities measured in the Statement of Financial Position at fair value. See Note 14 (d) for further information regarding the fair value hierarchy. The determination of the fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective.

For the bonds, judgements over fair value could significantly affect the performance indications of these assets. These bonds are classified as Level 2 investments. Judgements on the liquidity profile and the fair value recognised prior to sale are made using assumptions which may prove to be inaccurate. This is particularly so in periods of volatility or where there is limited data against which judgements can be benchmarked.

For the loans, the Core has made loans into structures to gain exposure to real estate secured debt in the UK and Germany. These loans are not traded in an active market and there are no independent quotes available for these loans. Such holdings, are classified as Level 3 investments. The fair value of these loans are linked directly to the value of the real estate loans the underlying structures invests in, which are determined based on modelled expected cash flows (drawdown principal and interest repayments, and maturity dates) with effective yields.

Fair value of the real estate loans is adjusted for changes in the credit quality of the borrower and underlying property collateral, and changes in the market rate on similar instruments. On origination of the loan, the Investment Manager performs due diligence on the borrower and related security / property. This includes obtaining a valuation of the underlying property (to assess loan-to-value of the investment). In most instances the terms of the loan require periodic re-valuation of the underlying property to check against loan-to-value covenants.

Market Risk

Market risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises of interest rate risk, currency risk and other price risk

The Company's strategy on the management of market risk is driven by the Company's investment objective detailed in Note 1 of the financial statements. The investment objective for the Core is to invest in debt secured by commercial or residential properties in Western Europe and the United Kingdom ("Real Estate Debt Investments"). The Real Estate Debt Investments may take different forms but will be likely to be: (i) securitised tranches of secured real estate related debt securities, for example, RMBS and CMBS (together "MBS"); and (ii) secured real estate loans, debentures or any other form of debt instrument.

This objective aims to provide Core Ordinary Shareholders with a levered exposure to a diversified portfolio of Real Estate Debt Investments and to provide Preference Shareholders with stable returns in the form of quarterly dividends.

The Company's market risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed in the latest prospectus and summarised in these financial statements.

Strategic Report (continued)

Interest Rate Risk
Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Core invests in both floating rate real estate related debt securities, which include MBS, and also in direct real estate loans.

For MBS, the interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and liabilities and future cash flow. These floating rate debt investments will be exposed to interest rate risk through changes in interest rates potentially having an effect on prepayments and defaults of the underlying loans of the securitisations.

The Core also invests in real estate loans. These can have fixed interest income and are therefore potentially exposed to the wider effects of changes in interest rates.

The preference shareholders are entitled to receive a preference dividend amounting to 8% per annum (fixed) of the Preference Share Notional Value.

Currency Risk
Currency Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk to the extent that foreign exchange rates fluctuate in relation to financial instruments that are denominated in currencies other than GBP for the Core and Euro for the Cell.

The Company hedges its Euro exposure in the Core with a series of forward Euro sells and option hedges.

Liquidity Risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company’s liquidity risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed in the notes to the financial statements. Where needed, the Investment Manager will liquidate positions to increase cash.

The market for MBS, real estate loans and residual income positions is relatively illiquid. In addition, investments that the Company purchases in privately negotiated (also called “over the counter” or “OTC”) transactions may not be registered under relevant securities laws or otherwise may not be freely tradable, resulting in restrictions on their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. As a result of this illiquidity, the Company’s ability to vary its portfolio in a timely fashion and to receive a fair price in response to changes in economic and other conditions may be limited.

Furthermore, where the Company acquires investments for which there is not a readily available market, the Company’s ability to deal in any such investment or obtain reliable information about the value of such investment or risks to which such investment is exposed may be limited.

Financial Highlights / Key Performance Indicators

RECI Key Financial Data	Y/E 31 Mar 2015	Y/E 31 Mar 2014
Gross Assets	£162.9m	£157.0m
Investment Portfolio	£146.5m	£133.5m
Cash	£8.1m	£18.3m
Operating Income	£15.85m	£13.7m
Fair Value Gains on Investment Portfolio	£5.71m	£1.0m
Net Profit	£13.8m	£8.1m
Number of Loans	15	9
Loans (drawn dirty FV)	£89.9m	£51.0m
Weighted average LTV of Loan portfolio	67.1%	64.9%
Weighted average yield of Loan portfolio	13.2%	12.9%
Loans (commitments)	£101.9m	£63.1m
Number of Bonds	52	79
Bonds (dirty FV)	£59.8m	£85.8m
Nominal Face Value of Bond portfolio	£69.3m	£108.3m
Net Asset Value per RECI Ordinary Share	£1.623	£1.541

Share Price Performance
As at 31 March 2015 the NAV was £1.623 per Ordinary Share (31 March 2014: £1.541) and the share price was £1.720 per Ordinary Share (31 March 2014: £1.490).

Taking dividends into account, the NAV total return was 12.3% for the year to 31 March 2015 and 9.7% for the year ended 31 March 2014.

Investment Manager's Report

Over the year RECI's flexible investment strategy continued to deliver a double-digit total shareholder return based on strong NAV growth combined with stable dividend yield

RECI continues to pursue a flexible investment strategy with allocation to both the bond and loan markets, where the portfolio is rebalanced consistently to capture the opportunities in higher-yielding loans, whilst taking advantage of the liquidity and ability to mitigate cash drag offered by the bond markets.

The combined portfolio strategy has led to an increase in NAV per share in the financial year end to £1.623 as at 31 March 2015, up 5.3% from the 31 March 2014 figure of £1.541. Taking dividends into account, the NAV total return per share was 12.3% in the year ended 31 March 2015.

The drawn dirty fair value of the loan portfolio has increased from £51 million at 31 March 2014 to £90 million as at 31 March 2015. During the year, RECI made nine new loans with commitments of £60 million, and also restructured its loans secured on a UK retail park and a German multi-family deal providing further net increases in its commitments of £11 million. Since 31 March 2015 RECI has completed a residential development loan. The Manager's new loan origination pipeline remains strong with some new loans in documentation. RECI is currently working to a maximum level of loan commitments of 75% of GAV.

RECI delivered a positive financial performance in the year ended 31 March 2015 with £13.8 million of profits.

On 22 April the Company announced Bob Cowdell's appointment to the Board of Directors of the Company as an independent Non-Executive Director with effect from 1 June 2015. Mr Cowdell will become independent Non-Executive chairman, of the Company with effect from 12 June 2015.

Outlook – Investment of new capital

The Manager's origination team expects to close several loan transactions in the coming months. The Company expects its pipeline to remain strong, given the growth in its loan book over the last 12 months, based on its growing reputation of delivering financial solutions across the capital stack in innovative structures at compelling pricing for both borrowers and investors.

The bond portfolio had a double digit gross return in the financial year ended 31 March 2015 and strong bond portfolio performance is expected to continue into the next financial year. The Manager remains well-placed to participate in new issue bonds at attractive yields, and will continue to rotate out of lower yielding liquid bonds to fund new loan opportunities where the risk/reward dynamics deem it appropriate.

Loan Portfolio as at 31 March 2015

Significant loan portfolio growth

RECI significantly expanded its real estate loan portfolio to £89.9 million from £51.0 million in the financial year ending 31 March 2015, or excluding accrued interest to £87.1m (up from £48.4m). During the year, the Company made £60.0 million new commitments over nine new deals, taking total loan commitments to £102 million as at 31 March 2015. This has since increased to £99 million drawn and £106 million committed since the year end.

The average portfolio LTV exposure as at 31 March 2015 was 67.1% and the portfolio continues to provide attractive risk-adjusted returns with a weighted average yield of 13.2% per annum, before any back end fees or profit shares are taken into account.

Loan realisations

A mezzanine loan secured against a boutique hotel at King's Cross was sold for par plus all accrued interest and fees in October 2014. This investment returned an annualised yield in excess of 15% and was tradable because of the quality of the loan documentation and superior rights it conferred on the mezzanine lender. Another position, previously an investment backed by German multi-family properties which had received an in specie transfer of publicly quoted shares, was successfully exited. This investment returned an annualised yield in excess of 25%.

Investment Manager's Report (continued)

Loan investments subsequent to year end

A £10.2 million whole loan secured on a 220 unit presold residential scheme in London was committed to in May 2015. The senior element of this loan is being sold down reducing RECI's commitment by 50% and drawn loan balance to £4.0 million which will increase the reduced loan return to in excess of 15%.

Focus on Europe's strongest markets

The Manager's strong position in originating attractive new loans enables the Company's investments to be focused investments on Europe's strongest markets – the UK, Germany and also, potentially, Ireland. These markets offer both strong deal flows and, crucially, a lender-friendly legal framework. The Company will continue to avoid lending in less lender-friendly jurisdictions such as Italy, Spain and Portugal.

Loan Portfolio Summary as at 31 March 2015

Number of loans	15
Drawn Dirty Fair Value (£ millions)	89.9
Total Loan Commitments (£ millions)	101.9
Loans as % of GAV (drawn loan balance)	55.4%
Loans as a % of GAV (committed loan balance)	62.9%
Weighted average yield of loan portfolio	13.2%
Weighted average LTV of portfolio	67.1%
Weighted average life of portfolio	2.8

Top 10 Investment Portfolio Exposures[1] as at 31 March 2015

Market Value	£92.0 million
WA Original LTV[1]	66.3%
WA Cheyne Current LTV[2]	67.3%
WA Effective Yield	10.6%

Type	Class	Collateral Description
Residential	Loan	Whole Loan secured against German multi-family properties
Commercial	B	Bond secured against government housing portfolio in the UK
Commercial	Loan	Mezz loan secured on a fully let retail park in Essex
Commercial	Loan	Mezz loan secured against two mixed use estates in Central London
Residential	Loan	Subordinate loan secured against retirement villages in London and South-East
Commercial	Loan	Mezz loan to assist in the acquisition of major German residential development company
Commercial	Loan	Priority ranking shareholder loan against a portfolio of UK logistics and industrial properties
Commercial	E	Portfolio of commercial loans secured by properties in Germany
Commercial	Loan	Mezz loan secured against a branded London hotel development in Shoreditch
Commercial	Loan	Portfolio of nursing homes operated by Four Seasons Health Care Group

Real estate bond portfolio records solid gains

As at 31 March 2015, the portfolio of 52 bonds was valued at £59.8 million, with a nominal face value of £69.3 million[4]. The total gross return of the bond portfolio in the year ended 31 March 2015 was 16%. The weighted average effective yield to maturity of the portfolio at market prices as at 31 March 2015 was 6.3%, with a weighted average life of 5.3 years (the weighted average effective yield to maturity of the portfolio as at 31 March 2014, using market prices as at 31 March 2014, was 6.2%, with a weighted average life of 6.8 years). As at 31 March 2015, the average purchase price across the portfolio was 73.2% of par and assets were purchased with a weighted average expected yield to maturity of 10.1% (as at 31 March 2014, the average purchase price across the portfolio was 81% of par and assets were purchased with a weighted average expected yield to maturity of 9.9%). As at 31 May 2015, the portfolio consisted of 44 bonds with a fair value of £52.6 million and a nominal face value of £61.5 million[5].

Bond Portfolio Summary as at 31 March 2015

Number of bonds	52
Dirty Fair Value of Bond Portfolio as at 31 March 2015 (£ millions)	59.8
Nominal Face Value of Bond Portfolio as at 31 March 2015 (£ millions)	69.3

[1] Based on fair value of bonds and loans.

[1] The weighted average original loan to value has been calculated by reference to the original acquisition value of the relevant collateral as disclosed at the time of issue of the relevant bond or loan. The original LTV is weighted by the market value of the bonds and loans. The weighted average Cheyne current LTV has been calculated by the Investment Manager by reference to the current value ascribed to the collateral by the Investment Manager. In determining these values, the Investment Manager has undertaken its own internal valuation of the underlying collateral. Such valuations have not been subject to independent verification or review. WA LTV figures are calculated with original notional using pool factor and FX rate as at 31 March 2015.

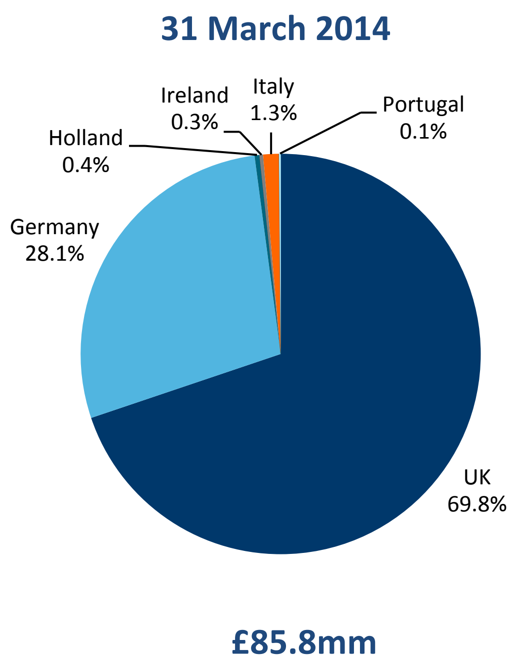
[2] WA effective yield is based on the effective yield as at most recent purchase and is based on the Investment Manager's pricing assumptions and actual returns may differ materially from those expressed or implied herein. WA effective yield figures are calculated with original notional using pool factor and FX rate as at 31 March 2015.

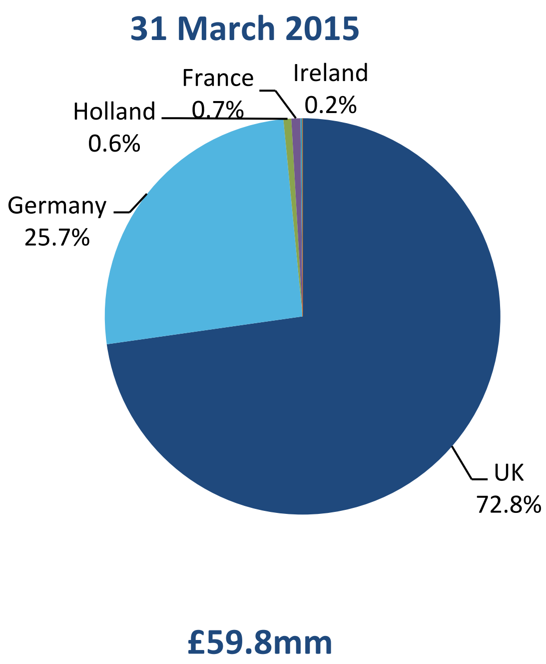
[4] Cost and nominal shown are calculated with original notional using pool factor and FX rate as at 31 March 2015.

[5] Cost and nominal shown are calculated with original notional using pool factor and FX rate as at 30 April 2015.

Investment Manager's Report (continued)

Real Estate Bond Portfolio Breakdown
Breakdown of RECI's bond portfolio as at 31 March 2015 and 31 March 2014 by jurisdiction (by reference to underlying assets)





Values may not sum to 100% due to rounding differences

Monthly Bond Performance Summary as at 31 March 2015

	November	December	January	February	March
% Fair Value Change	0.30%	-0.47%	5.56%	0.19%	0.33%
WA Purchase Price	-	-	-	1.00	-
WA Purchase Yield	-	-	-	7.39%	-

Asset Class Distribution of Bond Portfolio by Fair Value as at 31 March 2015

Bond Class	**UK CMBS**	**UK RMBS**	**Euro CMBS**	**Euro RMBS**	**Total as at 31 March 2015**	**Total as at 31 March 2014**
A	9.0%	1.1%	0.0%	0.0%	10.4%	20.7%
B	41.4%	0.0%	3.4%	0.0%	44.8%	33.9%
C	1.9%	0.3%	4.5%	0.7%	7.4%	12.8%
D	2.4%	1.7%	7.4%	0.2%	11.7%	11.4%
E and Below	6.3%	8.4%	11.3%	0.0%	26.1%	21.2%
Total	61.0%	11.5%	26.6%	0.9%	100.0%	**100%**
Total as at 31 March 2014	44.5%	26.0%	29.1%	0.4%	100.0%	

Values may not sum to 100% due to rounding differences

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2015.

General Information
Real Estate Credit Investments PCC Limited (the "Company") was registered on 6 September 2005 with registered number 43634 and is domiciled in Guernsey, Channel Islands. The Company commenced its operations on 8 December 2005.

The "About the Company" section of the Annual Report on page 3 provides information regarding the structure of the Company, the investment strategy and the listing details of the Shares of the Company.

"Group" was defined as the Company and Trebuchet Finance Limited ("Trebuchet"). The Company held a participation note in Trebuchet, a SPE over which the Company was exposed to the majority of its benefits and business risks. The participation note was terminated during the year ended 31 March 2015. Trebuchet was consolidated in the financial statements of the Group as at 31 March 2014 under SIC 12, Consolidation - special purpose entities. The Company adopted IFRS 10 "Consolidated Financial Statements – Investment Entities Amendment" as of 1 April 2014 in its financial statements, whereby an investment entity shall not consolidate its subsidiaries who are themselves investment entities but instead measure an investment in a subsidiary at fair value through profit or loss. As Trebuchet is being liquidated, there was no impact on the current year's financial position.

The Company's investment management activities are managed by the Investment Manager, who is also the Alternative Investment Fund Manager ("AIFM"). The Company has entered into an Investment Management Agreement (the "Investment Management Agreement") under which the Investment Manager manages its day-to day investment operations, subject to the supervision of the Company's Board of Directors. The Company is an Alternative Investment Fund ("AIF") within the meaning of the Alternative Investment Fund Manager ("AIFM") Regulations and accordingly the Investment Manager has been appointed and registered as AIFM of the Company.

Principal activity and business review
The principal activity of the Company during the year was that of an investment Company investing in real estate debt investments. The Company is expecting to continue its activities in the coming year. For full details of the investment policy of the Company see page 4.

Results and dividends
The results for the year and the Company's financial position at the end of the year are shown on pages 33 to 36. Dividends totalling £7,864,398 (31 March 2014: £4,832,217) were paid/declared on the Core Ordinary Shares during the year and £3,354,434 (31 March 2014: £3,577,027) were paid on the Core Preference Shares. Dividends of €492,549 were paid during the year in regard to the Cell Ordinary Shares (31 March 2014: €1,787,713). Redemptions were also made in relation to the Cell Ordinary Shares during the year whereby €25,621,128 was returned to the Cell's investors.

A final dividend for the year ended 31 March 2015 of 2.7p per Core Ordinary Share (31 March 2014: 2.7p per share) was approved by the Directors on 10 June 2015 and has not been included as a liability in these consolidated financial statements.

In the opinion of the Directors, the Company met the solvency requirements under Guernsey law in relation to all distributions paid during 2015 and 2014.

Capital structure
Details of the authorised and issued share capital and the Preference Shares issued and fully paid, together with details of the movements in the Company's issued share capital during the current and prior year are shown in Note 13.

The Core has one class of Ordinary Shares which carry no right to fixed income. Each Core Ordinary Share carries the right to one vote at general meetings of the Company. The underlying assets in the Company's Investment Portfolio attributable to the Cell Ordinary Shares (the Cell Assets) are held separately from the assets within the Investment Portfolio attributed to the Core Ordinary Shares. The holders of Preference Shares are entitled to receive dividends of 8% per annum of the Preference Share Notional Value. Preference Shares do not carry the right to vote.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Incorporation and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Incorporation and The Companies (Guernsey) Law, 2008. The Articles themselves may be amended by special resolution of the Shareholders. The powers of Directors are described in the Articles of Incorporation and the Corporate Governance Statement on pages 19 to 23. Under its Articles of Incorporation, the Company has authority to issue an unlimited number of Core Ordinary Shares of no par value.

Directors' Report (continued)

Board of Directors
The Directors of the Company who served during the year and to date were:

Tom Chandos (Chairman)
Graham Harrison
Talmai Morgan
Christopher Spencer
Mark Burton
Bob Cowdell (appointed 1 June 2015)

Tom Chandos (Chairman) (UK resident). Viscount Chandos, is chairman of the real estate investment company Invista European Real Estate Trust SICAV and sits on the board of a number of private companies. He has a background in investment banking and venture capital. He is a Trustee of the Esmee Fairbairn Foundation and a member of its investment committee. He is a Labour member of the House of Lords. Viscount Chandos has been a Board member of the Company for 10 years.

Bob Cowdell (UK resident) is an independent non-executive director who has focused on the financial sector throughout his career; initially as a solicitor and then as a corporate broker and adviser. He was previously co-founder and Head of the ABN AMRO Global Investment Funds Team and then Head of Financials at RBS Hoare Govett. He is currently a non-executive director of Schroder UK Growth Fund plc, Catlin Underwriting Agencies Limited and Catlin Insurance Company (UK) Limited. A Freeman of the City of London, he is a member of the Institute of Directors and the Chartered Insurance Institute.

Graham Harrison (Guernsey resident). Mr Harrison is co-founder and managing director of Asset Risk Consultants Limited ("ARC"), an investment consulting practice based in Guernsey. After obtaining a Masters in Economics from the London School of Economics, he began his career working in structured finance for Midland Montagu in London and then as a project economist for the Caribbean Development Bank in Barbados. In 1993, he moved back to Guernsey to help develop investment-related business for the Bachmann Group and in 2002 he led a management buy-out which saw ARC become an independent business wholly owned by management. A Chartered Fellow of the Chartered Institute for Securities and Investment, he has been on the Board of the Company for 10 years. He is also currently a non-executive director of a number of investment companies including BH Global Limited*.

Talmai Morgan (Guernsey resident). Mr Morgan qualified as a barrister in the United Kingdom in 1976. He moved to Guernsey in 1988 where he worked for Barings as general counsel and then for the Bank of Bermuda as managing director of Bermuda Trust (Guernsey) Limited. From January 1999 to June 2004, Mr. Morgan was director of Fiduciary Services and Enforcement at the Guernsey Financial Services Commission (Guernsey's financial regulatory agency) where he was responsible for the design and subsequent implementation of Guernsey's law relating to the regulation of fiduciaries, administration businesses and company directors. Mr. Morgan was also involved in working groups of the Financial Action Task Force and the Offshore Group of Banking Supervisors. From July 2004 to May 2005, Mr. Morgan served as chief executive of Guernsey Finance, which is the official body for the promotion of the Guernsey finance industry. Mr. Morgan is now the chairman or a non-executive director of a number of investment companies including BH Global Limited*, BH Macro Limited, Global Fixed Income Realisation Limited, John Laing Infrastructure Fund Limited**, NB Distressed Debt Investment Fund Limited, NB Private Equity Partners Limited and Sherborne Investors (Guernsey) B Limited. He holds an M.A. in economics and law from the University of Cambridge. Mr Morgan has been on the Board of the Company for 10 years.

Christopher Spencer (Guernsey resident). Mr Spencer qualified as a chartered accountant in London in 1975. Following two years in Bermuda he moved to Guernsey. Mr. Spencer, who specialised in audit and fiduciary work, was Managing Partner/Director of Pannell Kerr Forster (Guernsey) Limited from 1990 until his retirement in May 2000. Mr. Spencer sits on the AIC Offshore Committee and is a past President of the Guernsey Society of Chartered and Certified Accountants, and a past Chairman of the Guernsey Branch of the Institute of Directors. Mr. Spencer sits on the board of directors of J. P. Morgan Private Equity Limited, SQN Asset Finance Income Fund Limited Summit Germany Limited, John Laing Infrastructure Fund Limited** and Ruffer Investment Company Limited, some of which are listed on the London Stock Exchange. Mr Spencer has been on the Board of the Company for 10 years.

Mark Burton (UK resident) has long experience of real estate lending and investing, having been Chief Investment Officer, Real Estate, at both Abu Dhabi Investment Authority and Abu Dhabi Investment Council, and Chief Executive Officer, Real Estate at United Bank of Kuwait. He is currently a member of the Real Estate Advisory Board of Norges Bank Investment Management, adviser to Citic Capital Real Estate, a member of the investment committee of Internos Global Investors and a non-executive director of Value Retail plc. He was previously a non-executive director of London and Stamford Property and the Hudson's Bay Company. Mr Burton has been on the Board of the Company since 16 December 2013.

*Both Messrs Harrison and Morgan are on the Board of BH Global Limited
**Both Messrs Morgan and Spencer are on the Board of John Laing Infrastructure Fund Limited

Directors' Report (continued)

Board of Directors (continued)

The Directors' interests (number of Ordinary, Preference and Cell Shares) in the share capital of the Company at 31 March 2015 (some of which are held directly or by entities in which the Directors may have a beneficial interest) were:

	Number of Ordinary Shares	% of Holding	Number of Preference Shares	% of Holding
Tom Chandos (Chairman)	30,000	0.04%	150,000	0.36%
Graham Harrison	1,500	0.00%	1,875	0.00%
Talmai Morgan	1,500	0.00%	1,875	0.00%
Christopher Spencer	1,500	0.00%	1,875	0.00%

Prior to the year ended 31 March 2015, Bob Cowdell purchased 8,535 Ordinary Shares in the Company.

Substantial interests in share capital
During the year, the Company received one notification, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of major shareholder acquisitions or disposals in the Company.

During the year the Company received the following TR1 notification relating to disclosures of holders of the Core ordinary shares over 5%.

Shareholder	Holding
BNY Mellon Trust and Depositary	3,588,000

Issued Share Capital
The issued share capital of the Core consists of 114,748,915 (31 March 2014: 114,748,915) shares, made up of 72,818,496 (31 March 2014: 72,818,496) Ordinary Shares and 41,930,419 (31 March 2014: 41,930,419) Preference Shares. All of the Cell Shares in the Company were redeemed during the year. At 31 March 2014 the Company had 15,392,148 Cell Shares in relation to the ERII Cell.

Directors and Officers Liability Insurance
The Company maintains insurance in respect of Directors' and officers liability in relation to their acts on behalf of the Company. Insurance is in place, and due for renewal on the 30 June 2015.

Listing Information
The Company's Core Ordinary Shares are currently listed on the premium segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc. The Core Preference Shares are currently listed on the standard segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc. The Cell's Ordinary Shares traded on the Specialist Fund Market of the London Stock Exchange plc. The trading of the Cell Shares on the Specialist Funds Market of the London Stock Exchange (ticker ERII LN) was cancelled on 23 December 2014 following the realization of ERII's substantive assets.

The Investment Manager
Having reviewed the performance of the Investment Manager, the Directors are satisfied that the continued appointment of the Investment Manager on the terms agreed is in the best interests of the Shareholders and the Company. The Company has entered into the Investment Management Agreement (the "Investment Management Agreement") under which the Investment Manager manages its day-to-day investment operations. Details of the Investment Management Agreement can be found in Note 18.

Auditor
Deloitte LLP has been the Company's external auditor since the Company's incorporation. This is its 10th period of audit. A resolution for the reappointment of Deloitte LLP will be provided at the next annual general meeting.

The Audit Committee reviews the appointment of the auditor. Further information on the work of the auditor is set out in the Audit Committee Report on pages 24 to 26.

Principal risks and uncertainties
Principal Risks and Uncertainties are discussed in the Strategic Report on pages 7 to 9.

Related party transactions
Related party transactions are disclosed in Note 18 of these financial statements. There has been no material changes in the related party transactions described in the last annual report.

Directors' Report (continued)

Going concern
The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. Regarding the on-going funding of the Company's Preference Shares, the Directors have taken into account the current cash balance, the forecast cash inflows and outflows from the investments and operating expenses. The Directors note the cash resources available at 31 March 2015 (£8.4 million), some of which will be used to pay the proposed dividends, are sufficient to cover normal operational costs and current liabilities as they fall due for the foreseeable future.

Annual General Meeting
The Annual General Meeting ("AGM") of the Company will be held at 10.30 am on 11th August 2015 at First Floor, Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 6HJ. Details of the resolutions to be proposed at the AGM, together with explanations, will appear in the Notice of Meeting to be distributed to Shareholders together with a copy of this Annual Report.

Members of the Board will be in attendance at the AGM and will be available to answer shareholder questions.

Subsequent Events
Final dividends for the year ended 31 March 2015 of 2.7p per Core Ordinary Share were approved by the Directors on 10 June 2015.

Bob Cowdell was appointed to the Board of Directors of the Company as an independent Non-Executive Director with effect from 1 June 2015. He will take over as non-executive chairman, following the release of the Company's results for the year ended 31 March 2015. Tom Chandos intends to resign from the Board of Directors on 12 June 2015.

There have been no other significant events affecting the Company since the year end date that require amendment to or disclosure in the financial statements.

On behalf of the Board on 10 June 2015

Christopher Spencer
Director

Talmai Morgan
Director

Directors Remuneration Report

Each of the Directors has signed a letter of appointment with the Company setting out the terms of their appointment, which are available for inspection at the Company's registered office.

During the year ended 31 March 2015, the Chairman received an annual fee of £80,000 (31 March 2014: £92,500) and Mr Morgan, Mr Spencer, Mr Harrison each received an annual fee of £30,000 (31 March 2014: £30,000) in each case payable quarterly in equal instalments in arrears.

The Company has not established a Remuneration Committee as the Company does not have any executive Directors or employees. The total amounts for the Directors' remuneration for the year were as follows:

	Year ended 31 Mar 15 GBP	**Year ended 31 Mar 14 GBP**
Tom Chandos (Chairman)	80,000	92,500
Graham Harrison	30,000	30,000
Talmai Morgan	30,000	30,000
Christopher Spencer	30,000	30,000
Mark Burton	30,000	8,877
Total Directors' emoluments	200,000	191,377

During the year Graham Harrison received £9,807 (2014: £10,543) in consultancy fees in relation to Trebuchet Finance Limited.

Graham Harrison also received an additional £3,000 for his work on behalf of the nomination committee during the year.

Corporate Governance Statement

Statement of compliance with Corporate Governance
The Board of the Company recognise the importance of sound corporate governance. Currently, The UK Listing Authority requires all overseas companies with a “Premium Listing” (which includes the Company) to “comply or explain” against the UK Corporate Governance Code (the “Code”).

The Code of Corporate Governance issued by the Guernsey Financial Services Commission (“GFSC Code”) provides a framework that applies to all entities licensed by the GFSC or which are registered or authorised as a collective investment scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987. Companies reporting against the UK Corporate Governance Code or the Association of Investment Companies Code of Corporate Governance are deemed to comply with the GFSC Code.

The Board of the Company has considered the principles and recommendations of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies for Guernsey Domiciled member companies (AIC Guide) issued in February 2013.

The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to Shareholders.

Throughout the year ended 31 March 2015, the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code and AIC Code include provisions relating to:

- a remuneration committee;
- a management engagement committee;
- the role of the Chief Executive;
- Executive Directors’ remuneration; and
- the need for an Internal Audit Function.

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers some of these provisions are not relevant to the position of the Company, being an externally managed investment company. The Company has therefore either not explained further in respect of these provisions or provided detail if it is going to consider them in the future.

The obligations under the EU Company Reporting Directive which are implemented by Disclosure and Transparency Rule 7.2, apply to all issuers of equities from 6 April 2010. Under this rule, a company must:

(i) make a corporate governance statement in its annual report and accounts based on the code to which it is subject, or with which it voluntarily complies; and
(ii) describe its internal control and risk management arrangements.

Details of compliance or explanation of non-compliance are noted below.

The Board
The Directors details are listed on page 15 which set out their range of investment, financial and business skills and experience.

The Board meets at least four times a year and, in addition, there is regular contact between the Board, the Investment Manager and the Administrator/Company Secretary. Further, the Board requires to be supplied in a timely manner with information by the Investment Manager, the Company Secretary and other advisors in a form and of a quality appropriate to enable it to discharge its duties.

Corporate Governance Statement (continued)

Duties and Responsibilities

The Board has overall responsibility for maximising the Company's success by directing and supervising the affairs of the business and meeting the appropriate interests of shareholders and relevant stakeholders, while enhancing the value of the Company and also ensuring the protection of investors. A summary of the Board's responsibilities is as follows:

- statutory obligations and public disclosure;
- strategic matters and financial reporting;
- risk assessment and management including reporting, compliance, governance, monitoring and control; and
- other matters having a material effect on the Company.

The Board is responsible to shareholders for the overall management of the Company. The Board has delegated the day to day operation of the Company to the Investment Manager and the Administrator and Company Secretary. The Board reserves the powers of decisions relating to the determination of investment policy, the approval of changes in strategy, capital structure, statutory obligations, public disclosure and the entering into of any material contracts by the Company.

The Board's responsibilities for the Annual Report are set out in the Directors' Responsibilities Statement on pages 27 and 28. The Board is also responsible for issuing appropriate half-yearly financial reports and other price-sensitive public reports.

The following table shows the number of regularly scheduled meetings held by the Board and each committee for the year ended 31 March 2015 as well as the number of attendances at each meeting.

	Scheduled Board Meetings	Nomination Committee Meeting Attendance	Audit Committee Meeting Attendance
Board of Directors			
Tom Chandos	4/4	2/2	N/A
Graham Harrison	4/4	2/2	2/2
Talmai Morgan	4/4	2/2	2/2
Christopher Spencer	4/4	2/2	2/2
Mark Burton	4/4	2/2	N/A

Chairman

The Chairman, Mr Tom Chandos, is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. The Chairman is responsible for effective communication with Shareholders. Mr Chandos intends to retire as Chairman on 12 June 2015 and will be replaced by Mr. Cowdell.

Corporate Governance Statement (continued)

Board Independence
For the purposes of assessing compliance with the AIC Code Principle 1 and 2, the Board considers all of the current Directors as independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

Committees of the Board
In accordance with the AIC Code, the Board has established an Audit Committee and a Nomination Committee, in each case with formally delegated duties and responsibilities within written terms of reference.

The Board has not established a remuneration committee as the Company has no executive Directors or employees.

The Board has not established a management engagement committee as the Board undertakes the review of the contractual arrangements of the Company's service providers.

Audit Committee
The Audit Committee is chaired by Mr Spencer and its other members are Mr Morgan and Mr Harrison. Only independent Directors serve on the Audit Committee and members of the Audit Committee have no links with the Company's external Auditor and are independent of the Investment Manager. The terms of reference state that the Audit Committee will meet not less than twice a year. The report of the role and activities of this committee and its relationship with the external auditor is contained in the Audit Committee Report on pages 24 to 26.

Nomination Committee
The Nomination Committee is chaired by Mr Harrison and its other members are Mr Morgan, Mr Chandos, Mr Burton and Mr Spencer. The members of the Nomination Committee are and will be independent Directors. The terms of reference state that the Nomination Committee will meet not less than once a year, will have responsibility for considering the size, structure and composition of the Board, and retirements and appointments of additional and replacement Directors and that the Nomination Committee will make appropriate recommendations to the Board.

The Board aims to have a balance of skills, experience, diversity (including gender) and length of service and knowledge of the Company. The Board undertakes an evaluation of its performance on an annual basis. The performance of each Director is considered as part of a formal review by the Nomination Committee.

The holders of the position of the Chairman of the committees referred to above will be reviewed on an annual basis by the Nomination Committee. The membership of these committees and their terms of reference will be kept under review.

The performance of the Chairman of the Board will be assessed by another of the independent Directors through discussions with the other Directors.

Director Re-Election Tenure and Induction
The Nomination Committee has considered the question of a policy on Board tenure. It is strongly committed to striking the correct balance between the benefits of continuity and those that come from the introduction of new perspectives to the Board. As provided for in the Association of Investment Companies' guidelines and in order to phase future retirements and appointments (as all the directors other than Mr Burton and Mr Cowdell were appointed at the same time), the Board has not at this stage adopted any specific limits to terms, but expects to rotate other board members over the coming years. The Board regards all Directors as being fully independent.

The Board have adopted a policy whereby all Directors will be put up for re-election every year and thus all Directors will be put forward for re-election at the forthcoming AGM.

The Board has previously announced that, following the changes to the Board last year, it would continue the process of rotating long-serving members of the Board. The Board has begun to actively address this, and on 22 April 2015 the Company announced Bob Cowdell will be appointed to the Board of Directors of the Company as an independent Non-Executive Director with effect from 1 June 2015. He will take over as non-executive chairman, following the release of the Company's results for the year ended 31 March 2015.

Corporate Governance Statement (continued)

Internal controls
The Board has applied principle 15 of the AIC Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Company faces. The Board regularly reviews the process, which has been in place from the start of the financial year to the date of approval of this report. The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with principle 15 of the AIC Code, the Board regularly reviews the effectiveness of the Company's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from the Investment Manager to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this annual report. This assessment considers all significant aspects of internal control arising during the year covered by the report. The Audit Committee assists the Board in discharging its review responsibilities.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Investment management is provided by Cheyne Capital Management (UK) LLP. The Board is responsible for setting the overall investment policy and monitors the actions of the Investment Manager at regular Board meetings. Administration and Company secretarial services are provided by State Street (Guernsey) Limited. Regular compliance reports from both the Investment Manager and the Administrator are received by the Board. In addition, the Administrator makes available its SSAE16 report to the Board on an annual basis.

Custody of assets is undertaken by State Street Custodial Services (Ireland) Limited.

The Directors of the Company clearly define the duties and responsibilities of their agents and advisers, whose appointments are made by the Board after due consideration. The Board monitors the on-going performance of such agents and advisers. Each of the above agents and advisers maintain their own systems of internal control on which they report to the Board. The systems are designed to ensure effectiveness and efficient operation, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows, therefore, that the systems of internal control can only provide reasonable but not absolute assurance against the risk of material misstatement or loss.

While no formal committee has been appointed to consider the continuation of engagement of the relevant service providers, the whole Board reviews their performance. The Directors are satisfied that the continued appointment of the relevant service providers is in the best interests of the Shareholders and the Company.

The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Administrator and Investment Manager, including their own internal controls and procedures, provide sufficient assurance that a sound system of risk management and internal control, which safeguards Shareholders' investment and the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary. Full details are set out in the Audit Committee Report on pages 24 to 26.

Communication with Shareholders
The Company has appointed CTF Corporate & Financial as public relations consultant and Liberum Capital Limited and Investec Bank Plc as corporate brokers. Together with these parties, the Investment Manager assists the Board in communicating with the Company's major Shareholders.

Principal risk and uncertainties
Each Director is aware of the risk inherent in the Company's business and understands the importance of identifying, evaluating and monitoring these risks. The Board has adopted procedures and controls that enable it to manage these risks within acceptable limits and to meet all of its legal and regulatory obligations.

The Board considers the process for identifying, evaluating and managing any significant risks faced by the Company on an on-going basis and these risks are reported and discussed at Board meetings. It ensures that effective controls are in place to mitigate these risks and that a satisfactory compliance regime exists to ensure all applicable local and international laws and regulations are upheld.

Corporate Governance Statement (continued)

Principal risk and uncertainties (continued)
The Company's significant financial reporting risk factors are fully discussed in the Audit Committee Report and in Note 14 of these financial statements.

The Company's risk factors are fully discussed in the Strategic Report on pages 7 to 9 of these financial statements and in the Company's prospectus, available on the Company's website (www.recreditinv.com) and should be reviewed by Shareholders.

Changes in Regulation
The Board monitors and responds to changes in regulation as it impacts the Company and its policies. A number of changes of regulation occurred during the year.

Disclosure and Transparency Rules ("DTR")
With effect from 7 November 2014, Interim Management Statements are no longer required, following the abolition of DTR 4.3.

Alternative Investment Fund Management Directive ("AIFMD")
The Investment Manager has registered with the FCA as the Alternative Investment Fund Manager ("AIFM") of the Company, which is registered as an Alternative Investment Fund ("AIF"). For information on the Remuneration Policy and Leverage of the AIFM, please refer to pages 74 and 75 of the financial statements.

Foreign Account Tax Compliance Act ("FATCA")
The Company is registered with the Internal Revenue Service (IRS) as a Foreign Financial Institution for the purposes of the Foreign Account Tax Compliance Act (FATCA). The Board has taken steps to ensure the Company will be able to comply with the relevant requirements to the extent that they affect the Company.

The Company's Global Intermediary Identification Number (GIIN) is LAJDNQ.99999.SL.831.

Non-Mainstream Pooled Investments ("NMPI")
On January 2014 the Financial Conduct Authority ("FCA") rules relating to the restrictions on the retail distribution for unregulated collective investment schemes and close substitutes came into effect.

The Company currently conducts its affairs so that the shares issued by the Company can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investment products and intends to continue to do so for the foreseeable future.

The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment company, which if it were domiciled in the United Kingdom, would currently qualify as an investment trust.

European Market Infrastructure Regulation ("EMIR")
The Company, as an AIF, has appointed the Investment Manager as the AIFM of the Company, as such the Company is considered a Financial Counterparty for the purposes of EMIR.

Audit Committee Report

The Audit Committee
The Audit Committee is chaired by Mr Spencer and its other members are Mr Morgan and Mr Harrison. Only independent Directors serve on the Audit Committee and members of the Audit Committee have no links with the Company's external Auditor and are independent of the Investment Manager. The terms of reference state that the Audit Committee will meet not less than twice a year and will meet the external Auditor at least once a year. The terms of reference include all matters indicated in the Disclosure and Transparency Rule 7.1 and the AIC Code.

The Board has taken note of the requirement that at least one member of the Committee should have recent and relevant financial experience and is satisfied that the Committee is properly constituted in that respect with all members being highly experienced and, in particular, the Chairman having a background as a chartered accountant.

Responsibilities
The Audit Committee has regard to the UK Code and the AIC Code. The Audit Committee examines the effectiveness of the Company's internal control systems, the integrity of the annual and half-yearly reports and Financial Statements and ensures that they are fair, balanced and understandable and provide the information necessary. They also consider the auditors' remuneration and engagement, as well as the auditors' independence and any non-audit services provided by them. Other areas of responsibility include:

- Consideration of the accounting policies of the Company;
- Consideration of the fair value of the Company's investments and income generated from the portfolio;
- Meeting with the external auditor to discuss the proposed audit plan and reporting;
- Assess the effectiveness of the external auditor and audit process;
- Consideration of the need for an internal audit function and review of the Investment Manager and Administrator and Depositary independent reports;
- Consideration of the risks facing the Company including the Company's Anti-Bribery and Corruption obligations; and
- Monitoring the Company's procedures for ensuring compliance with statutory regulations and other reporting requirements.

In all of the above considerations, the Audit Committee seeks the appropriate input from the Auditors, Investment Manager, Administrator, Legal Counsel and make a recommendation to the Board of the Company as appropriate.

Meetings
The Audit Committee meets at least twice annually, shortly before the Board meets to consider the Company's half-yearly and annual financial reports, and reports to the Board with its deliberations and recommendations and also has an annual planning meeting with the Auditor.

The Audit Committee operates within clearly defined terms of reference and provides a forum through which the Company's external auditors report to the Board. The Audit Committee receives information from the Company's service providers with the majority of information being directly sourced from the Secretary, Administrator and the external auditors. The terms of reference of the Audit Committee are available from the Company's registered office. The Audit Committee considers the nature, scope and results of the Auditor's work and reviews annually prior to providing a recommendation to the Board on the re-appointment or removal of the Auditor. When evaluating the external auditor the Committee has regard to a variety of criteria including industry experience, independence, reasonableness of audit plan, ability to deliver constructive criticism, effectiveness of communication with the Board and the Company's service providers, quality control procedures, management of audit process and added value beyond assurance in audit opinion.

Significant issues considered over financial reporting
The Audit Committee determined that the key risks of misstatement of the Company's Financial Statements relate to the valuation of the Core portfolio and the judgements over fair value and income recognition.

See the Strategic Report on pages 7 to 9 and Note 14 for additional information regarding principal risks and uncertainties.

On an on-going basis, the Board reviews a report from the Investment Manager at each Board meeting which sets out a review of the portfolio and the performance of the portfolio. The report also details earnings forecasts and asset class analysis. As a result, the Board is able to interrogate the Investment Manager on the basis of the assumptions made and the validity of the expected forecasts.

Valuation of Core Portfolio
With regards to the Core's Bond investments the Audit Committee has considered the pricing source, validity of the liquidity profile and the cash received from sale versus the amount attributed as fair value. The Committee found that the assumptions used were reasonable and the valuations had been recognised in line with the requirements of the International Financial Reporting Standards ("IFRS").

Audit Committee Report (continued)

Significant issues considered over financial reporting (continued)

Valuation of Core Portfolio (continued)
With regards to the Core's Real Estate Loan investments the Audit Committee has considered and challenged the Investment Manager regarding the projected effective yields, the stated credit quality of the borrower and the quality of the underlying collateral. The Committee found that the assumptions used were reasonable and the valuations had been recognised in line with the requirements of the IFRS.

Income Recognition
The Audit Committee and the Board as a whole regularly considered and challenged the Investment Manager's expected realisation or maturity dates and the resultant expected cash flows. The Committee found that the assumptions used were reasonable and that whilst there is an on-going risk that the expected realisation or maturity dates may be misstated in the future, the Committee and the Board are satisfied that the dates attributed during the year and the Investment Manager's methods of calculating them are reasonable and in line with IFRS.

Risk Management
The Company's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Committee. The work of the Audit Committee is driven primarily by the Company's assessment of its principal risks and uncertainties as set out in the Strategic Report and in Note 14 of the Financial Statements and it receives reports from the Investment Manager on the Company's risk evaluation process and reviews changes to significant risks identified.

Internal Audit
The Committee considers at least once a year whether or not there is a need for an internal audit function. Currently the Committee believes that, given the Company has no employees, the external audit report provided by the Administrator and the reporting provided by the Investment Manager are sufficient.

External Audit
Deloitte LLP has been the Company's external Auditor since the Company's inception. This is the 10th period of audit.

The objectivity of the Auditor is reviewed by the Committee which also reviews the terms under which the external Auditor may be appointed to perform non-audit services. Auditor independence is maintained through limiting non-audit services to tax reporting and audit-related work that falls within defined categories, for example the verification of the Company's calculations in respect of newly issued shares. All engagements with the Auditor are subject to pre-approval from the Audit Committee and fully disclosed within the Annual Financial Report for the relevant period. A new lead audit partner is appointed every five years and the Audit Committee ensures the Auditor has appropriate internal mechanisms in place to ensure its independence.

John Clacy was appointed lead audit partner and has served in that capacity since 2011. This is John Clacy's last year as audit partner and a new partner, David Becker, will be appointed lead audit partner for the year ending 31 March 2016. The Audit Committee has recommended to the Board that the re-appointment of Deloitte LLP as the Company's external auditors be proposed to Shareholders at the 2015 Annual General Meeting. The Audit Committee will consider arranging for the external audit contract to be tendered in due course with the aim of ensuring a continuing high quality and effective audit.

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to the level of non-audit fees. During the year, Deloitte LLP was engaged to analyse the Company's retention test under the NMPI rules.

In order to maintain auditor independence, Deloitte LLP ensured the following safeguards were in place:

- the use of review partners from outside of the core audit team to ensure professional scepticism was applied appropriately; and
- Second partner and Independent Partner reviews, together with a quality assurance review were undertaken as part of the interim review and the final audit stage.

Notwithstanding such services, the Audit Committee considers Deloitte LLP to be independent of the Company and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit as appropriate safeguards are in place.

To fulfil its responsibility regarding the independence of the Auditor, the Audit Committee considers:

- discussions with or reports from the Auditor describing its arrangements to identify, report and manage any conflicts of interests; and
- The extent of non-audit services provided by the Auditor and arrangements for ensuring the independence, objectivity and robustness and perceptiveness of the auditor and their handling of key accounting and audit judgements.

Audit Committee Report (continued)

External Audit (continued)
To assess the effectiveness of the Auditor and the audit process, the Committee reviews:

- the Auditor's fulfilment of the agreed audit plan and variations from it;
- discussions or reports highlighting the major issues that arose during the course of the audit;
- feedback from other service providers evaluating the performance of the audit team;
- arrangements for ensuring independence and objectivity; and
- Robustness of the Auditor in handling key accounting and audit judgements.

The Audit Committee is satisfied with the audit process and Deloitte LLP's effectiveness and independence as an Auditor having considered the degree of diligence and professional scepticism demonstrated by them. Having carried out the review described above and having satisfied itself that the Auditor remains independent and effective, the Audit Committee has recommended to the Board that Deloitte LLP be reappointed as Auditor for the year ending 31 March 2016.

On behalf of the Audit Committee

Christopher Spencer
Chairman of the Audit Committee

10 June 2015

Directors' Responsibilities

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

The Companies (Guernsey) Law, 2008 requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards ("IFRS"). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 ("IAS 1") requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Guernsey and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

1. The consolidated financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

2. The Chairman's Statement, the Strategic Report and the Investment Manager's Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

3. So far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 249 of the Companies (Guernsey) Law, 2008 (as amended).

The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Directors consider the Annual Report and Financial Statements, taken as a whole, as fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Christopher Spencer
Director

Talmai Morgan
Director

10 June 2015

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited (the "Company")

Opinion on financial statements of Real Estate Credit Investments PCC Limited

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as issued by the IASB.

Going concern

We have reviewed the directors' statement on page 17 that the Company is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited (the "Company") (continued)

Risk	How the scope of our audit responded to the risk
Valuation of investments in Real Estate Debt Bonds ("Bonds") and Real Estate Loans ("Loans") portfolios Investments in Bonds and Loans of £146.5m makes up 90% of total assets and is the key value driver for the Company's Net Asset Value (NAV) and interest income. As described in Notes 2, 3 and 14 to the financial statements, judgements over the liquidity profile of the Bonds, credit quality of the borrower and underlying collateral in respect of the Loans, which impact fair value estimates could significantly affect these key performance indicators.	We evaluated and challenged management's valuation methodology of the Company's investments. Our procedures in respect of the Bonds included: • obtaining independent prices of the investments held within the Bond Portfolio; • independently verifying the liquidity profile of the Bond Portfolio for their classification in the Fair Value Hierarchy; and • verifying any proceeds received from the sale of investments within the Bond Portfolio, both during the year and subsequent to 31 March 2015, against their fair value recognised prior to sale. Our procedures in respect of the Loans included: • evaluating effective yields on the portfolio against current market rates for similar portfolios with similar characteristics; • reviewing the credit quality of the borrower and other financial information available to assess the ability of the borrower to meet future payment commitments of both interest and principal; • reviewing the performance and credit quality of the underlying collateral; and • consulting with our Debt Advisory specialists on current market rates.
Interest income recognised from investments As described in Note 2 to the financial statements, the portfolios' expected realisation or maturity profile and expected cash flows are key inputs in arriving at the effective interest rate used to recognise interest income over the expected life of the portfolio, and these judgements may have a significant impact on the level of interest income recorded in the year.	Our procedures included: • for new investments acquired, recalculating the effective interest rate on a sample basis, which included making enquiries with the Investment Manager on their assumptions on the expected realisation or maturity dates and independently verifying these assumptions against the prospectus of the underlying positions; and • for existing investments, recalculating interest income on a sample basis using the effective interest rate determined on the date acquired, which have been audited previously.

Last year our report included one other risk which is not included in our report this year, the valuation of the Cell's investments in Residual Income positions. During the year the Cell has disposed of all its residual income positions, with the exception of one position which has been fair valued at zero in the financial statements.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 24 and 25.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited (the "Company") (continued)

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Company to be £3.2 million (2014: £3.2 million), having regard for the Net Asset Value and Preference Share liability of the Company as this represents total shareholders' interest. This approximates to 2.7% (2014: 2.6%) of the Company's Net Asset Value.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £64,000 (2014: £60,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including internal controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement in the Company was performed directly by the audit engagement team.

Our audit scope has changed from the prior year, where the Company and a special purpose vehicle ("SPV") comprised the Group and the assets held by the SPV were consolidated. However, the impact of adopting the Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), as described on page 41, has resulted in the investment in the SPV being held at fair value through profit and loss and no longer consolidated.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records.

We have nothing to report in respect of these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:
- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited (the "Company") (continued)

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

John Clacy FCA
For and on behalf of Deloitte LLP
Chartered Accountants and Recognised Auditor
Guernsey, Channel Islands

10 June 2015

Statement of Comprehensive Income
For the year ended 31 March 2015

	Note	RECI Core 31 Mar 2015 GBP	ERII Cell 31 Mar 2015 EUR	Total 31 Mar 2015 GBP
Interest income	6	15,849,467	315,431	16,096,933
Net gains on financial assets and liabilities at fair value through profit or loss	4	5,708,663	16,286,838	18,486,201
		21,558,130	16,602,269	34,583,134
Operating expenses	5	(4,240,387)	(658,989)	(4,757,385)
Profit before finance costs		17,317,743	15,943,280	29,825,749
Finance costs	6	(3,520,488)	-	(3,520,488)
Net profit		**13,797,255**	**15,943,280**	**26,305,261**
Profit per Ordinary Share				
Basic	8	£0.19	€2.34	
Diluted	8	£0.19	€2.34	
Weighted average Ordinary Shares outstanding		**Number**	**Number**	
Basic	8	72,818,496	6,799,475	
Diluted	8	72,818,496	6,799,475	

All items in the above statement are derived from continuing operations.

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

Statement of Comprehensive Income
For the year ended 31 March 2014

	Note	RECI Core 31 Mar 2014 GBP	ERII Cell 31 Mar 2014 EUR	Total 31 Mar 2014 GBP
Interest income	6	13,745,995	1,843,343	15,300,754
Net gains/(losses) on financial assets and liabilities at fair value through profit or loss	4	978,047	(1,952,500)	(668,780)
		14,724,042	(109,157)	14,631,974
Operating expenses	5	(2,900,614)	(552,566)	(3,366,673)
Profit/(loss) before finance costs		11,823,428	(661,723)	11,265,301
Finance costs	6	(3,687,027)	-	(3,687,027)
Net profit/(loss)		**8,136,401**	**(661,723)**	**7,578,274**
Profit/(loss) per Ordinary Share				
Basic	8	£0.15	€(0.04)	
Diluted	8	£0.15	€(0.04)	
Weighted average Ordinary Shares outstanding		**Number**	**Number**	
Basic	8	52,677,063	16,722,270	
Diluted	8	52,677,063	16,722,270	

All items in the above statement are derived from continuing operations.

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

Statement of Financial Position
As at 31 March 2015

	Note	RECI Core 31 Mar 2015 GBP	ERII Cell 31 Mar 2015 EUR	Total 31 Mar 2015 GBP
Non-current assets				
Investments at fair value through profit or loss	9	146,533,667	-	146,533,667
		146,533,667	-	146,533,667
Current assets				
Cash and cash equivalents		8,091,170	441,256	8,410,408
Derivative financial assets - options held for trading	9	4,815,213	-	4,815,213
Derivative financial assets - unrealised gain on forward foreign exchange contracts	9	3,454	-	3,454
Other assets	11	3,483,793	1,271	3,484,713
		16,393,630	442,527	16,713,788
Total assets		**162,927,297**	**442,527**	**163,247,455**
Equity and liabilities				
Equity				
Reserves		118,148,032	-	118,148,032
		118,148,032	-	118,148,032
Current liabilities				
Derivative financial liabilities - unrealised loss on forward foreign currency exchange contracts	9	468,791	-	468,791
Amounts distributable to Shareholders	13	-	347,063	251,092
Other liabilities		2,580,500	95,464	2,649,566
		3,049,291	442,527	3,369,449
Non-current liabilities				
Preference Shares	13	41,729,974	-	41,729,974
Total liabilities		44,779,265	442,527	45,099,423
Total equity and liabilities		**162,927,297**	**442,527**	**163,247,455**
Shares outstanding	13	72,818,496	N/A	
Net asset value per share		£1.623	N/A	

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

These financial statements were approved by the Board of Directors on 10 June 2015.

Signed on behalf of the Board of Directors by:

Christopher Spencer
Director

Talmai Morgan
Director

Statement of Financial Position
As at 31 March 2014

	Note	RECI Core 31 Mar 2014 GBP	ERII Cell 31 Mar 2014 EUR	Total 31 Mar 2014 GBP
Non-current assets				
Investments at fair value through profit or loss	9	133,516,951	9,375,888	141,268,091
		133,516,951	9,375,888	141,268,091
Current assets				
Cash and cash equivalents		18,346,637	1,143,441	19,291,931
Derivative financial assets - options held for trading	9	1,587,027	-	1,587,027
Derivative financial assets - unrealised gain on forward foreign exchange contracts	9	274,079	-	274,079
Other assets	11	3,270,188	53,438	3,314,366
		23,477,931	1,196,879	24,467,403
Total assets		**156,994,882**	**10,572,767**	**165,735,494**
Equity and liabilities				
Equity				
Reserves		112,215,175	10,517,460	120,910,064
		112,215,175	10,517,460	120,910,064
Current liabilities				
Derivative financial liabilities - options held for trading	9	230,756	-	230,756
Fair value of credit default swaps - liability balance	9	309,622	-	309,622
Payable for preference shares repurchased		1,559,258	-	1,559,258
Other liabilities		1,116,151	55,307	1,161,874
		3,215,787	55,307	3,261,510
Non-current liabilities				
Preference Shares	13	41,563,920	-	41,563,920
Total liabilities		44,779,707	55,307	44,825,430
Total equity and liabilities		**156,994,882**	**10,572,767**	**165,735,494**
Shares outstanding	13	72,818,496	15,392,148	
Net asset value per share		£1.541	€0.683	

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

Statement of Changes in Equity
For the year ended 31 March 2015

	Note	RECI Core GBP	ERII Cell EUR	Total GBP
Balance at 31 March 2013		60,035,991	15,377,708	73,040,367
Net profit/(loss) for the year		8,136,401	(661,723)	7,578,274
Issue of Ordinary Shares of the Company		50,000,000	-	50,000,000
Redemption of Cell Shares	13	-	(2,410,812)	(2,033,388)
Issuance expenses in respect of Placing of New Core Shares		(1,125,000)	-	(1,125,000)
Distribution to the Ordinary Shareholders of the Company	7	(4,832,217)	(1,787,713)	(6,340,055)
Foreign currency translation adjustment		-	-	(210,134)
Balance at 31 March 2014		**112,215,175**	**10,517,460**	**120,910,064**
Balance at 31 March 2014		112,215,175	10,517,460	120,910,064
Net profit for the year		13,797,255	15,943,280	26,305,261
Redemptions of Cell Shares	13	-	(25,621,128)	(20,100,583)
Distribution to the Ordinary Shareholders of the Company	7	(7,864,398)	(839,612)	(8,523,100)
Foreign currency translation adjustment		-	-	(464,800)
Balance at 31 March 2015		**118,148,032**	**-**	**118,148,032**

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

Statement of Cash Flows
For the year ended 31 March 2015

	RECI Core 31 Mar 2015 GBP	ERII Cell 31 Mar 2015 EUR	Total 31 Mar 2015 GBP
Profit before finance costs	17,317,743	15,943,280	29,825,749
Movement in investments at fair value through profit or loss*	(13,016,716)	9,375,888	(5,661,036)
Movement in financial derivative instruments*	(3,029,148)	-	(3,029,148)
Operating cash flows before movement in working capital	**1,271,879**	**25,319,168**	**21,135,565**
(Increase)/decrease in receivables	(213,605)	52,167	(175,863)
(Decrease)/Increase in payables	(94,909)	40,157	(65,856)
Movement in working capital	**(308,514)**	**92,324**	**(241,719)**
Net cash inflow from operating activities	**963,365**	**25,411,492**	**20,893,846**
Financing activities			
Redemptions paid to Cell Shareholders	-	(25,621,128)	(20,100,583)
Distributions paid to Ordinary Shareholders	(7,864,398)	(492,549)	(8,250,818)
Preference dividends paid	(3,354,434)	-	(3,354,434)
Net cash outflow from financing activities	**(11,218,832)**	**(26,113,677)**	**(31,705,835)**
Net decrease in cash and cash equivalents	(10,255,467)	(702,185)	(10,811,989)
Cash and cash equivalents at the start of the year	18,346,637	1,143,441	19,291,931
Foreign currency translation adjustment	-	-	(69,534)
Cash and cash equivalents at end of year	**8,091,170**	**441,256**	**8,410,408**

*The Company made sales of £141,727,275 and purchases of £133,197,924 during the year ended 31 March 2015 (including purchases and sales of financial derivative instruments and paydowns/payups).

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

Statement of Cash Flows
For the year ended 31 March 2014

	RECI Core 31 Mar 2014 GBP	ERII Cell 31 Mar 2014 EUR	Total 31 Mar 2014 GBP
Profit/(loss) before finance costs	11,823,428	(661,723)	11,265,301
Movement in investments at fair value through profit or loss*	(38,943,309)	3,212,608	(36,233,650)
Movement in financial derivative instruments*	281,663	-	281,663
Operating cash flows before movement in working capital	**(26,838,218)**	**2,550,885**	**(24,686,686)**
(Increase)/decrease in receivables	(2,422,887)	1,763,344	(965,113)
Increase/(decrease) in payables	1,674,384	(84,473)	1,604,549
Movement in working capital	**(748,503)**	**1,678,871**	**639,436**
Net cash (outflow)/inflow from operating activities	**(27,586,721)**	**4,229,756**	**(24,047,250)**
Financing activities			
Redemptions paid to Cell Shareholders	-	(2,410,812)	(2,033,388)
Distributions paid to Ordinary Shareholders	(4,832,217)	(1,787,713)	(6,340,055)
New Core Shares issued	50,000,000	-	50,000,000
Issuance expenses in respect of placing of New Core Shares	(1,125,000)	-	(1,125,000)
Preference dividends paid	(3,577,027)	-	(3,577,027)
Preference shares repurchased	(3,032,415)	-	(3,032,415)
Net cash inflow/(outflow) from financing activities	**37,433,341**	**(4,198,525)**	**33,892,115**
Net increase in cash and cash equivalents	9,846,620	31,231	9,844,865
Cash and cash equivalents at the start of the year	8,500,017	1,112,210	9,440,573
Foreign currency translation adjustment	-	-	6,493
Cash and cash equivalents at end of year	**18,346,637**	**1,143,441**	**19,291,931**

*The Company made sales of £81,854,056 and purchases of £114,637,229 during the year ended 31 March 2014 (including purchases and sales of financial derivative instruments and paydowns/payups).

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

Notes to the Financial Statements
For the year ended 31 March 2015

1. General information

Real Estate Credit Investments PCC Limited (the "Company") was registered on 6 September 2005 with registered number 43634 and is domiciled in Guernsey, Channel Islands. The Company commenced its operations on 8 December 2005.

The Company is an authorised closed-ended protected cell company, being a cellular company governed by the Companies (Guernsey) Law 2008, comprising a core segment (the "Core" or "RECI") and a cell segment (the "Cell" or "ERII Cell") each of which has its own portfolio of assets, investment objective and sub-section of the Company's Investment Policy. The investment policy of the Company is sub-divided into an investment policy for the Core and an investment policy for the Cell. This is to reflect the fact that the Investment Manager is responsible for managing two discrete pools of assets, one, represented by the Core, into which Ordinary Shareholders are invested and one, represented by the Cell, into which Cell Shareholders are invested.

"Group" was defined as the Company and Trebuchet Finance Limited ("Trebuchet"). The Company held a participation note in Trebuchet, a SPE over which the Company was exposed to the majority of its benefits and business risks. Trebuchet was consolidated in the financial statements of the Group as at 31 March 2014 under SIC 12, Consolidation - special purpose entities. The Company adopted IFRS 10 "Consolidated Financial Statements – Investment Entities Amendment" as of 1 April 2014 in its financial statements, whereby an investment entity shall not consolidate its subsidiaries but instead measure an investment in a subsidiary at fair value through profit or loss. Following the sale of all of the assets held in Trebuchet in September 2014, the Board of Directors of Trebuchet resolved to terminate that company and subsequently cancel the Participation Note.

The investment objective for the Core is to invest primarily in debt secured by commercial or residential properties in Western Europe and the United Kingdom ("Real Estate Debt Investments"). The Real Estate Debt Investments may take different forms but will be likely to be: (i) securitised tranches of secured real estate related debt securities, for example, RMBS and CMBS (together MBS); and (ii) secured real estate loans, debentures or any other form of debt instrument.

As defined in the Prospectus, the investment objective of the Cell was to pay to Cell Shareholders the Net Cell Proceeds and to provide Cell Shareholders with exposure to an amortising portfolio of Residual Income Positions. Following the sales of the remaining assets of the Cell portfolio, with the exception of one position which has been held at a fair value of EUR Nil since inception of the Cell, the Directors announced a distribution from the assets sales and the redemption of the shares. It is not expected the remaining position in the Cell will have a value for the foreseeable future and this position will continue to be held for the moment. The Directors approved the distribution of the proceeds from the Cell (less any final expenses for its closure) to the ERII Shareholders.

The Core Ordinary Shares reflect the performance of the Core's real estate debt strategy. The Core Ordinary Shares are currently listed on the premium segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc (ticker RECI). The Core Ordinary Shares offer investors a levered exposure to a portfolio of real estate credit investments and aim to pay a quarterly dividend. Such leverage is provided by the Preference Shares which confer the right to a preferential cumulative preference dividend (which is an amount in Sterling equal to 8 per cent per annum of the Preference Share Notional Value) payable quarterly on each Payment Date. The Core Preference Shares are currently listed on the standard segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc (ticker RECP).

The real estate debt investment strategy of the Core focuses on secured residential and commercial debt in the UK and Western Europe. In making these investments the Company uses the expertise and knowledge of its investment manager, Cheyne Capital Management (UK) LLP (the "Investment Manager"), an investment management firm authorised and regulated by the UK Financial Conduct Authority. The Company has adopted a long-term strategic approach to investing and focuses on identifying value.

The Cell Ordinary Shares traded on the Specialist Fund Market of the London Stock Exchange plc (ticker ERII). Dividends or distributions were only paid by the Cell to the extent that the asset cover ratio (the Preference Share Cover Test) for the Core Preference Shares was satisfied. The Company announced the return of predominantly all of the Cell's capital to ERII shareholders on 24 November 2014. The trading of the Cell Shares on the Specialist Funds Market of the London Stock Exchange (ticker ERII LN) was cancelled on 23 December 2014 following the realization of ERII's substantive assets. One remaining asset currently held at zero valuation will be retained for the time being.

The liabilities in relation to the Preference Shares, being both quarterly Preference Dividends and the repayment of the final capital entitlement of the Preference Shares (the "Final Capital Entitlement"), are borne by the Company. The Company will continue to fulfil its obligations towards the Preference Shareholders with respect to the distribution of Preference Dividends. Such obligations are met using the income available in the Core and, if necessary, the Core Assets themselves.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

1. General information (continued)

Should the Core Income and Assets be insufficient to meet the Company's liabilities in respect of Preference Dividends and/or the Final Capital Entitlement when they fall due, it was intended that the Directors would call upon the income of the Cell and, where such income was insufficient to satisfy such liabilities, the assets of the Cell to satisfy the liabilities (the "Inter-Cellular Arrangement"). Following the sale of the positions in the Cell during the year and the subsequent distribution to the Cell Shareholders, the terms of the Inter-Cellular Arrangement are no longer applicable.

The Company's investment management activities are managed by the Investment Manager, who is also the AIFM. The Company has entered into an Investment Management Agreement (the "Investment Management Agreement") under which the Investment Manager manages its day-to-day investment operations, subject to the supervision of the Company's Board of Directors. The Company is an Alternative Investment Fund ("AIF") within the meaning of the Alternative Investment Fund Manager ("AIFM") Regulations and accordingly the Investment Manager has been appointed as AIFM of the Company. The Company has no direct employees. For its services, the Investment Manager receives a monthly management fee (which includes a reimbursement of expenses) and accrues a performance fee (see Note 18). The Company and the Investment Manager agreed that an Incentive Fee would not be charged on the Cell Assets.

The Company has no ownership interest in the Investment Manager. State Street (Guernsey) Limited is the Administrator and provides all administration and secretarial services to the Company in this capacity.

2. Significant accounting policies

Statement of compliance
The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, together with applicable legal and regulatory requirements of Guernsey Law and the Listing Rules of the UK Listing Authority. With the exception of those described below, the same accounting policies, presentation and methods of computation have been followed in these financial statements as were applied in the preparation of the Company's audited financial statements for the year ended 31 March 2014.

New standards adopted

IFRS 10 Consolidated Financial Statements and Investment Entities Amendments
IFRS 10 "Consolidated Financial Statements" Investment Entities Amendment as issued provides an exception to consolidation requirements for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IAS 39. The standard is effective for annual periods beginning on or after 1 January 2014.

For the year ended 31 March 2015, the Company adopted IFRS 10 "Consolidated Financial Statements", including the Amendments, "Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27)". Under the transitional provisions of IFRS 10, this change in accounting policy is required to be accounted for retrospectively.

The impact of adopting the Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) is the exclusion from consolidation of assets, liabilities, income and expenses of Trebuchet which were previously consolidated on a line-by-line basis. The investment in Trebuchet is now held at fair value through profit and loss and no longer consolidated.

As Trebuchet is being liquidated, there was no impact on the current year's financial position. As the profit participating note transferred all the economic value within Trebuchet to the Cell, the fair value of the Cell's investment into Trebuchet was represented by either the fair value of the underlying residual income position or as a receivable under the profit participating note in respect of other net assets of Trebuchet, such as receivables from asset disposals. This results in an immaterial impact on the prior year Statement of Financial Position and Statement of Comprehensive Income.

New standards, amendments and interpretations issued but not effective and not early adopted
IAS 24, "Related Party Disclosures" amendment adds an entity to the definition of key management personnel when that entity or any member of a group of which it is a part provides key management personnel services to the reporting entity or to the parent of the reporting entity and is effective for annual periods beginning on or after 1 July 2014. Amounts incurred by the Company for the provision of key management personnel services by a separate management entity shall be disclosed. The amendment is not expected to have any impact on the Company's financial position or performance but will require additional disclosures.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

2. Significant accounting policies (continued)

New standards adopted (continued)

New standards, amendments and interpretations issued but not effective and not early adopted (continued)
IFRS 9 "Financial Instruments", addressed the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at 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, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option 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 the income statement, unless this creates an accounting mismatch.

The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2018. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

IFRS 14 "Regulatory Deferred Accounts" was issued in January 2014 and will become effective for the periods beginning on or after 1 January 2016. The new standard is not expected to have any impact on the Company's financial position, performance or disclosures in its financial statements.

IFRS 15 "Revenue from Contracts with Customers" was issued in May 2014 and will become effective for periods beginning on or after 1 January 2017. The new standard is not expected to have any impact on the Company's financial position, performance or disclosures in its financial statements.

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

Basis of preparation
The financial statements of the Company are prepared under International Financial Reporting Standards on the historical cost or amortised cost basis modified by the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified or designated at fair value through profit or loss.

The functional and presentation currency of the Company and Core is GBP. The functional and presentation currency of the Cell is Euro. These functional currencies of the Core and Cell best represent the economic environment in which the Core and Cell operate. The presentation currency of the combined financial statements is GBP.

The Auditor's Report on the Financial Statements for the year ended 31 March 2014 was not qualified but did include an emphasis of matter in relation to the uncertainty over the valuation of the ERII Cell's illiquid investments and did not contain a statement under section 263(2) and (3) of The Companies (Guernsey) Law, 2008.

Going Concern
The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. Regarding the ongoing funding of the Company's Preference Shares, the Directors have taken into account the current cash balance, the forecast cash inflows and outflows from the investments and operating expenses.

The Directors note the cash resources available at 31 March 2015 (£8.4m), some of which will be used to pay the proposed dividend, are sufficient to cover normal operational costs and current liabilities as they fall due for the foreseeable future.

Investments
Investments in Real Estate Debt Investments are recognised initially at their acquisition cost (being fair value at acquisition date) as debt securities. Thereafter they are re-measured at fair value and are designated as fair value through profit or loss investments in accordance with the Amendment to International Accounting Standard 39 ("IAS 39") Financial Instruments: Recognition and Measurement-The Fair Value Option, as the Company is an investment Company whose business is investing in financial assets with a view to profiting from their total return in the form of interest and changes in fair value.

Financial assets classified as at fair value through profit or loss are recognised/derecognised by the Company on the date it commits to purchase/sell investments.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

2. Significant accounting policies (continued)

Cash and cash equivalents
Cash and cash equivalents includes amounts held in interest bearing accounts and overdraft facilities with original maturities of less than three months.

Derivative financial instruments
Derivative financial instruments used by the Company to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities that do not qualify for hedge accounting are accounted for as held for trading instruments. Derivative financial instruments are recognised initially at fair value.

Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Statement of Comprehensive Income.

The fair value of credit default swaps is the net present value of all future cash flows of the fixed side of the swap discounted to their present value using the appropriate interest rate and all future cashflows of the default side of the swap are discounted to the default payer. This cost is determined by the recovery rate, notional amount of the contract and default probability among other factors.

The fair value of options is their quoted market price at the reporting date. Broker marks are obtained for these positions. The change in value is recorded in net gains/(losses) in the Statement of Comprehensive Income. Realised gains and losses are recognised on the expiry or sale of the option.

The fair value of an open forward foreign currency exchange contract is calculated as the difference between the contracted rate and the current forward rate that would close out the contract on the reporting date. The change in value is recorded in net gains/(losses) in the Statement of Comprehensive Income. Realised gains and losses are recognised on the maturity of a contract, or when the contract is closed out and they are transferred to realised gains or losses in the Statement of Comprehensive Income.

Fair value
All financial assets carried at fair value are initially recognised at cost and subsequently re-measured at fair value. If independent prices are unavailable, the fair value of the financial asset is estimated by reference to market information which includes but is not limited to broker marks, prices of comparable assets and using pricing models incorporating discounted cash flow techniques.

These pricing models apply assumptions regarding asset specific factors and economic conditions generally, including delinquency rates, severity rates, prepayment rates, default rates, maturity profiles, interest rates and other factors that may be relevant to each financial asset.

The objective of a fair value measurement is to determine the price at which an orderly transaction would take place between market participants on the measurement date; rather than the price arrived at in a forced liquidation or distressed sale. Where the Company has considered all available information and there is evidence that the transaction was forced, it will not use such a transaction price as being determinative of fair value.

With regard to Residual Income Positions, historical performance and observable market data was analysed to determine the average level of these factors and their volatility over time. These assumptions were typically derived by reference to the historical delinquencies, defaults, recoveries and prepayments actually realised by the originator of the underlying assets and any empirical data that may have been available in respect of any of these factors for the particular asset class. With the exception of one position which has been held at a fair value of EUR Nil since inception of the Cell, all of the Residual Income Positions were sold during the year.

Note 3 provides specific information regarding the determination of fair value for the Company's bonds, loans and residual income positions.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported within assets and liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities
The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to the contractual cash flows on the financial asset in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred and the transfer qualifies for derecognition in accordance with IAS 39. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. Gains or losses on derecognition are calculated on an average cost basis.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

2. Significant accounting policies (continued)

Interest-bearing loans and borrowings
Interest bearing borrowings are recognised initially at fair value. Transaction costs are expensed in the Statement of Comprehensive Income. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income using the effective interest rate method. Financing costs associated with the issuance of financings are recognised in the Statement of Comprehensive Income using the effective interest rate method.

Preference Shares
The value of the Preference Shares represent an obligation on the Company to pay the Preference Share's Notional Value on winding up of the Company or on redemption of the Preference Shares in accordance with their terms. The fair value of the Preference Shares amounts to the Notional Value of the Preference Shares, less the costs arising from the issue of these shares. Subsequent to initial measurement, the Preference Shares are remeasured at amortised cost using the effective interest rate method over the life of the Preference Shares of seven years.

The Preference Shares have been classified as non-current liabilities in these financial statements. The amortisation of the Preference Shares are treated as a finance cost through the Statement of Comprehensive Income. The Preference Shareholders are entitled to a Preference Dividend equal to 8% per annum of the Preference Share Notional Value. The Preference Dividends are accrued at each valuation point and paid quarterly. Dividends owing to Preference Shareholders are shown as a finance cost in the Statement of Comprehensive Income on an accruals basis.

Expenses attributable to the Placing and Open Offer and the Bonus Issue
The expenses of the Company attributable to any Placing and Open Offer and the Bonus Issues are those which are necessary to implement the Placing and Open Offer and the Bonus Issues. Such expenses included registration, listing and admission fees, corporate finance fees, printing, advertising and distribution costs, legal fees and other applicable expenses.

These expenses are allocated to the Ordinary and Preference Shareholders based on a pro-rata allocation as appropriate. Expenses attributable to the Ordinary Shareholders are recognised as incurred and are included as a reduction to Reserves in the Statement of Changes in Equity. Expenses attributable to the Preference Shareholders are being amortised over the remaining life of the Preference Shares and the amortisation is included in Finance Costs in the Statement of Comprehensive Income.

Treasury Shares
Where the Company purchases the Company's shares in issue (Core Ordinary, Preference and Cell Ordinary Shares), the consideration paid is deducted from the total Equity in the case of Core Ordinary and Cell Ordinary Shares and from the total Preference Shares liability in the case of Preference Shares and classified as Treasury Shares until they are cancelled. Where such shares are subsequently sold or reissued any consideration received is included in total Equity or Preference Share liability as the case may be.

Functional and presentation currency
The functional and presentation currency of the Company and Core is GBP (£). The functional and presentation currency of the Cell is Euro (€). These functional currencies of the Core and Cell best represent the economic environment in which the Core and Cell operate. The presentation currency of the combined financial statements is GBP.

Foreign currency transactions
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated to GBP or Euro at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in gains and losses on financial assets and liabilities at fair value through profit or loss in the Statement of Comprehensive Income. Foreign currency denominated non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to GBP at foreign exchange rates ruling at the reporting date. Differences arising on translation of these non-monetary assets and liabilities between valuation points are recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

2. Significant accounting policies (continued)

Interest income
Interest income is accrued based on the expected realisation date of the investments using the effective interest method as defined under International Accounting Standard 39. Where the Company adjusts its expected cash flow projections to take account of any change in underlying assumptions, such adjustments are recognised in Interest Income in the Consolidated Statement of Comprehensive Income by reflecting changes in a revised amortised cost value of the investment calculated using the original effective interest rate and applying the original effective interest rate to this revised amortised cost value for the purposes of calculating future income.

Expenses
All expenses are included in the Statement of Comprehensive Income on an accruals basis.

Taxation
The Company is a tax-exempt Guernsey limited company. Accordingly, no provision for income tax is made. Trebuchet Finance Limited was a “qualifying company” within the meaning of Section 110 of the Irish Taxes Consolidation Act, 1997 and accordingly its taxable profits were subject to tax at a rate of 25 per cent. Payments under the Participation Note were paid gross to the Company and the income portion of such payments was tax deductible by Trebuchet Finance Limited.

Consequently, Trebuchet Finance Limited had a minimal amount of taxable income. The activities of Trebuchet Finance Limited were exempt for Irish Value Added Tax (VAT) purposes under the Irish VAT Act of 1972.

Liabilities relating to uncertain tax positions are accrued only when such liabilities are probable and can be estimated with reasonable accuracy.

Other receivables
Other receivables do not carry any interest and are short-term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liabilities and equity
Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial liabilities and equity are initially recorded at the proceeds received, net of issue costs and subsequently at amortised cost. The Core Ordinary Shares and Cell Ordinary Shares have been classified as equity and the Preference Shares of the Company have been classified as liabilities.

Other accruals and payables
Other accruals and payables are not interest-bearing and are stated at their accrued value.

Segment information
The Company has two reportable segments, being the Core and the Cell. The real estate debt investment strategy of the Core focuses on secured residential and commercial debt in the UK and Western Europe. The Cell holds Residual Income Positions. Each segment engages in separate business activities and the results of each segment are regularly reviewed by the Board of Directors who fulfils the role of Chief Operating Decision Maker for performance assessment purposes.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company’s accounting policies (described in Note 2 above), the Company has determined that the following judgements and estimates have the most significant effect on the amounts recognised in the consolidated financial statements:

Income recognition of Residual Income Positions
The Company invests in real estate debt and the Cell invested in a diversified portfolio of Residual Income Positions, being the subordinated tranches of asset-backed securities (ABS). The Company follows a policy of accounting for such investments at fair value through profit or loss and has elected to recognise income using the effective interest rate (EIR) method in accordance with paragraph 30 of IAS 18 “Revenue” and in accordance with IAS 39.

ABS are securities that are typically backed by consumer finance receivables (such as mortgage loans) and commercial loans and receivables (including commercial mortgage loans and loans to small-and-medium sized enterprises).

Residual Income Positions are typically unrated or rated below investment grade and are often referred to as the “equity” or “first loss” position of a securitisation transaction.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Valuation of investments
In accordance with the Company's accounting policies, the fair value of financial assets is based on quoted prices where such prices are available from a third party in a liquid market. With the exception of one investment, which has been held at a fair value of EUR Nil since the inception of the Cell, all of the investments in the Cell were sold during the year. At 31 March 2014 quoted prices were not available for any of the Cell's residual portfolio investments.

Mortgage Backed Securities held in the Core are valued using independent market prices (supplied by Markit).

The Core has made loans into structures to gain exposure to real estate secured debt in the UK and Germany. These loans are not traded in an active market and there are no independent quotes available for these loans. The fair values of financial instruments that are not traded in an active market are determined using valuation techniques (such as modelling). The fair value of these loans are linked directly to the value of the real estate loans the underlying structures invest in, which are determined based on modelled expected cash flows (drawdown principal and interest repayments, and maturity dates) with effective yields ranging from 8.2% to 20.4%. Adjustments in the fair value of the real estate loans are considered in light of changes in the credit quality of the borrower and underlying property collateral, and changes in the market rate on similar instruments. On origination of the loan, the Investment Manager performs due diligence on the borrower and related security/property. This includes obtaining a valuation of the underlying property (to assess loan-to-value of the investment). In most instances the terms of the loan require periodic re-valuation of the underlying property to check against loan-to-value covenants.

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques (such as modelling).

4. Net gains and losses on financial assets and liabilities at fair value through profit or loss

For the year ended 31 March 2015:	RECI Core 31 Mar 2015 GBP	ERII Cell 31 Mar 2015 EUR	Total 31 Mar 2015 GBP
Net gains/(losses)			
Net (losses)/gains on investments at fair value through profit or loss	(100,148)	16,365,671	12,739,237
Net losses on credit default swaps	(158,264)	-	(158,264)
Net gains on options	3,321,942	-	3,321,942
Net gains/(losses) on foreign exchange instruments and other foreign currency transactions	2,645,133	(78,833)	2,583,286
Net gains	**5,708,663**	**16,286,838**	**18,486,201**

For the year ended 31 March 2014:	RECI Core 31 Mar 2014 GBP	ERII Cell 31 Mar 2014 EUR	Total 31 Mar 2014 GBP
Net gains/(losses)			
Net gains/(losses) on investments at fair value through profit or loss	1,608,725	(1,560,417)	292,598
Net losses on credit default swaps	(303,813)	-	(303,813)
Net losses on options	(23,558)	-	(23,558)
Net losses on foreign exchange instruments and other foreign currency transactions	(303,307)	(392,083)	(634,007)
Net gains/(losses)	**978,047**	**(1,952,500)**	**(668,780)**

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

5. Operating expenses

For the year ended 31 March 2015:	Note	RECI Core 31 Mar 2015 GBP	ERII Cell 31 Mar 2015 EUR	Total 31 Mar 2015 GBP
Investment management, Depositary and administration fees				
Investment management fee	18	1,985,416	141,732	2,096,609
Performance fee	18	1,431,773	-	1,431,773
Administration fee		114,655	39,396	145,562
Depositary fee		49,015	(5,052)	45,052
		3,580,859	**176,076**	**3,718,996**
Other operating expenses				
Audit fees		40,001	71,422	96,034
Fees payable to Directors of Real Estate Credit Investments PCC Limited		168,671	38,259	198,686
Fees payable to Directors of Trebuchet Finance Limited		-	12,500	9,807
Legal fees		186,003	151,424	304,800
Other expenses		264,853	209,308	429,062
		659,528	**482,913**	**1,038,389**
Total operating expenses		**4,240,387**	**658,989**	**4,757,385**

For the year ended 31 March 2014:	Note	RECI Core 31 Mar 2014 GBP	ERII Cell 31 Mar 2014 EUR	Total 31 Mar 2014 GBP
Investment management, Depositary and administration fees				
Investment management fee	18	1,896,642	219,960	2,082,166
Administration fee		142,012	66,241	197,883
Depositary fee		4,970	767	5,617
		2,043,624	**286,968**	**2,285,666**
Other operating expenses				
Audit fees		91,266	46,374	130,380
Fees payable to Directors of Real Estate Credit Investments PCC Limited		140,000	60,913	191,376
Fees payable to Directors of Trebuchet Finance Limited		-	12,500	10,543
Legal fees		188,906	30,719	214,816
Other expenses		436,818	115,092	533,892
		856,990	**265,598**	**1,081,007**
Total operating expenses		**2,900,614**	**552,566**	**3,366,673**

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

6. Interest income and finance costs

The following table details finance costs from financial assets and liabilities for the year:

For the year ended 31 March 2015:	RECI Core 31 Mar 2015 GBP	ERII Cell 31 Mar 2015 EUR	Total 31 Mar 2015 GBP
Interest income			
Investments designated at fair value through profit or loss upon initial recognition:			
Real Estate Debt Investments - Bonds	6,386,092	-	6,386,092
Real Estate Debt Investments - Loans	9,450,245	-	9,450,245
Residual Income Positions	-	315,431	247,466
Loans and receivables (including cash and cash equivalents)	13,130	-	13,130
Total interest income	**15,849,467**	**315,431**	**16,096,933**
Finance costs:			
Preference Shares issuance expense amortised	(166,054)	-	(166,054)
Dividend paid to Preference Shareholders	(3,354,434)	-	(3,354,434)
Total finance costs	**(3,520,488)**	**-**	**(3,520,488)**

For the year ended 31 March 2014:	RECI Core 31 Mar 2014 GBP	ERII Cell 31 Mar 2014 EUR	Total 31 Mar 2014 GBP
Interest income			
Investments designated at fair value through profit or loss upon initial recognition:			
Real Estate Debt Investments - Bonds	8,127,789	-	8,127,789
Real Estate Debt Investments - Loans	5,615,491	-	5,615,491
Residual Income Positions	-	1,837,430	1,549,772
Loans and receivables (including cash and cash equivalents)	2,715	5,913	7,702
Total interest income	**13,745,995**	**1,843,343**	**15,300,754**
Finance costs:			
Preference Shares issuance expense amortised	(110,000)	-	(110,000)
Dividend paid to Preference Shareholders (Note 7)	(3,577,027)	-	(3,577,027)
Total finance costs	**(3,687,027)**	**-**	**(3,687,027)**

At 31 March 2015, there is £200,445 of capitalised Preference Shares issuance expenses that remaining (31 March 2014: £366,499).

7. Dividends

For the year ended 31 March 2015:	RECI Core 31 Mar 2015 GBP	ERII Cell 31 Mar 2015 EUR	Total 31 Mar 2015 GBP
Ordinary Share Dividends			
Final dividend for the year ended 31 March 2014	1,966,099	492,549	2,352,519
First interim dividend for the year ended 31 March 2015	1,966,100	-	1,966,100
Second interim dividend for the year ended 31 March 2015	1,966,100	-	1,966,100
Third interim dividend for the year ended 31 March 2015	1,966,099	-	1,966,099
Final dividend payable to Cell Ordinary Shareholders*		347,063	272,282
Amounts recognised as distributions to Ordinary Equity Holders in the year	**7,864,398**	**839,612**	**8,523,100**

*The final dividend payable to the Cell Ordinary Shareholders remains outstanding at the year end.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

7. Dividends (continued)

For the year ended 31 March 2015:	RECI Core 31 Mar 2015 GBP/Share	ERII Cell 31 Mar 2015 EUR/Share
Dividends per Share (Core and Cell)		
Final dividend for the year ended 31 March 2014	0.027	0.032
First interim dividend for the year ended 31 March 2015	0.027	N/A
Second interim dividend for the year ended 31 March 2015	0.027	N/A
Third interim dividend for the year ended 31 March 2015	0.027	N/A
Amounts recognised as distributions to Ordinary Equity Holders in the year	**0.108**	**0.072**

For the year ended 31 March 2014:	RECI Core 31 Mar 2014 GBP	ERII Cell 31 Mar 2014 EUR	Total 31 Mar 2014 GBP
Ordinary Share Dividends			
Final dividend for the year ended 31 March 2013	879,274	556,341	1,348,517
First interim dividend for the year ended 31 March 2014	919,240	-	919,240
Second interim dividend for the year ended 31 March 2014	1,358,878	738,823	1,982,035
Third interim dividend for the year ended 31 March 2014	1,674,825	492,549	2,090,263
Amounts recognised as distributions to Ordinary Equity Holders in the year	**4,832,217**	**1,787,713**	**6,340,055**

For the year ended 31 March 2014:	RECI Core 31 Mar 2014 GBP/Share	ERII Cell 31 Mar 2014 EUR/Share
Dividends per Share (Core and Cell)		
Final dividend for the year ended 31 March 2013	0.022	0.030
First interim dividend for the year ended 31 March 2014	0.023	-
Second interim dividend for the year ended 31 March 2014	0.034	0.048
Third interim dividend for the year ended 31 March 2014	0.023	0.032
Amounts recognised as distributions to Ordinary Equity Holders in the year	**0.102**	**0.110**

Under Guernsey Law, companies can pay dividends provided they satisfy the solvency test prescribed under The Companies (Guernsey) Law, 2008. The solvency test considers whether a company is able to pay its debts when they become due and whether the value of a company's assets is greater than its liabilities.

The Directors considered that the Company passed the solvency test for each dividend payment during the years ended 31 March 2015 and 31 March 2014.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

7. Dividends (continued)

Preference Share Dividends

The Preference Shareholders are entitled to a Preference Dividend equal to 8% per annum of the Preference Share Notional Value. The Preference Dividend will be accrued at each valuation point and paid quarterly. Dividends owing to Preference Shareholders are shown as a Finance Cost in the Statement of Comprehensive Income using the effective interest rate method.

For the year ended 31 March 2015:	Payment Date	31 Mar 2015 GBP
Preference Share Dividends		
Period 1 April 2014 to 30 June 2014	30 Jun 14	838,609
Period 1 July 2014 to 30 September 2014	29 Sep 14	838,609
Period 1 October 2014 to 31 December 2014	31 Dec 14	838,608
Period 1 January 2015 to 31 March 2015	31-Mar-15	838,608
Total distributions to Preference Shareholders		**3,354,434**

For the year ended 31 March 2014:	Payment Date	31 Mar 2014 GBP
Preference Share Dividends		
Period 1 April 2013 to 30 June 2013	27 Jun 13	899,257
Period 1 July 2013 to 30 September 2013	24 Sep 13	899,257
Period 1 October 2013 to 31 December 2013	27 Dec 13	899,257
Period 1 January 2014 to 31 March 2014	31 Mar 14	879,256
Total distributions to Preference Shareholders		**3,577,027**

8. Profit per Ordinary Share

For the year ended 31 March 2015:	RECI Core 31 Mar 2015 GBP	ERII Cell 31 Mar 2015 EUR	Total 31 Mar 2015 GBP
The calculation of the basic and diluted earnings per share is based on the following data:			
Profit for the purposes of basic earnings per share being net profit attributable to equity holders	13,797,255	15,943,280	26,305,261
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	72,818,496	6,799,475	
Effect of dilutive potential Ordinary Shares:			
Share options	-	-	
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**72,818,496**	**6,799,475**	

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

8. Profit per Ordinary Share (continued)

For the year ended 31 March 2014:	RECI Core 31 Mar 2014 GBP	ERII Cell 31 Mar 2014 EUR
The calculation of the basic and diluted earnings per share is based on the following data:		
Profit/(loss) for the purposes of basic earnings per share being net profit/(loss) attributable to equity holders	8,136,401	(661,723)
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	52,677,063	16,722,270
Effect of dilutive potential Ordinary Shares:		
Share options	-	-
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**52,677,063**	**16,722,270**

There was no dilution as at 31 March 2015 or 31 March 2014 as the share price was below the option price (see Note 18) on that date.

9. Categories of financial instruments

The following table details the categories of financial assets and liabilities held by the Company at the year end date.

As at 31 March 2015:	RECI Core 31 Mar 2015 GBP	ERII Cell 31 Mar 2015 EUR	Total 31 Mar 2015 GBP
Assets			
Financial assets designated at fair value through profit or loss:			
Real Estate Debt Investments – bonds	59,441,393	-	59,441,393
Real Estate Debt Investments – loans	87,092,274	-	87,092,274
Investment in Trebuchet	-	-	-
Investments at fair value through profit or loss	146,533,667	-	146,533,667
Derivative financial assets held for trading			
Call and put options	4,815,213	-	4,815,213
Forward foreign exchange contracts	3,454	-	3,454
Loans and receivables:			
Cash and cash equivalents	8,091,170	441,256	8,410,408
Other assets	3,483,793	1,271	3,484,713
Total assets	**162,927,297**	**442,527**	**163,247,455**
Liabilities			
Derivative financial liabilities held for trading			
Forward foreign exchange contracts	468,791	-	468,791
Liabilities held at amortised cost:			
Other liabilities	2,580,500	95,464	2,649,566
Distribution payable	-	347,063	251,092
Preference Shares	41,729,974	-	41,729,974
Total liabilities	**44,779,265**	**442,527**	**45,099,423**

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

9. Categories of financial instruments (continued)

As at 31 March 2014:	RECI Core 31 Mar 2014 GBP	ERII Cell 31 Mar 2014 EUR	Total 31 Mar 2014 GBP
Assets			
Financial assets designated at fair value through profit or loss:			
Real Estate Debt Investments – bonds	85,124,008	-	85,124,008
Real Estate Debt Investments – loans	48,392,943	-	48,392,943
Investment in Trebuchet	-	9,375,888	7,751,140
Investments at fair value through profit or loss	**133,516,951**	**9,375,888**	**141,268,091**
Derivative financial assets held for trading			
Call and put options	1,587,027	-	1,587,027
Forward foreign exchange contracts	274,079	-	274,079
Loans and receivables:			
Cash and cash equivalents	18,346,637	1,143,441	19,291,931
Other assets	3,270,188	53,438	3,314,366
Total assets	**156,994,882**	**10,572,767**	**165,735,494**
Liabilities			
Derivative financial liabilities held for trading			
Call and put options	230,756	-	230,756
Credit default swaps	309,622	-	309,622
Liabilities held at amortised cost:			
Other liabilities	2,675,409	55,307	2,721,132
Preference Shares	41,563,920	-	41,563,920
Total liabilities	**44,779,707**	**55,307**	**44,825,430**

See Note 15 for a summary of the movement in fair value in the Company's investments for the year, analysed by the Core and Cell.

10. Derivative Contracts

Options:
The following options contracts were open as at 31 March 2015:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Fair Value GBP
Options purchased						
Goldman Sachs	30 Jun 17	EUR Put GBP Call	GBP	30,432,500	0.870	4,815,213
Options purchased at fair value						4,815,213

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

10. Derivative Contracts (continued)

Options: (continued)
The following options contracts were open as at 31 March 2014:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Fair Value GBP
Options purchased						
Goldman Sachs	31 Dec 14	EUR Call GBP Put	GBP	31,500,000	0.900	82,814
Goldman Sachs	31 Dec 14	EUR Put GBP Call	GBP	30,275,000	0.865	1,504,213
Options purchased at fair value						**1,587,027**
Options written						
Goldman Sachs	31 Dec 14	EUR Call GBP Put	GBP	30,275,000	0.865	(230,756)
Options written at fair value						**(230,756)**

Credit default swaps:
The following credit default swaps were held at 31 March 2014:

Counterparty	Notional Amount (EUR)	Reference Entity	Termination Date	Unrealised Gain/(Loss) GBP
Goldman Sachs	30,000,000	Receiving 3 month credit event, paying fixed 1%	20-Jun-19	(309,622)
Fair value of credit default swaps - net liability balance				**(309,622)**

11. Other assets

As at 31 March 2015	**RECI Core 31 Mar 2015 GBP**	**ERII Cell 31 Mar 2015 EUR**	**Total 31 Mar 2015 GBP**
Interest receivable	673,932	-	673,932
Loan income receivable	2,804,086	-	2,804,086
Other receivables	5,775	1,271	6,695
	3,483,793	**1,271**	**3,484,713**

As at 31 March 2014	**RECI Core 31 Mar 2014 GBP**	**ERII Cell 31 Mar 2014 EUR**	**Total 31 Mar 2014 GBP**
Interest receivable	640,835	53,438	685,013
Loan income receivable	2,629,353	-	2,629,353
	3,270,188	**53,438**	**3,314,366**

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

12. Other liabilities

	RECI Core 31 Mar 2015 GBP	ERII Cell 31 Mar 2015 EUR	Total 31 Mar 2015 GBP
Due to related parties – Investment Manager (Note 18)	1,603,422	514	1,603,794
Accrued expenses	977,078	94,950	1,045,772
	2,580,500	**95,464**	**2,649,566**

	RECI Core 31 Mar 2014 GBP	ERII Cell 31 Mar 2014 EUR	Total 31 Mar 2014 GBP
Due to related parties – Investment Manager (Note 18)	165,982	15,655	178,924
Accrued expenses	950,169	39,652	982,950
	1,116,151	**55,307**	**1,161,874**

13. Share capital

The capital structure of the Company consists of Preference Shares and equity attributable to equity holders of Core and Cell Ordinary Shares, comprising issued share capital and reserves, as disclosed in the Statement of Financial Position. The issued share capital of the Company consists of Core Ordinary Shares, Preference Shares and Cell Ordinary Shares. The Company's capital managed as at the year end is represented by the value of the shares issued to date. The Company does not have any externally imposed capital requirements. At 31 March 2015 the Company had capital of £118,399,124 (31 March 2014: £120,561,037).

Authorised Share Capital	**31 Mar 2015 Number of Shares**	**31 Mar 2014 Number of Shares**
Core Ordinary Shares of no par value each	Unlimited	Unlimited
Preference Share at par	44,962,834	44,962,834
Cell Ordinary Shares of no par value each	Unlimited	Unlimited

Core Ordinary Shares Issued and fully paid	**31 March 2015 Number of Shares**	**31 March 2014 Number of Shares**
Balance at start of the year	72,818,496	39,966,985
Ordinary Shares issued during the year	-	32,851,511
Balance at end of the year	**72,818,496**	**72,818,496**

No Ordinary Shares were bought back or cancelled during the year ended 31 March 2015 or during the year ended 31 March 2014.

Cell Ordinary Shares Issued and fully paid	**31 Mar 2015 Number of Shares**	**31 Mar 2014 Number of Shares**
Balance at start of the year	15,392,148	18,544,711
Cell shares redeemed during the year	(15,392,148)	(3,152,563)
Balance at end of the year	**-**	**15,392,148**

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

13. Share capital (continued)

On 31 July 2014, 73% of the Cell's issued share capital was redeemed by way of compulsory redemption of Cell Shares following the sale of the Company's position in Magellan. The redemption was allocated pro rata to investor holdings of Cell Shares as recorded on the register at the close of business on the redemption date. The aggregate payment made to Cell Shareholders was €7,849,996. All of the Cell Shares redeemed on the redemption date were cancelled. On 22 December 2014, following the sale of the remaining assets of the Cell portfolio, with the exception of one position which has been held at a fair value of EUR Nil since inception of the Cell, the remainder of the Cell's issued share capital was redeemed by way of compulsory redemption of the Cell Shares. The redemption was allocated pro rate to investor holdings of Cell Shares as recorded on the register at the close of business on the redemption date.

Any potential gain on future realisation of this remaining asset would be distributed to Shareholders in the Cell on the register at the time the shares were delisted.

Preference Shares Issued and fully paid	31 Mar 2015 Number of Preference Shares	31 Mar 2015 GBP	31 Mar 2014 Number of Preference Shares	31 Mar 2014 GBP
Preference Shares at start of year	41,930,419	41,563,920	44,962,834	44,486,335
Preference Shares repurchased during the year at par net of issue costs	-	-	(3,032,415)	(3,032,415)
Amortised issue costs allocated to Preference Shares	-	166,054	-	110,000
Balance at end of year	**41,930,419**	**41,729,974**	**41,930,419**	**41,563,920**

The value of the Preference Shares represents an obligation on the Company to pay the Preference Shares par value on winding up of the Company or on redemption of the Preference Shares in accordance with their terms. The Preference Shares are due to be redeemed on 17 September 2017.

The Core repurchased 3,032,415 of Preference shares during the financial year ended 31 March 2014 which are still held in Treasury. At 31 March 2015, 41,930,419 Preference Shares were in issue with a par value of £1 per share (31 March 2014: 41,930,419 Preference Shares). All issued Shares are fully paid.

The holders of Preference Shares are entitled to receive dividends of 8% per annum of the Preference Share Notional Value. Preference Shares do not carry the right to vote. The holders of the Preference Shares participate only to the extent of the face value of the shares. The Preference Shares are classified as liabilities.

The Preference Shares shall be redeemed by the Company in the following circumstances:

a) at any time, by way of the purchase of any such Preference Shares by the Company through the facilities of the London Stock Exchange; or

b) upon a change of control of the Company (defined as the acquisition by a single person or persons acting in concert of more than 50% of the voting rights attached to the Ordinary Shares), but only if a majority of Preference Shareholders attending and voting at a special class meeting of Preference Shareholders (which shall be convened within 60 days of the change of control) so resolve by way of an ordinary resolution, at a price equal to the Preference Share Notional Value increased by any accrued but unpaid Preference Dividend or any further sums payable in respect of the Preference Dividend (the "Repayment Amount"); or

c) if more than 75% of the Preference Shares have been redeemed before the expiration of the seven year period referred to under paragraph (d) below, by way of a mandatory redemption programme launched by the Company at its sole discretion, at a price equal to the higher of (i) the Repayment Amount, or (ii) the average mid-market closing price over the five Business Days prior to the announcement of the launch of such programme; or

d) if not redeemed earlier pursuant to paragraphs (a), (b) or (c) above, on a date that is seven years after their issue at the Repayment Amount.

14. Financial Instruments and associated risks

The Company's investment activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. The Company's risk management policies seek to minimise the potential adverse effects of these risks on the Company's financial performance.

The principal risks to which the Company is exposed are market price risk, interest rate risk, liquidity risk, currency risk, credit risk, prepayment and re-investment risk and residual interest risk. In certain instances as described more fully below, the Company enters into derivative transactions in order to help mitigate particular types of risk. Save where the Company enters into swap arrangements to gain exposure to an underlying cash asset or assets, or to comply with asset transfer restrictions or similar legal restrictions which prevent the Company from owning a target investment directly, derivative transactions are only used for the purpose of efficient portfolio management.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

14. Financial Instruments and associated risks (continued)

(a) Market risk
Market risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises of interest rate risk, currency risk and other price risk.

The Company's strategy on the management of market risk is driven by the Core's investment objectives detailed in Note 1 which in respect of the Core is to invest primarily in debt secured by commercial or residential properties in Western Europe and the United Kingdom.

The Company's market risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed below.

The sensitivity analysis below is based on a change in one variable while holding all other variables constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in foreign currency rate and change in market values. In addition, as the sensitivity analysis uses historical data as a basis for determining future events, it does not encompass all possible scenarios, particularly those that are of an extreme nature.

(i) Currency risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Core is exposed to currency risk to the extent that foreign exchange rates fluctuate as it has financial instruments that are denominated in currencies other than GBP.

The Core has elected to hedge its foreign exchange exposure through a mixture of currency options and forward foreign currency exchange contracts. These instruments are detailed in Note 10.

The currency profile of the Core, including derivatives at fair value, at the year end date was as follows:

As at 31 March 2015:

Core	Net currency exposure (in GBP)	Monetary Assets (in GBP)	Non-Monetary Assets (in GBP)	Monetary Liabilities (in GBP)	Non-Monetary Liabilities (in GBP)	Forward FX Contracts GBP
GBP	93,419,774	53,900,160	58,967,464	(41,729,974)	(2,580,500)	24,862,624
EUR	24,708,520	18,427,878	31,608,603	-	-	(25,327,961)
USD	19,738	19,738	-	-	-	-
	118,148,032	**72,347,776**	**90,576,067**	**(41,729,974)**	**(2,580,500)**	**(465,337)**

As at 31 March 2014:

Core	Net currency exposure (in GBP)	Monetary Assets (in GBP)	Non-Monetary Assets (in GBP)	Monetary Liabilities (in GBP)	Non-Monetary Liabilities (in GBP)	Forward FX Contracts GBP
GBP	81,405,713	66,728,058	34,271,314	(41,794,676)	(2,675,409)	24,876,426
EUR	29,167,110	40,745,796	14,122,090	(309,622)	-	(25,391,154)
USD	1,642,352	853,545	-	-	-	788,807
	112,215,175	**108,327,399**	**48,393,404**	**(42,104,298)**	**(2,675,409)**	**274,079**

The EUR currency exposure as detailed above is further limited through the use of EUR Put option which has been detailed below.

The Cell was exposed to currency risk to the extent that foreign exchange rates fluctuated as it has financial instruments that were denominated in currencies other than the Euro.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

14. Financial Instruments and associated risks (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The currency profile of the Cell, including derivatives at fair value, at the year end date was as follows:

As at 31 March 2015:

Cell	Net currency exposure (in EUR)	Monetary Assets (in EUR)	Non-Monetary Assets (in EUR)	Monetary Liabilities (in EUR)	Non-Monetary Liabilities (in EUR)
GBP	356,493	356,493	-	-	-
EUR	(356,493)	84,763	1,271	(347,063)	(95,464)
	-	**441,256**	**1,271**	**(347,063)**	**(95,464)**

As at 31 March 2014:

Cell	Net currency exposure (in EUR)	Monetary Assets (in EUR)	Non-Monetary Assets (in EUR)	Non-Monetary Liabilities (in EUR)
GBP	1,894,077	1,894,077	-	-
EUR	8,621,315	8,676,622	-	(55,307)
USD	2,068	2,068	-	-
	10,517,460	**10,572,767**	**-**	**(55,307)**

At 31 March 2015, had the GBP or the Euro strengthened by 5% in relation to all currency exposure of the Core and Cell respectively, with all other variables held constant (and not taking into account any currency hedges that were in place at year end), equity of the Core and the Cell respectively and the net (loss)/profit per the Consolidated Statement of Comprehensive Income of the Core and Cell respectively would have changed by the amounts shown below. The analysis is performed on the same basis for 2014.

As at 31 March 2015:	Core 31 Mar 2015 GBP	Cell 31 Mar 2015 EUR	Company 31 Mar 2015 GBP
EUR	(1,176,596)	N/A	(1,176,596)
GBP	N/A	(160,569)	(116,168)
USD	(940)	N/A	(940)
Total	**(1,177,536)**	**(160,569)**	**(1,293,704)**

As at 31 March 2014:	Core 31 Mar 2014 GBP	Cell 31 Mar 2014 EUR	Company 31 Mar 2014 GBP
EUR	(1,388,910)	N/A	(1,388,910)
GBP	N/A	(534,846)	(442,162)
USD	(78,207)	(99)	(78,289)
Total	**(1,467,117)**	**(534,945)**	**(1,909,361)**

A 5% weakening of the GBP and the Euro against the above currencies respectively would have resulted in an equal but opposite effect on the equity of the Core and the Cell respectively and net (loss)/profit per the Consolidated Statement of Comprehensive Income of the Core and the Cell respectively to the amounts shown above, on the basis that all other variables remained constant.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

14. Financial Instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk
Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate risk is managed by the Investment Manager in accordance with policies and procedures detailed below.

The Core invests in fixed and floating rate real estate related debt securities which include RMBS or CMBS (together MBS). Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and liabilities and future cash flow. Floating rate debt investments will be exposed to interest rate risk through changes in interest rates potentially having an effect on prepayments and defaults of the underlying loans of the securitisations. These specific risks are discussed separately in Notes 14 (e) and 14 (f).

Should interest rates rise by 1.00% (100 basis points) in relation to the fixed rate securities held by the Core, the estimated impact on the net asset value of the Core is a decrease of £3,925,842 (31 March 2014: £2,403,791). A decrease in interest rates by 100 basis points is estimated to result in an increase in the net asset value of the Core by a similar amount. These estimates are calculated based on the fair value of the fixed rate securities including accrued interest held by the Core at 31 March 2015 and their weighted average lives.

The Preference Shareholders are entitled to receive a preference dividend amounting to 8% per annum of the Preference Share Notional Value. As the rate is fixed, the exposure to interest rate risk is limited.

The interest rate profile of the Core at 31 March 2015 was as follows:

	Fixed 31 Mar 2015 GBP	Floating 31 Mar 2015 GBP	Non-interest bearing 31 Mar 2015 GBP
Investments at fair value through profit or loss	124,839,695	21,693,972	-
Derivative financial assets			
- Options	-	-	4,815,213
- Credit default swaps	-	-	-
- Forward foreign exchange contracts	-	-	3,454
Other assets	-	-	3,483,793
Cash and cash equivalents	-	8,091,170	-
Preference shares	(41,729,974)	-	-
Derivative financial liabilities			
- Options	-	-	-
- Credit default swaps	-	-	-
- Forward foreign exchange contracts	-	-	(468,791)
Other liabilities	-	-	(2,580,500)
Total	**83,109,721**	**29,785,142**	**5,253,169**

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

14. Financial instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)
The maturity profile of the Core at 31 March 2015 was as follows:

	Net Assets 31 Mar 2015 GBP	Within one year 31 Mar 2015 GBP	One to five years 31 Mar 2015 GBP	Over five years 31 Mar 2015 GBP
Investments at fair value through profit or loss	146,533,667	974,754	26,201,787	119,357,126
Derivative financial assets				
-Options	4,815,213	-	4,815,213	-
- Credit default swaps	-	-	-	-
-Forward foreign exchange contracts	3,454	3,454	-	-
Cash and cash equivalents	8,091,170	8,091,170	-	-
Other assets	3,483,793	3,483,793	-	-
Preference shares	(41,729,974)	-	(41,729,974)	-
Derivative financial liabilities				
- Options	-	-	-	-
- Credit default swaps	-	-	-	-
-Forward foreign exchange contracts	(468,791)	(468,791)	-	-
Other liabilities	(2,580,500)	(2,580,500)		
Net Assets	**118,148,032**	**9,503,880**	**(10,712,974)**	**119,357,126**

The interest rate profile of the Core at 31 March 2014 was as follows:

	Fixed 31 Mar 2014 GBP	Floating 31 Mar 2014 GBP	Non-interest bearing 31 Mar 2014 GBP
Investments at fair value through profit or loss	70,616,745	62,900,206	-
Derivative financial assets			
- Options	-	-	1,587,027
- Forward foreign exchange contracts	-	-	274,079
Other assets	-	-	3,270,188
Cash and cash equivalents	-	18,346,637	-
Preference shares	(41,563,920)	-	-
Derivative financial liabilities			
- Options	-	-	(230,756)
- Credit default swaps	-	-	(309,622)
Other liabilities	-	-	(2,675,409)
Total	**(29,052,825)**	**81,246,843**	**1,915,507**

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

14. Financial instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)
The maturity profile of the Core at 31 March 2014 was as follows:

	Net Assets 31 Mar 2014 GBP	Within one year 31 Mar 2014 GBP	One to five years 31 Mar 2014 GBP	Over five years 31 Mar 2014 GBP
Investments at fair value through profit or loss	133,516,951	469,355	22,505,909	110,541,687
Derivative financial assets				
- Options	1,587,027	1,587,027	-	-
- Forward foreign exchange contracts	274,079	274,079	-	-
Cash and cash equivalents	18,346,637	18,346,637	-	-
Other assets	3,270,188	3,270,188	-	-
Preference shares	(41,563,920)	-	(41,563,920)	-
Derivative financial liabilities				
- Options	(230,756)	(230,756)	-	-
- Credit default swaps	(309,622)	-	(309,622)	-
Other liabilities	(2,675,409)	(2,675,409)	-	-
Net Assets	**112,215,175**	**21,041,121**	**(19,367,633)**	**110,541,687**

The Cell investment portfolio was exposed to interest rate risk because changes in interest rates may have an effect on the prepayments and defaults on the underlying loans on the securitisations. These specific risks are discussed separately in Notes 14 (e) and 14 (f).

The value of the asset backed securities will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The loans in the Core are recorded at fair value on initial recognition and subsequent measurement.

At 31 March 2015, all of the Residual Income Positions, with the exception of one investment which has been held at fair value of EUR Nil since the inception of the Cell, have been sold. The Residual Income Positions held in the Cell were model valued. The fair value of these Residual Income Positions could have fluctuated as a result of a change in the discount rate applied when calculating the net present value of the investments.

(b) Credit risk
Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. Credit risk is generally higher for a non-exchange traded financial instrument because the counterparty for non-exchange traded financial instruments is not backed by an exchange-clearing house.

The Company's financial assets, other than the investment portfolio discussed below, exposed to credit risk, at the year end date was as follows:

As at 31 March 2015:	Core 31 Mar 2015 GBP	Cell 31 Mar 2015 EUR	Total 31 Mar 2015 GBP
Cash and cash equivalents	8,091,170	441,256	8,410,408
Derivative financial assets			
- Options	4,815,213	-	4,815,213
- Credit default swaps	-	-	-
- Forward foreign exchange contracts	3,454	-	3,454
Total	**12,909,837**	**441,256**	**13,229,075**

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

14. Financial instruments and associated risks (continued)

(b) Credit risk (continued)

As at 31 March 2014:	Core 31 Mar 2014 GBP	Cell 31 Mar 2014 EUR	Total 31 Mar 2014 GBP
Cash and cash equivalents	18,346,637	1,143,441	19,291,931
Derivative financial assets			
- Options	1,587,027	-	1,587,027
- Forward foreign exchange contracts	274,079	-	274,079
Total	**20,207,743**	**1,143,441**	**21,153,037**

Bonds

The Company is subject to the risk that issuers of asset backed securities in which it invests may default on their obligations and that certain events may occur which have an immediate and significant adverse effect on the value of such instruments. There can be no assurance that an issuer of an instrument in which the Company invests will not default or that an event which has an immediate and significant adverse effect on the value of such instruments will not occur, and that the Company will not sustain a loss on the transaction as a result. The Company seeks to mitigate this risk by monitoring its portfolio of investments, reviewing the underlying credit quality of its counterparties, on a monthly basis.

The following table summarises the asset class distribution of the bond portfolio at 31 March 2015 and 31 March 2014:

Bond class*	31 Mar 2015 GBP	31 Mar 2014 GBP
A	6,053,397	17,718,124
B	26,796,541	29,010,685
C	4,403,010	10,908,462
D	6,998,665	9,779,644
E and Below	15,189,780	18,150,584
Total	**59,441,393**	**85,567,499**

*Bond class relates to the order of pay in the security's waterfall with "A" being first.

Loans

The Company is subject to the risk that the underlying borrowers to the loans in which it invests, may default on their obligations and that certain events may occur which have an immediate and significant adverse effect on the value of such instruments. Any loan may become a defaulted obligation for a variety of reasons, including non-payment of principal or interest, as well as covenant violations by the borrower in respect of the underlying loan documents. In the event of any default on the Company's investment in a loan by the borrower, the Company will bear a risk of loss of principal and accrued interest on the loan, which could have a material adverse effect on the Company's investment.

There can be no assurance that a borrower will not default, that there will not be an issue with the underlying real estate security or that an event which has an immediate and significant adverse effect on the value of these loans will not occur, and that the Company will not sustain a loss on the transaction as a result. The Company seeks to mitigate this risk by performing due diligence and monitoring its portfolio of investments, reviewing the underlying credit quality of its borrowers, performance of the underlying asset, and loan covenants compliance against financial information received and the performance of the security, on a quarterly basis.

The Company has made further investments of approximately £39 million in various loans position bringing the total principal invested in loans during the year to £85 million. The Core's total investment in loans at 31 March 2015, amounted to £87,092,274 which includes any interest accrued on loans at this date (31 March 2014; £48,392,943).

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

14. Financial instruments and associated risks (continued)

(b) Credit risk (continued)

Bonds (continued)

Derivative contracts
The Company also has credit exposure in relation to its derivative contracts. The Company was invested in derivative contracts with, Goldman Sachs at 31 March 2015 and Goldman Sachs and JP Morgan at 31 March 2014 with the following credit quality:

Rating	31 Mar 2015 GBP	31 Mar 2014 GBP
Goldman Sachs – A (Derivatives)	4,815,213	1,320,728

Transactions involving derivative financial instruments are usually with counterparties with whom the Company signed master netting agreements. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default. The impact of the master netting agreements is to reduce credit risk from the amounts shown as derivative financial assets on the Statement of Financial Position. The credit risk associated with derivative financial assets subject to a master netting arrangement is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realised.

The exposure to credit risk reduced by master netting arrangements may change significantly within a short period of time as a result of transactions subject to the arrangement. The corresponding assets and liabilities have not been offset on the Statement of Financial Position.

The derivative assets and the derivative liabilities are subject to master netting agreements in place with the counterparties used by the Company. However, none of the derivative assets or the derivative liabilities are offset in the Statement of Financial Position.

Below are the derivative assets and liabilities by counterparty and details of the collateral received and pledged by Company as at 31 March 2015:

Derivative Type	Counterparty	Value of derivative assets GBP	Collateral received GBP	Collateral Pledged GBP	Net (if greater than zero) GBP
Options purchased	Goldman Sachs	4,815,213	(2,834,748)	-	1,980,465
Forward foreign exchange contracts	Goldman Sachs	3,454	(3,434)	-	-

Derivative Type	Counterparty	Value of derivative liabilities GBP	Collateral received GBP	Collateral Pledged GBP	Net (if greater than zero) GBP
Forward foreign currency exchange contracts	Goldman Sachs	(468,791)	468,791	-	-

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

14. Financial instruments and associated risks (continued)

(b) Credit risk (continued)

Bonds (continued)

Derivative contracts (continued)
Below are the derivative assets and liabilities by counterparty and details of the collateral received and pledged by Company as at 31 March 2014:

Derivative Type	Counterparty	Value of derivative assets GBP	Collateral received GBP	Collateral Pledged GBP	Net (if greater than zero) GBP
Options purchased	Goldman Sachs	1,587,027	-	-	1,587,027
Forward foreign exchange contracts	Goldman Sachs	274,079	-	-	274,079

Derivative Type	Counterparty	Value of derivative liabilities GBP	Collateral received GBP	Collateral Pledged GBP	Net (if greater than zero) GBP
Options written	Goldman Sachs	(230,756)	-	230,756	-
Credit Default Swaps	Goldman Sachs	(309,622)	-	309,622	-

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Company monitors the credit rating and financial positions of the brokers used to further mitigate this risk.

The Company monitors its risk by monitoring the credit quality of State Street Custodial Services (Ireland) Limited, as reported by Standard and Poor's or Moody's.

If the credit quality or the financial position of State Street Custodial Services (Ireland) Limited deteriorates significantly the Investment Manager will seek to move the Company's assets to another bank. State Street Custodial Services (Ireland) Limited is a State Street Bank and Trust Company. The credit rating of State Street Corporation, the parent company of the Depositary, was A1 at the reporting date.

(c) Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's liquidity risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed below. Where needed, the Investment Manager will liquidate positions to increase cash.

The following table details the current and long term financial liabilities of the Core at the year end date:

As at 31 March 2015:	Less than 1 month 31 Mar 2015 GBP	1-3 months 31 Mar 2015 GBP	3 months to 1 year 31 Mar 2015 GBP	Greater than 1 year 31 Mar 2015 GBP
Financial liabilities excluding derivatives				
Preference Shares	-	-	-	41,729,974
Due to related parties	-	171,649	-	-
Accrued expenses	-	-	-	-
Derivatives settled gross				
- Options	-	-	-	-
- Credit default swaps	-	-	-	-
- Forward foreign exchange contracts	-	468,791	-	-
	-	**3,049,291**	**-**	**41,729,974**

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

14. Financial instruments and associated risks (continued)

(c) Liquidity risk (continued)

As at 31 March 2014:	Less than 1 month 31 Mar 2014 GBP	1-3 months 31 Mar 2014 GBP	3 months to 1 year 31 Mar 2014 GBP	Greater than 1 year 31 Mar 2014 GBP
Financial liabilities excluding derivatives				
Preference Shares	-	-	-	41,563,920
Due to related parties	-	165,982	-	-
Accrued expenses	-	950,169	-	-
Derivatives settled gross				
- Options	-	-	230,756	-
- Credit default swaps	-	-	-	(309,622)
	-	**1,116,151**	**230,756**	**41,254,298**

At 31 March 2014, the only financial liabilities in the Cell consisted of accrued expenses of €95,464 and distribution payable of € 347,063 (2015: accrued expenses of €55,307) which are due within 3 months and 3 months to 1 year respectively.

The market for subordinated asset-backed securities, including Residual Income Positions and real estate loans into which the Company is invested, is illiquid. In addition, investments that the Company purchases in privately negotiated (also called “over the counter” or OTC) transactions may not be registered under relevant securities laws or otherwise may not be freely tradable, resulting in restrictions on their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. As a result of this illiquidity, the Company’s ability to vary its portfolio in a timely fashion and to receive a fair price in response to changes in economic and other conditions may be limited.

Furthermore, where the Company acquires investments for which there is not a readily available market, the Company’s ability to deal in any such investment or obtain reliable information about the value of such investment or risks to which such investment is exposed may be limited.

(d) Valuation of Financial Instruments

IFRS 13 requires disclosures surrounding the level in the fair value hierarchy in which fair value measurement inputs are categorised for assets and liabilities measured in the Statement of Financial Position. The determination of the fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 2, Significant Accounting Policies. For financial instruments that trade infrequently and have little price transparency, fair value is less objective.

The Company categorises investments using the following hierarchy as defined by IFRS 13:

- Level 1 – Quoted market prices in an active market for an identical instrument.
- Level 2 – Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant impact on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments (continued)

The following table analyses within the fair value hierarchy the Core's financial assets and liabilities measured at fair value at the year end date:

As at 31 March 2015:	**Level 1 31 Mar 2015 GBP**	**Level 2 31 Mar 2015 GBP**	**Level 3 31 Mar 2015 GBP**	**Total 31 Mar 2015 GBP**
Non-current assets				
Real Estate Debt Investments – bonds	-	59,441,393	-	59,441,393
Real Estate Debt Investments - loans	-	-	87,092,274	87,092,274
Current assets				
Options held for trading	-	4,815,213	-	4,815,213
Credit default swaps	-	-	-	-
Forward foreign exchange contracts	-	3,454	-	3,454
Cash and cash equivalents	8,091,170	-	-	8,091,170
Other assets	-	3,483,793	-	3,483,793
Current liabilities				
Options held for trading	-	-	-	-
Credit default swaps	-	-	-	-
Forward foreign exchange contracts	-	(468,791)	-	(468,791)
Other liabilities	-	(2,580,500)		(2,580,500)
Non-current liabilities				
Preference Shares	(41,729,974)	-	-	(41,729,974)
	(33,638,804)	**64,694,562**	**87,092,274**	**118,148,032**

As at 31 March 2014:	**Level 1 31 Mar 2014 GBP**	**Level 2 31 Mar 2014 GBP**	**Level 3 31 Mar 2014 GBP**	**Total 31 Mar 2014 GBP**
Non-current assets				
Real Estate Debt Investments – bonds	-	85,124,008	-	85,124,008
Real Estate Debt Investments - loans	-	-	48,392,943	48,392,943
Current assets				
Options held for trading	-	1,587,027	-	1,587,027
Forward foreign exchange contracts	-	274,079	-	274,079
Cash and cash equivalents	18,346,637	-	-	18,346,637
Other assets	-	3,270,188	-	3,270,188
Current liabilities				
Options held for trading	-	(230,756)	-	(230,756)
Credit default swaps	-	(309,622)	-	(309,622)
Other liabilities	-	(2,675,409)	-	(2,675,409)
Non-current liabilities				
Preference Shares	(41,563,920)	-	-	(41,563,920)
	(23,217,283)	**87,039,515**	**48,392,943**	**112,215,175**

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments (continued)
The following table analyses within the fair value hierarchy the Cell's financial assets and liabilities measured at fair value at the year end date:

As at 31 March 2015:	Level 1 31 Mar 2015 EUR	Level 2 31 Mar 2015 EUR	Level 3 31 Mar 2015 EUR	Total 31 Mar 2015 EUR
Current assets				
Cash and cash equivalents	441,256	-	-	441,256
Other assets	-	1,271	-	1,271
Current liabilities				
Other liabilities	-	(95,464)	-	(95,464)
Distribution payable	-	(347,063)	-	(347,063)
	441,256	**(441,256)**	**-**	**-**

As at 31 March 2014:	Level 1 31 Mar 2014 EUR	Level 2 31 Mar 2014 EUR	Level 3 31 Mar 2014 EUR	Total 31 Mar 2014 EUR
Non-current assets				
Investments at fair value through profit or loss	-	-	9,375,888	9,375,888
Current assets				
Cash and cash equivalents	1,143,441	-	-	1,143,441
Other assets	-	53,438	-	53,438
Current liabilities				
Other liabilities		(55,307)	-	(55,307)
	1,143,441	**(1,869)**	**9,375,888**	**10,517,460**

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of options is their quoted market price at the reporting date. Broker marks are obtained for these positions. These are included in Level 2 of the fair value hierarchy.

The fair value of forward contracts is the difference between the contracts price and reported market prices of the underlying contract variables. These are included in Level 2 of the fair value hierarchy.

The fair values of investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include investment-grade corporate bonds (Real Estate Debt Instruments) and over-the-counter derivatives.

As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

The Core has made loans into structures to gain exposure to real estate secured debt in the UK and Germany. These loans are not traded in an active market and there are no independent quotes available for these loans. Such holdings are classified as Level 3 investments. The fair value of these loans are linked directly to the value of the real estate loans the underlying structures invests in, which are determined based on modelled expected cash flows (drawdown principal and interest repayments, and maturity dates) with effective yields ranging from 8.2% to 20.4% (the unobservable input).

Fair value of the real estate loans is adjusted for changes in the credit quality of the borrower and underlying property collateral, and changes in the market rate on similar instruments. On origination of the loan, the Investment Manager performs due diligence on the borrower and related security/property. This includes obtaining a valuation of the underlying property (to assess loan-to-value of the investment). In most instances the terms of the loan require periodic re-valuation of the underlying property to check against loan-to-value covenants.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments (continued)
The majority of the the Company's investments in Loans are made though a Luxembourg based entity Stornoway Finance SARL via Loan Note instruments. As and when market information becomes available such as market prices from recognised financial data providers, the Company will assess the impact on the portfolio of loans which it holds and whether there are any transfers between levels in the fair value hierarchy. There were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 during the year ended 31 March 2015 or during the year ended 31 March 2014. One of the Real Estate Debt Investments (Loans) held by the Core transferred from Level 3 to Level 1 during the year as the underlying asset was a listed equity and marked to market at each valuation point. However, this investment was subsequently sold prior to 31 March 2015.

At 31 March 2015, the investment manager is not aware of any significant movement in the market rates, any indications of impairment, significant credit events or significant negative performance of the underlying property structures, which might affect the fair value of the loans. Accordingly, the Investment Manager has determined that amortised cost is the best estimate of the fair value of these loans. Whilst no defaults in the underlying investments are expected, a 1% decrease on the yield would increase the fair value by £2,573,849 and increase net profit by an equal amount; an equal change in the opposite direction would decrease the equity of the loan portfolio within the Core and decrease net profit by an equal amount.

At 31 March 2015, all of the investments in the Cell, with the exception of one investment which has been held at fair value EUR Nil since inception of the Cell. Prior to this, the fair values of investments in Residual Income Positions held by the Cell, for which there was no active market, were calculated using valuation models. The model used discounted cash flow analysis which incorporated both observable and non-observable data. Observable inputs included broker marks where applicable and prices of comparable assets. Unobservable inputs included assumptions regarding expected future default rates, prepayment rates and market liquidity discounts. The fair value of such instruments was included within Level 3. Refer to Note 14 (a), (e), (f) and (g) for details of the significant inputs and assumptions used in determining the fair value of these investments.

There were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 during the year ended 31 March 2014 or during the year ended 31 March 2013.

Level 3 reconciliation
The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the financial year:

Financial assets designated at fair value through profit or loss	Level 3 Core 31 Mar 2015 GBP	Level 3 Cell 31 Mar 2015 EUR
Opening Balance	48,392,943	9,375,888
Total gains and losses recognised in the consolidated statement of comprehensive income for the year	(2,516,150)	16,365,669
Purchases	95,825,623	-
Sales	(51,808,299)	(25,741,557)
Transfer into Level 1	(2,801,843)	-
Closing balance	87,092,274	-
Unrealised loss on investments classified as Level 3 at year end	(2,890,420)	-

Financial assets designated at fair value through profit or loss	Level 3 Core 31 Mar 2014 GBP	Level 3 Cell 31 Mar 2014 EUR
Opening Balance	19,990,766	12,588,496
Total gains and losses recognised in the consolidated statement of comprehensive income for the year	(1,286,189)	(1,560,417)
Purchases	45,891,794	-
Sales	(16,203,428)	(1,652,191)
Closing balance	48,392,943	9,375,888
Unrealised loss on investments classified as Level 3 at year end	(1,264,554)	(774,881)

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

14. Financial instruments and associated risks (continued)

(e) Prepayment and re-investment risk

The Core's real estate loans have the facility for prepayment. The Core's exposure to real estate debt securities also has exposure to potential prepayment risk which may have an impact on the value of the Core's portfolio. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond the Core's control and consequently cannot be predicted with certainty.

The level and timing of prepayments made by borrowers in respect of the mortgage loans that collateralise certain of the Core's investments may have an adverse impact on the income earned by the Core from those investments.

Early prepayments also give rise to increased re-investment risk. If the Core is unable to reinvest such cash in a new investment with an expected rate of return at least equal to that of the loan repaid, the Company's net income will be lower and, consequently, could have an adverse impact on the Company's ability to pay dividends.

The Cell's valuations of its Residual Income Positions took into account expected levels of prepayment of the loans that collateralised the securitisation transactions in which the Cell had purchased the equity positions.

The Investment Manager reviews the prepayment assumptions each quarter and will update as required. These assumptions are considered through a review of the underlying loan performance information of the securitisations.

(f) Default and severity rates

While the Cell's valuations of its Residual Income Positions took into account expected levels of default rates and the expected loss given a default (severity loss rate), the Cell's Residual Income Positions and the assets that collateralised them may have been subject to higher losses through a combination of higher default or severity rates. Default and severity rate risk was managed by the Investment Manager by regular review of the positions held. The Investment Manager reviewed these assumptions each quarter and updated as required. These assumptions were considered by reviewing the underlying loan performance information of the securitisations.

(g) Residual interest risk

The Cell's investments consisted of interests in and/or economic exposures to limited recourse securities. These interests were subordinated in right of payment and ranked junior to other securities that were secured by or represented ownership of the same pool of assets. In the event of default by an issuer in relation to such investments, holders of the issuer's more senior securities were entitled to payments in priority to the Cell.

Some of the Cell's investments also had structural features that diverted payments of interest and/or principal to more senior classes of securities secured by or representing ownership in the same pool of assets when the delinquency or loss experience of the pool exceeded certain levels.

This could have lead to interruptions in the income stream that the Company anticipated receiving from its investment portfolio, which could have lead to the Cell having less income to distribute to Shareholders.

15. Segmental Reporting

The Company has adopted IFRS 8 'Operating Segments'. The standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

Whilst the Investment Manager may make the investment decisions on a day to day basis regarding the allocation of funds to different investments, any changes to the investment strategy or major allocation decisions have to be approved by the Board, even though they may be proposed by the Investment Manager. The Board retains full responsibility as to the major allocation decisions made on an ongoing basis and is therefore considered the "Chief Operating Decision Maker" under the IFRS 8.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

15. Segmental Reporting (continued)

The Company has two reportable segments, being the Core and the Cell.

The Core invests in Real Estate Debt Investments. The real estate debt strategy focuses on secured residential and commercial debt in the UK and Western Europe, seeking to exploit opportunities in publicly traded securities and real estate loans.

During the year, all of the Residual Income Positions held by the Cell were sold with the exception of one position which has been held at a fair value of EUR Nil since the inception of the Cell. Prior to the sale, the Cell held Residual Income Positions, which are legacy assets of an investment policy which is no longer pursued by the Company.

For each of the segments, the Board of Directors reviews internal management reports prepared by the Investment Manager on a quarterly basis. The Investment Manager has managed each of the Real Estate Debt Investments and Residual Income Positions as part of either the Core or Cell investment policy respectively, with the view of monitoring performance of the Core and Cell separately.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit/(loss), as included in the internal management reports that are reviewed by the Board of Directors. Segment profit/(loss) is used to measure performance as management believes that such information is the most relevant in evaluating the results.

Year ended 31 March 2015:	**Core 31 Mar 2015 GBP**	**Cell 31 Mar 2015 EUR**	**Total 31 Mar 2015 GBP**
Reportable segment profit	13,797,255	15,943,280	26,305,261

Year ended 31 March 2014:	**Core 31 Mar 2014 GBP**	**Cell 31 Mar 2014 EUR**	**Total 31 Mar 2014 GBP**
Reportable segment profit/(loss)	8,136,401	(661,723)	11,265,301

As at 31 March 2015	**Core 31 Mar 2015 GBP**	**Cell 31 Mar 2015 EUR**	**Total 31 Mar 2015 GBP**
Reportable segment assets	162,927,297	442,527	163,247,455

As at 31 March 2014	**Core 31 Mar 2014 GBP**	**Cell 31 Mar 2014 EUR**	**Total 31 Mar 2014 GBP**
Reportable segment assets	156,994,882	10,572,767	165,735,494

Information regarding the basis of geographical segments is presented in the Investment Manager's Reports and is based on the countries of the underlying collateral.

All segment revenues are from external sources. There are no inter-segment transactions between the reportable segments during the year. The reportable segment profit/(loss) of both the Core and the Cell is equal to the profit of the Company and the reportable segment assets of both the Core and the Cell are equal to the total assets of the Company.

Notes to the Financial Statements (continued)

For the year ended 31 March 2015

15. Segmental Reporting (continued)

The following is a summary of the movements in the Company's investments analysed by the Core and Cell for the year ended 31 March 2015:

As at 31 March 2015:	**Core 31 Mar 2015 GBP**	**Cell 31 Mar 2015 EUR**	**Total 31 Mar 2015 GBP**
Investments at fair value through profit or loss			
Opening fair value	133,516,951	9,375,888	141,268,091
Purchases	106,602,015	-	106,602,015
Sales proceeds	(95,253,812)	(25,741,559)	(115,448,877)
Realised gain on sales*	5,344,544	12,135,605	14,865,309
Net movement in unrealised gains on investments at fair value through the profit or loss*	(2,746,114)	4,230,066	572,506
Principal paydowns	(929,917)	-	(929,917)
Foreign currency translation adjustment	-	-	(395,460)
Closing fair value	**146,533,667**	**-**	**146,533,667**

*Excludes effective interest adjustment of £3,010,578 for the year ended 31 March 2015, which has been included in the Interest Income in the Statement of Comprehensive Income.

The following is a summary of the movements in the Company's investments analysed by the Core and Cell as at 31 March 2014:

As at 31 March 2014:	**Core 31 Mar 2014 GBP**	**Cell 31 Mar 2014 EUR**	**Total 31 Mar 2014 GBP**
Investments at fair value through profit or loss			
Opening fair value	94,573,642	12,588,496	105,219,281
Purchases	114,637,229	-	114,637,229
Sales proceeds	(79,880,882)	(1,899,865)	(81,483,315)
Realised gain on sales*	14,772,930	(6,078,432)	9,646,104
Net movement in unrealised gains/(losses) on investments at fair value through the profit or loss*	(8,612,794)	4,518,015	(4,802,095)
Principal (paydowns)/payups	(1,973,174)	247,674	(1,764,274)
Foreign currency adjustment	-	-	(184,839)
Closing fair value	**133,516,951**	**9,375,888**	**141,268,091**

*Excludes effective interest rate adjustment of £4,551,411 for the year ended 31 March 2014, which has been included in the Interest Income in the Statement of Comprehensive Income.

16. Collateral

The Core held £2,369,411 (31 March 2014: £1,213,642) as cash collateral for financial derivative instruments transactions undertaken with Goldman Sachs. This collateral also represents an obligation on the Core to repay Goldman Sachs on settlement of the financial derivative instrument and is not included in the Statement of Financial Position of the Core. As this amount is the minimum deemed by the brokers for collateral requirements the cash is restricted and is reported separately by means of this note only.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

17. Contingent liability

The Cell's income and assets may have been called upon under the Inter-Cellular Agreement to satisfy the liabilities relating to the distribution of Preference Dividends and/or the Final Capital Entitlement where the Core Assets were insufficient to meet these liabilities. As the investment positions of the Cell have been sold and the proceeds distributed to the Cell Shareholders, the terms of the Inter-Cellular Agreement no longer apply.

18. Material agreements and related party transactions

Loan investments
The Company has made, and will continue to make, certain loan investments through a Luxembourg based entity Stornoway Finance SARL via Loan Note Instruments. This entity has separate compartments for each loan deal. Other funds also managed by the Investment Manager invest pari passu in these compartments. Any loans not co-invested on a pari passu basis will be noted separately as per above.

Investment Manager
The Company is party to an Investment Management Agreement with the Investment Manager (a related party), dated 12 March 2015, pursuant to which the Company has appointed the Investment Manager to manage its assets on a day-to-day basis in accordance with its investment objectives and policies, subject to the overall supervision and direction of their respective Boards of Directors.

The Company pays Cheyne Capital Management (UK) LLP (the "Investment Manager") a Management Fee and Incentive Fee.

Management Fee
Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive from the Company an annual Management Fee of 1.25% on an adjusted net asset value, being the net asset value of the Core Ordinary Shares plus the number of preference shares is issue.

During the year ended 31 March 2015, the Management Fee totalled £2,096,609 (31 March 2014: £2,082,166), of which £183,337 (31 March 2014: £78,943) was outstanding at the year end.

Performance Fee
Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive from the Company a performance fee calculated as ((A-B) x 20% x C) where:

A = the Adjusted Performance Net Asset Value ("NAV"), as defined in the updated Prospectus.
B = the NAV per Core Share as at the first Business Day of the Performance Period increased by a simple annual rate of return of 7% over the Performance Period or, if no Performance Fee was payable in the previous Performance Period, the NAV per Core Share on the first Business Day of the Performance Period immediately following the last Performance Period in which a Performance Fee was paid (the "Starting Date") increased by a simple annual rate of return of 7 per cent. over the period since the Starting Date ("Hurdle Assets").
C = the time weighted average number of Core Shares in issue in the period since the Starting Date.

As the Performance Period (as defined in the Prospectus) is from 11 November 2013, to the end date of the quarter in which the first Continuation Resolution is passed being the date of the annual general meeting in 2017, this has the effect of resetting the NAV on which the Hurdle Rate will be determined.

During the year ended 31 March 2015, the Performance Fee totalled £1,431,773 (31 March 2014: £Nil), of which £1,431,773 (31 March 2014: £Nil) was outstanding at the year end.

Administration Fee
Under the terms of the Administration Agreement, the Administrator is entitled to receive from the Company an administration fee of 0.125 % of the net asset value of the Company up to £120,000,000 and 0.0375 per cent of the net asset value of the Company greater than £120,000,000, plus additional fees in relation to transaction fees, statutory reporting, corporate secretarial fees and other out of pocket expenses. State Street Fund Services (Ireland) Limited, the Sub-Administrator, is paid by the Administrator. The above is subject to a minimum monthly fee of 10,000. During the year ended 31 March 2015 the administration fee totalled £145,562 (31 March 2014: £197,883), of which £36,304 (31 March 2014: £23,022) was outstanding at the year end.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

18. Material agreements and related party transactions (continued)

Depositary Fee
Under the terms of the Depositary Agreement, the Depositary is entitled to receive from the Company a Depositary fee of 0.02 per cent of the net asset value of the Company. During the year ended 31 March 2015 the Depositary fee totalled £45,052 (2014: £5,617). The Company owed £13,997 to the Depositary at the year end date (2014: £13,921).

Investment Manager Options
In recognition of the work performed by the Investment Manager in raising capital for the Company, the Company granted to Cheyne Global Services Limited on 8 December 2005 options representing the right to acquire 2,250,000 Shares, being 10 % of the number of Offer Shares (that is, excluding the Shares issued to Cheyne ABS Opportunities Fund LP and the Shares issued to the Directors), at an exercise price per share equal to the Offer Price (€10.23). The Investment Manager Options are fully vested and immediately exercisable on the date of admission to the London Stock Exchange and will remain exercisable until the 10th anniversary of that date.

The aggregate fair value of the options granted at the time of the Initial Public Offering using a Black-Scholes valuation model was €7,672,500 (reflecting a valuation of €3.41 per option). This amount has been treated as a cost of the Initial Public Offering. As at 31 March 2015, these options were out of the money as the share price was below the Offer Price of €10.23 (31 March 2014: share price was also below the Offer Price of €10.23). As such there was no dilution as at 31 March 2015 as the average share price for the year then ended was below the option exercise price.

The Company may grant further Investment Manager Options in connection with any future offering of Shares. Such options, if any, will represent the right to acquire Shares equal to not more than 10 per cent of the number of Shares being offered in respect of that future offering and will have an exercise price equal to the offer price for that offering.

19. Contingencies and commitments

The Company has committed up to GBP 101.9 million into loans through Stornoway Finance SARL. As at 31 March 2015, it had funded GBP 90 million of this commitment, (31 March 2014: GBP 63 million commitment of which GBP 51 million was funded).

20. Significant events during the year

A supplementary Prospectus was issued on 18 June 2014. The purpose of this supplement was to provide updated key financial information for the year ended 31 March 2014.

On 25 July 2014, the Depositary changed from State Street Custodial Services (Ireland) Limited to State Street Custody Services (Guernsey) Limited. An updated agreement, dated 25 July 2014 was issued in this regard.

On 31 July 2014, 73% of the Cell's issued share capital was redeemed by way of compulsory redemption of Cell Shares following the sale of the Company's position in Magellan. The Redemption was effected pro rata to holdings of Cell Shares on the register at the close of business on the Redemption Date and the aggregate payment made to Cell Shareholders was EUR 7,849,996. All of the Cell Shares redeemed on the Redemption Date were cancelled.

Following the sales of the remaining assets of the Cell portfolio, with the exception of one position which has been held at a fair value of EUR Nil since inception of the Cell, the Directors announced a distribution from the recent assets sales and the redemption of the notes. The remaining position will continue to be held for the moment. It is the Directors intention to wind up Trebuchet and close the Cell.

21. Subsequent events

In May 2015, the Company made a further investment in real estate loans amounting to £10.2 million. The whole loan is secured on a 220 unit presold residential scheme in London.

Final dividends for the year ended 31 March 2015 of 2.7p per Core Ordinary Share were approved by the Directors on 11 June 2015.

Bob Cowdell was appointed to the Board of Directors of the Company as an independent Non-Executive Director with effect from 1 June 2015. He will take over as non-executive chairman, following the release of the Company's results for the year ended 31 March 2015.

Tom Chandos has announced that he will resign from the Board of Directors on 12 June 2015.

There have been no other significant events affecting the Company since the year end date that require amendment to or disclosure in the financial statements.

Notes to the Financial Statements (continued)
For the year ended 31 March 2015

22. Foreign exchange rates applied to combined totals shown in the condensed unaudited financial statements

The following foreign exchange rates relative to the GBP were used as at the year end date:

Currency	31 Mar 2015	31 Mar 2014
EUR	1.3822	1.2096
US Dollar	1.4845	1.6671

The following average exchange rates relative to GBP were used in the preparation of the financial statements

Currency	31 Mar 2015	31 Mar 2014
EUR	1.2746	1.1856

23. Approval of the Financial Statements

The annual report and audited financial statements of the Company were approved by the Directors on 10 June 2015.

Appendix I – Remuneration Policy (Unaudited)

Cheyne Capital Management (UK) LLP ("CCMLLP"), the Alternative Investment Fund Manager ("AIFM"), has implemented a Remuneration Policy ("the Policy") that is applicable to all remuneration matters within the firm, with a particular focus on those persons who have been identified as having a material impact on the risk profile of the AIF ("Code Staff"). This includes senior management, risk takers and control functions.

The Policy is in line with the business strategy, objectives, values and long-term interests of the firm. As an AIFM, CCMLLP's overall objective is to achieve attractive and controlled performance and capital growth for all funds under management and to develop strong long-term relationships with investors. CCMLLP's income is dependent upon our funds under management, and therefore the profit available for distribution under the Policy is dependent upon the performance of the funds. As such, the fulfilment of our objectives is interlinked with the best interests of our clients, which in turn is in line with the Policy. The Policy promotes effective risk management and does not tolerate breaches of internal risk guidelines.

CCMLLP has a Remuneration Committee (currently the CIO and CFO) who report into the Incentivisation Committee (currently the CEO and President) that oversees the remuneration of individuals, including Code Staff, and approval of the allocation of profits available for discretionary division among members.

CCMLLP was authorised as an AIFM on 22 July 2014. The quantitative disclosures required under Article 22 of AIFMD will be provided for the AIFM's first full year following authorisation in accordance with the European Securities and Markets Authority ("ESMA") guidance. As CCMLLP's first full accounting period is the Year Ended 31 March 2016, these disclosures will be made in the financial statements of the fund for the Year Ended 31 March 2016.

Appendix II – Leverage (Unaudited)

For the purposes of this disclosure, leverage is any method by which a fund's exposure is increased. A fund's exposure may be increased by using derivatives, by reinvesting cash borrowings, through positions within repurchase or reverse repurchase agreements, through securities lending or securities borrowing arrangements, or by any other means (such increase referred to herein as the "Incremental Exposure"). The AIFMD prescribes two methodologies for calculating overall exposure of a fund: the "gross methodology" and the "commitment methodology". These methodologies are briefly summarised below.

The commitment methodology takes account of the hedging and netting arrangements employed by a fund at any given time (purchased and sold derivative positions will be netted where both relate to the same underlying asset). This calculation of exposure includes all Incremental Exposure as well as a fund's own physical holdings; and cash. By contrast, the gross methodology does not take account of the netting or hedging arrangements employed by a Company. This calculation of exposure includes all Incremental Exposure as well as the Company's own physical holdings, Cash is excluded.

The AIFMD requires that each leverage ratio be expressed as the ratio between a fund's total exposure (including any Incremental Exposure) and its net asset value. Using the methodologies prescribed under the AIFMD and implementing legislation, the Company has set a maximum level of leverage, taking into account atypical and volatile market conditions. Leverage will not exceed the ratio of 5:1 using the commitment methodology and 5:1 using the gross methodology

The use of leverage, including borrowings, may increase the volatility of the Company's Net Asset Value per Ordinary Share and also amplify any loss in the value of the Company's assets.

While the use of borrowing should enhance the total return on the Shares where the return on the Company's underlying assets is rising and exceeds the cost of borrowing, it will have the opposite effect where the return on the Company's underlying assets is falling or rising at a lower rate than the cost of borrowing, reducing the total return on the Shares. As a result, the use of borrowings by the Company may increase the volatility of the Net Asset Value per Share.

Any reduction in the value of the Company's investments may lead to a correspondingly greater percentage reduction in its Net Asset Value (which is likely to adversely affect the price of a Share). Any reduction in the number of Shares in issue (for example, as a result of buy-backs or tender offers) will, in the absence of a corresponding reduction in borrowings, result in an increase in the Company's level of gearing.

To the extent that a fall in the value of the Company's investments causes gearing to rise to a level that is not consistent with the Company's gearing policy or borrowing limits, the Company may have to sell investments in order to reduce borrowing.

The Company will pay interest on its borrowings. As such, the Company is exposed to interest rate risk due to fluctuations in the prevailing market rates. The Company may employ hedging techniques designed to reduce the risk of adverse movements in interest rates. However, such strategies may also result in losses and overall poorer performance than if the Company had not entered into such hedging transactions.

The risks associated with the derivatives used by the Company and that may contribute to the leverage of the Company are set out earlier.

Leverage is limited to 500% of Net Asset Value of the Company under both the Gross and Commitment approaches. Up to 31 March 2015, the maximum leverage calculated has been 186.5%, for the Gross Approach and 171.3% for the Commitment Approach. In the period from 22 July 2014 to 31 March 2015, the average leverage amounted to 191.7% for the Gross Approach and 173.8% for the Commitment Approach.