

# **AQUA RESOURCES FUND LIMITED**

## **Interim Management Report and Unaudited Condensed Interim Consolidated Financial Statements**

**For the six months ended 30 June 2016**

## **AQUA RESOURCES FUND LIMITED**

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## AQUA RESOURCES FUND LIMITED

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### MANAGEMENT AND ADMINISTRATION

#### DIRECTORS:

Charles Parkinson (*Chairman*)  
Hasan Askari  
*both of whom are independent non-executive directors*

#### REGISTERED OFFICE:

Sarnia House  
Le Truchot  
St. Peter Port  
Guernsey GY1 1GR

#### INVESTMENT CONSULTANT

Hasan Askari

#### SOLICITORS TO THE COMPANY:

(as to English Law)

Herbert Smith LLP  
Exchange House  
Primrose Street  
London EC2A 2HS  
United Kingdom

#### ADVOCATES TO THE COMPANY:

(as to Guernsey Law)

Mourant Ozannes  
1 Le Marchant Street  
St. Peter Port  
Guernsey GY1 4HP

#### ADMINISTRATOR AND COMPANY SECRETARY:

Praxis Fund Services Limited  
Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

#### INDEPENDENT AUDITORS:

PricewaterhouseCoopers CI LLP  
Royal Bank Place  
1 Gategny Esplanade  
St Peter Port  
Guernsey GY1 4ND

#### REGISTRAR:

Capita Registrars (Guernsey) Limited  
PO Box 627  
Mont Crevelt House  
Bulwer Avenue  
St. Sampson  
Guernsey GY2 4LH

#### UK TRANSFER AGENT:

Capita Registrars Limited  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
United Kingdom

**CHAIRMAN'S STATEMENT**

Dear Shareholder,

On behalf of the Board, I am pleased to present the Interim Report of the Company for the six month period ended 30 June 2016.

The most significant event of the period was the completion of the sale of our shareholding in Ranhill Water Technology (Cayman) Limited ("Ranhill") which, as noted in the Investment Consultant's Report, was finally completed on 12 May 2016. This sale realised proceeds of €24.41 million. Following the capital distribution of the Waterleau proceeds to shareholders in March 2016 in the amount of 29.1 cents per share, the Ranhill disposal enabled a further distribution to be made in June 2016 of 30.0 cents per share.

**Net asset value ("NAV")**

Following the sale of Ranhill and the distributions noted above, the NAV at the reporting date is 5.74 cents per Ordinary Share, representing an adjusted return of 19.3 per cent against the 31 December 2015 NAV.

**Incentive fee**

Shareholders' attention is drawn to note 5 to the Financial Statements, which sets out details of an Incentive fee payable to the Investment Consultant, which was approved by the Board (acting without the Investment Consultant's presence or participation in the deliberations) and which would become payable should the cumulative amount of capital returned to shareholders exceed 60.0 cents per share. As at the date of this report, the total capital returned to shareholders amounted to 66.0 cents per share, and accordingly the Incentive fee is payable.

**Outlook**

Having completed the disposal of the Company's remaining significant assets, over the final period of the Company's life our goal will be to attempt to realise some value from In-Pipe and BBH, prior to distributing any proceeds to shareholders. Once this process has been completed, we will make arrangements for the Company to be placed into voluntary liquidation. I hope to be able to report further to shareholders on this by the end of the year.

**Charles Parkinson**  
**Chairman**  
**30 September 2016**

**INVESTMENT CONSULTANT'S REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

This is a Report by the Investment Consultant to the Board of Directors ('the Board') of Aqua Resources Fund Limited ('Aqua') for the period 1 January to 30 June 2016.

A comprehensive review of the history of Aqua since its launch in 2008 and of its various investments over this period was set out in the Interim Report for 2015 and the Annual Report for 2015. I will not, therefore, seek to rehearse past history again but confine myself to summarising developments since January this year with a limited view on the prognosis for the Company going forward.

**DEVELOPMENTS**

There were three positive developments in the period under review.

The first was the completion of the Sale of our shareholding in Ranhill Water Technology (Cayman) Limited which completed, finally, on 12 May 2016. Shareholders will recall that this has been a long-running saga with the sale first having been agreed in December 2012. There were multiple extensions along the way; the delay in completion was a function of, initially, regulatory issues in Malaysia and more recently, financial constraints on the part of the buyer. Full details on the transaction are set out in the paragraph entitled Ranhill below.

Secondly, a further capital distribution of €0.30 per share was made from the proceeds of the sale of our Ranhill stake. Further details on this distribution are set out in the paragraph Net Asset Value below.

Finally, our former investment manager, Four Winds Capital Management, accepted our contention that no further management fees were due to them. Shareholders will recall that I pointed out in the 2015 Annual Report that a sum of €163,802 had been claimed by Four Winds under management fees with a further €28,000 for expenses. However, the Board and I felt very strongly that these further sums were not warranted and after a frank debate, our contention has been accepted. An amount of €163,802, which had been provided for in the 2015 year-end accounts, has now been written back into the net asset value of the Company.

**RANHILL**

The total cash consideration received by Aqua from the sale of stake in Ranhill on 12 May 2016 was US\$27.39 million. In addition, Aqua retained the US\$1 million deposit received in February 2013 under the terms of the aborted Sale and Purchase Agreement signed in January 2013. Furthermore, a sum of US\$100,000 was paid to us as compensation for our legal expenses. The total sum received by Aqua therefore, amounts to US\$28.49 million, against an initial investment of US\$14.88 million. Some minor concessions were also negotiated in the course of this protracted transaction such as our legal costs for the closing process were paid for by the buyer and an enhanced rate of interest was paid to us for the period 1 April 2016 until closing.

The total cash consideration received by Aqua converted to Euro was €24.41 million.

**NET ASSET VALUE**

The net asset value per share of the Company is €0.0574 per share. This consists entirely of cash. Total distribution to shareholders as at 4 July 2016 in the form of capital dividends is €0.66; the likelihood of further capital dividends, while feasible, is limited and unlikely to exceed, as of now, €0.04 per share. A total, anticipated capital return of €0.70 on an investment of €1.00 is regrettable but the Board and I both take some comfort from the fact that €0.70 was a very unlikely prospect when the Company's shares were trading at €0.27 per share.

It is worth reminding shareholders that, in aggregate, a sum amounting to approximately €0.10 per share was paid as management fees to the former investment manager, Four Winds Capital Management between 2008 and 2015. This increases to approximately €0.12 per share if expenses paid to Four Winds during the same period are added to the management fee.

## AQUA RESOURCES FUND LIMITED

### INVESTMENT CONSULTANT'S REPORT (CONTINUED) FOR THE SIX MONTHS ENDED 30 JUNE 2016

#### PORTFOLIO

Of the five investments made by Aqua, three have been disposed of: two remain, both of which are discussed briefly below.

#### In-Pipe Technology Inc ('In-Pipe')

In-Pipe, a company based in the Chicago area of the United States, provides wastewater treatment technology and services to municipalities, principally in the United States.

(in US\$ million)	2013 <sup>1</sup>	2014 <sup>2</sup>	2015 <sup>3</sup>
Revenues	US\$2.33	US\$2.22	US\$2.02
EBITDA	US\$0.37	US\$0.36	US\$0.34

In-Pipe has not made any progress since 2009 when our initial investment was made. The Board continues to believe that its decision in 2014 to write this investment down to zero remains appropriate.

	Cost (€000)	Realised value (€000)	Unrealised value (€000)	Total value (€000)	Valuation methodology
In-Pipe	3,603	-	(3,603)	-	Written down to zero

It is also worth noting that, under the terms of the original preference share purchase agreement through which Aqua made its investment in In-Pipe, Aqua is due a 12% cumulative, compounding return on the purchase price paid, an amount which stands at US\$6.1 million as at 30 June 2016, plus a capital return of US\$9.5 million, a total of US\$15.6 million. The cost of this investment was US\$5.0 million.

Under the terms of the Shareholders Agreement entered into by Aqua when the investment in In-Pipe was made, Aqua has the right to call an auction of In-Pipe and/or its assets after August 2014. This has now been done and the auction process is underway with advisers having been appointed. This process is likely to take at least six months.

#### Bluewater Bio Holdings Limited (BBH')

BBH is a provider of municipal, industrial and commercial wastewater treatment solutions, based in the United Kingdom. Aqua's original investment was in a company called Bluewater Bio International ("BBI"); BBH is the successor company to BBI and was formed after a restructuring of BBI in November 2014, which reduced our substantial position in BBI to a holding of only 82,902 preference shares. This investment was written off in 2012.

(in £ million)	2013 <sup>4</sup>	2014 <sup>5</sup>	2015 <sup>6</sup>
Revenues	£1.42	£0.23	£1.46
EBITDA	£(4.16)	£(4.07)	£(1.93)

	Cost (€000)	Realised value (€000)	Unrealised value (€000)	Total value (€000)	Valuation methodology
BBH	9,375	597	(8,778)	-	Written down to zero

<sup>1</sup> Unaudited financial statements for the year ended 31 December 2013

<sup>2</sup> Audited financial statements for the year ended 31 December 2014

<sup>3</sup> Management accounts for the year ended 31 December 2015

<sup>4</sup> Audited financial statements for the year ended 30 September 2013

<sup>5</sup> Audited financial statements for the year ended 30 September 2014

<sup>6</sup> Audited financial statements for the year ended 30 September 2015

**INVESTMENT CONSULTANT'S REPORT (CONTINUED)  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

**OUTLOOK**

The two remaining assets discussed above have both been written off. The likelihood of realising any value for our considerable investment in BBH is negligible, if that; we continue to make efforts to dispose of our interest in In-Pipe but there is no guarantee of success. Even if a sale is effected, our best estimate of a return to shareholders from this disposal, nett of expenses, is approximately €0.015 per share. This notional amount, when added to any residual cash in the Company, may result in a further and final capital distribution of €0.04 per share. But I would like to stress that this is not a forecast and is by no means assured.

My time is now principally spent in managing In-Pipe, almost on a daily basis, and separately, the auction process, and trying to find a way to dispose of our shareholding in BBH, which because of the tortuous nature of the Shareholder's Agreement, is anything but simple. I am also trying to wind down the elaborate web of special purpose vehicles set up by our former Investment Manager, which is proving both onerous and expensive. My best guess is that this winding up process is likely to take till June 2017 though once again there are no guarantees being offered.

**Hasan Askari**  
**Director and Investment Consultant**  
**30 September 2016**

**STATEMENT OF DIRECTORS' RESPONSIBILITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

The Chairman's Statement and the Investment Consultant's Report comprise the Interim Management Report.

To the best of the knowledge of the Directors, this Interim Management Report and Unaudited Condensed Interim Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit of the Company and have been prepared in accordance with the accounting principles generally accepted in the US.

Signed on behalf of the Board of Directors by:

**Hasan Askari**  
**Director**  
**30 September 2016**

**AQUA RESOURCES FUND LIMITED**

**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES  
AT 30 JUNE 2016**

	Notes	Unaudited 30 June 2016 €	Audited 31 December 2015 €
<b>Assets</b>			
Cash and cash equivalents		5,057,746	23,873,646
Investments at fair value (cost 30 June 2016: €12,898,850 and 31 December 2015: €23,953,808)	2	-	16,576,954
Prepaid expenses		41,553	62,331
<b>TOTAL ASSETS</b>		<u>5,099,299</u>	<u>40,512,931</u>
<b>Liabilities</b>			
Management fee payable		-	163,802
Incentive fee payable		875,000	875,000
Other payables	3	66,217	76,926
<b>TOTAL LIABILITIES</b>		<u>941,217</u>	<u>1,115,728</u>
<b>NET ASSETS</b>		<u><b>4,158,082</b></u>	<u><b>39,397,203</b></u>
<b>Net Assets consist of:</b>			
Ordinary Shares (no par value, authorised to issue unlimited number of Ordinary Shares, of which 72,464,340 (31 December 2015: 72,464,340) were issued and outstanding)	4	70,030,004	70,030,004
Retained earnings		(65,871,922)	(30,632,801)
		<u><b>4,158,082</b></u>	<u><b>39,397,203</b></u>
<b>Net asset value per Ordinary Share</b>		<u><b>0.0574</b></u>	<u><b>0.5437</b></u>

The consolidated financial statements on pages 7 to 19 were approved by the Board of Directors on 30 September 2016 and signed on its behalf by:

**Hasan Askari**  
Director

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

**AQUA RESOURCES FUND LIMITED****UNAUDITED CONDENSED INTERIM CONSOLIDATED SCHEDULE OF INVESTMENTS  
AT 30 JUNE 2016**

<b>Investments</b>	<b>Quantity/ Notional</b>	<b>Fair Value €</b>	<b>NAV %</b>
<b>INVESTMENTS AT FAIR VALUE</b>			
<b><u>Equities in unlisted Companies</u></b>			
<b>Cayman Islands (cost: €9,296,198)</b>			
Bluewater Bio Holdings Limited	82,902	-	-
<b>United States of America (cost: €3,602,651)</b>			
In-Pipe Technology Company Inc.	474,834	-	-
<b>Total investments in unlisted companies (cost: €12,898,849)</b>		<hr/>	<hr/>
		-	-
<b><u>Warrants</u></b>			
<b>United States of America (cost: €1)</b>			
In-Pipe Technology Company Inc. – Warrants 05/08/2016 (note 2)	74,225	-	-
<b>Total investments in warrants (cost: €1)</b>		<hr/>	<hr/>
		-	-
<b>Total investments at fair value (cost: €12,898,850)</b>		<hr/>	<hr/>
		-	-

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

**AQUA RESOURCES FUND LIMITED****UNAUDITED CONDENSED INTERIM CONSOLIDATED SCHEDULE OF INVESTMENTS  
AT 31 DECEMBER 2015**

<b>Investments</b>	<b>Quantity/ Notional</b>	<b>Fair Value €</b>	<b>NAV %</b>
<b>INVESTMENTS AT FAIR VALUE</b>			
<b><u>Equities in unlisted Companies</u></b>			
<b>Cayman Islands (cost: €20,351,156)</b>			
Bluewater Bio Holdings Limited	82,902	-	-
Ranhill Water Technologies (Cayman) Limited	14,880,000	16,576,954	42.08
<b>United States of America (cost: €3,602,651)</b>			
In-Pipe Technology Company Inc.	474,834	-	-
<b>Total investments in unlisted companies (cost: €23,953,807)</b>		<b>16,576,954</b>	<b>42.08</b>
<b><u>Warrants</u></b>			
<b>United States of America (cost: €1)</b>			
In-Pipe Technology Company Inc. – Warrants 05/08/2016 (note 2)	74,225	-	-
<b>Total investments in warrants (cost: €1)</b>		<b>-</b>	<b>-</b>
<b>Total investments at fair value (cost: €23,953,808)</b>		<b>16,576,954</b>	<b>42.08</b>

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

**AQUA RESOURCES FUND LIMITED**

**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	<b>Unaudited 30 June 2016</b>	<b>Unaudited 30 June 2015</b>
	€	€
<b>Investment income</b>		
Interest income	8,211	100,000
Other income	2,037	3,951
<b>Total investment income</b>	<u>10,248</u>	<u>103,951</u>
<b>Operating expenses</b>		
Administrator fees	76,290	67,483
Audit fees	12,269	17,301
Investment consultant's fee & expenses	78,794	31,079
Professional fees	55,185	27,768
Directors' fees	60,821	91,422
Directors' expenses	30,785	10,359
Management fees	(163,802)	406,494
Miscellaneous expenses	24,233	59,900
<b>Total operating expenses</b>	<u>174,575</u>	<u>711,806</u>
<b>Net investment loss</b>	<u>(164,327)</u>	<u>(607,855)</u>
<b>Realised and unrealised gain from investments and foreign currency</b>		
Net unrealised gain from foreign currency transactions	253,950	6,695
Net realised gain on disposal of investments	7,497,681	-
Net unrealised appreciation of investments	-	1,707,646
	<u>7,751,631</u>	<u>1,714,341</u>
<b>Net increase in net assets resulting from operations</b>	<u><b>7,587,304</b></u>	<u><b>1,106,486</b></u>
<b>Net investment loss per Ordinary Share (annualised):</b>		
Basic & diluted	(0.0045)	(0.0168)
<b>Net profit per ordinary share (annualised):</b>		
Basic & diluted	0.2094	0.0305
<b>Weighted Average Number of Ordinary Shares Outstanding:</b>		
Basic & diluted	72,464,340	72,464,340

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

**AQUA RESOURCES FUND LIMITED**

**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	Notes	Unaudited 30 June 2016 €	Unaudited 30 June 2015 €
<b>Movement in net assets resulting from operations</b>			
Net investment loss		(164,327)	(607,855)
Net unrealised gain on foreign currency transactions		253,950	6,695
Net realised gain on disposal of investments		7,497,681	-
Net unrealised appreciation of investments		-	1,707,646
<b>Net increase in net assets resulting from operations</b>		<u>7,587,304</u>	<u>1,106,486</u>
<b>Transactions with owners</b>			
Capital distributions		(42,826,425)	-
<b>Net decrease in net assets resulting from transactions with owners</b>		<u>(42,826,425)</u>	<u>-</u>
<b>Net (decrease)/increase in net assets</b>		(35,239,121)	1,106,486
<b>Net assets at beginning of period</b>		39,397,203	34,331,623
<b>Net assets at end of period</b>		<u>4,158,082</u>	<u>35,438,109</u>
<b>Net asset value per Ordinary Share</b>		<u><b>0.0574</b></u>	<u><b>0.4890</b></u>
<b>Number of Ordinary Shares issued and outstanding at end of period</b>	4	<u>72,464,340</u>	<u>72,464,340</u>

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

**AQUA RESOURCES FUND LIMITED****UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	<b>Unaudited 30 June 2016</b>	<b>Unaudited 30 June 2015</b>
	€	€
<b>Cash flows from operating activities</b>		
Increase in net assets resulting from operations	7,587,304	1,106,486
Adjustment to reconcile decrease in net assets resulting from operations to net cash from/(used in) operating activities:		
Net unrealised appreciation of investments	-	(1,707,646)
Net realised gain on disposal of investments	(7,497,681)	-
Increase in interest receivable	-	(100,000)
(Decrease)/increase in receivable from the Manager	(163,802)	406,494
Decrease/(increase) in prepaid expenses	20,778	(61,228)
(Decrease)/increase in other payables	(10,709)	9,054
Disposals of investments	24,074,635	-
<b>Net cash from/(used in) operating activities</b>	<b>24,010,525</b>	<b>(346,840)</b>
<b>Cash flows from financing activities</b>		
Capital distributions	(42,826,425)	-
<b>Net decrease in cash</b>	<b>(18,815,900)</b>	<b>(346,840)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>23,873,646</b>	<b>2,156,505</b>
<b>Cash and cash equivalents at end of period</b>	<b>5,057,746</b>	<b>1,809,665</b>

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

**AQUA RESOURCES FUND LIMITED**

**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL HIGHLIGHTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	<b>Unaudited 30 June 2016</b>	<b>Unaudited 30 June 2015</b>
<b>Per share data<sup>1</sup></b>		
Net asset value at beginning of period	0.5437	0.4738
Net investment loss	(0.0023)	(0.0084)
Net foreign currency gain	0.0035	0.0001
Net realised gain on disposal of investments	0.1035	-
Net unrealised appreciation of investments	-	0.0235
Net increase in net assets resulting from operations	0.1047	0.0152
<b>Capital distribution</b>	(0.5910)	-
<b>Net asset value at end of period</b>	<b>0.0574</b>	<b>0.4890</b>
<b>Ratios/supplemental data</b>		
Total return	<b>19.26%</b>	<b>3.22%</b>
Number of Ordinary Shares outstanding at end of period	72,464,340	72,464,340
Weighted average number of Ordinary Shares <sup>1</sup>	72,464,340	72,464,340
Net assets at end of period (in €)	4,158,082	35,438,109
Average net assets <sup>2</sup> (in €)	14,969,593	36,155,595
Ratio of operating expenses to average net assets <sup>3</sup>	(1.17%)	(1.97%)
Ratio of net investment loss to average net assets <sup>3</sup>	(1.10%)	(1.68%)

<sup>1</sup>Basic weighted average per share data

<sup>2</sup>Average net assets calculated using the quarterly net asset values

<sup>3</sup>Calculated based on weighted average number of Ordinary Shares

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

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

These Unaudited Condensed Interim Consolidated Financial Statements ("Interim Financial Statements") have been prepared in accordance with accounting principles generally acceptable in the US.

The Company's Interim Financial Statements are presented in Euro which is the functional and the reporting currency of the Company

**Basis of Consolidation**

Under the Accounting Standard Codification ("ASC") Topic 810, "Consolidation" ("ASC 810"), consolidation by an investment company of a non-investment company investee is not appropriate within the scope of Topic 946 Financial Services - "Investment Companies". An exception to this general principle occurs if the investment company has an investment in an operating company that provides services to the investment company. The Interim Financial Statements consolidate the financial statements of the three wholly owned subsidiaries of the Company;

- Aqua Resources (In-Pipe) Holdings Limited ("ARIHL"), a Guernsey limited company formed in August 2009;
- Aqua Resources Asia Holdings Limited ("AR AHL"), an exempt company incorporated in the Cayman Islands formed in October 2008; and
- Cooperative Aqua Netherlands Holdings UA, a Dutch co-operative company formed on 22 March 2010.

AR AHL wholly owns a subsidiary, Robinson Investments Limited, which is an exempt company incorporated in the Cayman Islands formed in October 2008 and Cooperative Aqua Netherlands Holdings UA wholly owns a subsidiary, Aqua Netherlands Holdings BV, which is a Dutch special purpose vehicle formed on 26 March 2010. All intercompany accounts are eliminated on consolidation.

**Segment Reporting**

The Directors are of the opinion that the Company is engaged in a single segment of business, being water-related investment opportunities.

2. INVESTMENTS

The following tables show an analysis of assets and liabilities recorded at fair value, between those whose fair value is based on quoted market prices (Level 1), those involving valuation techniques where model inputs are observable in the market (Level 2) and those where the valuation technique involves the use of non-market observable inputs (Level 3).

Assets at fair value as at 30 June 2016 (unaudited) Class	Total €	Quoted prices in active markets for identical assets (Level 1)	Other market- based observable inputs (Level 2)	Unobservable inputs (Level 3)
		€	€	€
Equities - Unlisted companies	-	-	-	-
Warrants	-	-	-	-
Total	-	-	-	-

Assets at fair value as at 31 December 2015 (audited) Class	Total €	Quoted prices in active markets for identical assets (Level 1)	Other market- based observable inputs (Level 2)	Unobservable inputs (Level 3)
		€	€	€
Equities- Unlisted companies	16,576,954	-	-	16,576,954
Warrants	-	-	-	-
Total	16,576,954	-	-	16,576,954

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE SIX MONTHS ENDED 30 JUNE 2016

2. INVESTMENTS (CONTINUED)

*Transfers in or out of Level 3*

The ASU requires entities to discuss the reasons for these transfers and to disclose the transfers on a gross basis. Transfers into Level 3 must be separately disclosed from transfers out of Level 3. The ASU also requires that entities disclose their policy for determining when transfers between Levels are recognised and provides the following examples of policies;

- i. the actual date of the event of change in circumstances that cause the transfer
- ii. the beginning of the reporting period
- iii. the end of the reporting period

The Company is using the policy of recognising transfers at the beginning of the reporting period.

The Company's policy about the timing of recognising transfers into the hierarchy Levels is the same as the policy for recognising transfers out and this policy is applied consistently.

The table below shows a reconciliation of beginning to ending balances for Level 3 investments and the amount of total gains or losses for the period included in earnings attributable to the change in unrealised gains or losses relating to assets and liabilities held at 30 June 2016.

	Total €	Equities €	Bonds €	Warrants €
Opening balance 1 January 2016	16,576,954	16,576,954	-	-
Disposal of investments	(24,074,636)	(24,074,636)	-	-
Profit on disposal of investments	7,497,682	7,497,682	-	-
Closing balance 30 June 2016	-	-	-	-
Total unrealised loss at 30 June 2016*	(12,898,850)	(12,898,849)	-	(1)

\* The accumulated total change in unrealised depreciation to date attributable to Level 3 movements still held at 30 June 2016.

The table below shows a reconciliation of beginning to ending balances for Level 3 investments and the amount of total gains or losses for the year included in earnings attributable to the change in unrealised gains or losses relating to assets and liabilities held at 31 December 2015.

	Total €	Equities €	Bonds €	Warrants €
Opening balance 1 January 2015	31,830,936	13,886,936	17,944,000	-
Disposal of investments	(22,000,277)	(277)	(22,000,000)	-
Profit on disposal of investments	4,056,000	-	4,056,000	-
Net unrealised appreciation of investments	2,690,295	2,690,295	-	-
Closing balance 31 December 2015	16,576,954	16,576,954	-	-
Total unrealised loss at 31 December 2015	(7,376,854)	(7,376,853)	-	(1)

**Warrants**

The Company holds warrants (via its subsidiary ARIHL) to subscribe for 74,225 of additional shares in In-Pipe, representing approximately 2% of the share capital of In-Pipe as at 30 June 2016. These warrants expire in August 2016.

**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**
**2. INVESTMENTS (CONTINUED)**
**Equity Investments**

In determining an investment's placement within the fair value hierarchy, the Directors take into consideration the following.

Investments whose values are based on quoted market prices in active markets are classified within Level 1. These include listed equities. The Directors do not adjust the quoted price for such instruments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

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 less liquid listed equities. 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.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments also include private equity investments. When observable prices are not available for these securities, the Directors use one or more valuation techniques (e.g., the market approach or the income approach) for which sufficient and reliable data is available. For fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3), if there has been a change in the valuation technique, the reporting entity shall disclose that change and the reason for making it. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

The inputs used by the Directors in estimating the value of Level 3 investments include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalisations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the Directors in the absence of market information.

The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalised as part of the security's cost basis. Assumptions used by the Directors due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Company's results of operations. The actual amounts realised on a disposal of any investments could differ from their carrying values, and these differences could be significant.

As at 30 June 2016 the investments held by the Company which were valued using an estimate of fair value were as follows;

**In-Pipe Technology**

The Company has valued this investment at nil value as at 30 June 2016. This methodology is the same as that applied in the Company's 2015 Annual Report. The Manager will revisit this valuation in the next reporting period, should In-Pipe's circumstances improve.

**Bluewater Bio Holdings**

The Company has valued this investment at nil value as at 30 June 2016, as it has done since 2012.

**3. OTHER PAYABLES**

	Unaudited 30 June 2016	Audited 31 December 2015
	€	€
Administration fees	30,746	31,257
Audit fees	5,959	27,142
Tax advice	11,761	8,660
Other accrued expenses	17,751	9,867
	<u>66,217</u>	<u>76,926</u>

**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

**4. SHAREHOLDERS' EQUITY**

The authorised share capital of the Company is represented by an unlimited number of Ordinary Shares of no par value which are denominated in Euro.

The holders of Ordinary Shares are entitled to:

- receive and participate in any dividends or other distributions out of the profits of the Company available for dividend or distribution;
- the right to the surplus assets remaining after payment of all the creditors of the Company in the case of winding up; and
- the right to receive notice of, and to attend and vote at, general meetings of the Company and each holder of Ordinary Shares being present in person or by attorney at a meeting upon a show of hands has one vote and upon a poll each such holder present in person or by proxy or by attorney has one vote in respect of each share held by him.

Under the Company's Articles of Incorporation, the Company may purchase its own Ordinary Shares in accordance with the Guernsey Company Law. The Company may hold any Ordinary Shares purchased by it whether out of distributable profits or the proceeds of a fresh issue of Ordinary Shares as treasury shares in accordance with the Guernsey Company Law. Shares held in treasury do not carry the rights as set out above in respect of Ordinary Shares.

**Issued capital**

**30 June 2016**

	<b>Number of Ordinary Shares</b>	<b>€</b>
Ordinary shares at 1 January 2016	72,464,340	70,030,004
Ordinary shares outstanding at 30 June 2016	<u>72,464,340</u>	<u>70,030,004</u>

No ordinary shares were issued or repurchased by the Company during the period ended 30 June 2016.

**31 December 2015**

	<b>Number of Ordinary Shares</b>	<b>€</b>
Ordinary Shares at 1 January 2015	72,464,340	70,030,004
Ordinary Shares outstanding at 31 December 2015	<u>72,464,340</u>	<u>70,030,004</u>

No ordinary shares were issued or repurchased by the Company during the year ended 31 December 2015.

**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**
**5. RELATED PARTIES**

With effect from 14 September 2015, Hasan Askari was appointed as a director of In-Pipe, and on 21 April 2016 became chairman, in order to represent the interests of the Company and of shareholders on the Board of In-Pipe.

Further to discussions between the Board and the former Investment Manager, during the period the Company wrote back an amount of €163,802 in management fees previously recorded as payable to the former Investment Manager (30 June 2015: expense of €355,402).

The following expenses have been paid by the Manager on behalf of the Company:

	30 June 2016	30 June 2015
	€	€
Investee management-related expenses	-	25,112

**Directors' Interests**

Throughout the period, Mr Hasan Askari had a beneficial interest in 62,500 Ordinary Shares in the Company.

**Directors' Remuneration**

The Directors are entitled to receive, and have received during the year, the following remuneration from the Company:

Six months ended 30 June 2016	Directors' fees payable during the period	Investment Consultancy fees payable during the period	Incentive fee payable during the period	Total fees payable during the period
Director	€	€	€	€
Hasan Askari	38,571	62,329	875,000	975,900
Charles Parkinson	19,286	-	-	19,286

  

Six months ended 30 June 2015	Directors' fees payable during the period	Investment Consultancy fees payable during the period	Incentive fee payable during the period	Total fees payable during the period
Director	€	€	€	€
Hasan Askari	42,867	31,079	-	73,946
Charles Parkinson	21,434	-	-	21,434
Fergus Dunlop	21,434	-	-	21,434

The Company reserves the right to pay Mr Askari's Directors' Fee in shares but did not do so during the current or the comparative period. Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, Board or committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company.

Under the terms of a consultancy contract signed on 8 April 2015 (and subsequently amended and restated by an Amendment and Restatement Agreement dated 9 December 2015 ("the amended agreement")), Mr Askari was appointed to act on the Board's behalf to oversee an orderly run-down of the remaining assets of the Company. The contract is effective from 1 April 2015 until 31 March 2017. In consideration for these services, Mr Askari receives a fee of €125,000 per annum and, separately, a contribution towards office costs of €25,000 per annum.

Under the terms of the amended agreement, Mr Askari is also entitled to receive an incentive fee in the sum of €875,000, if the total return to shareholders (including amounts returned to shareholders in 2014) is at least €0.60 per share. Under the terms of the agreement, should the winding up of the Company be completed after 30 September 2016, then the incentive fee payable shall be €875,000 less any fees payable under the above consultancy agreement after 30 September 2016, however these terms are currently under review.

During the period the Company paid €3,203 (30 June 2015: €7,797) for directors' and officers' liability policies for the Directors.

**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

**6. COMPARATIVE FIGURES**

Comparative figures used in these Interim Financial Statements are for the period from 1 January 2015 to 30 June 2015 for the Condensed Interim Consolidated Statement of Operations, the Condensed Interim Consolidated Statement of Changes in Net Assets, the Condensed Interim Consolidated Statement of Cash Flows and the Condensed Interim Consolidated Financial Highlights. The comparative figures used for the Condensed Interim Consolidated Statement of Assets and Liabilities and the Condensed Interim Consolidated Schedule of Investments are as at 31 December 2015.

**7. SUBSEQUENT EVENTS**

There are no subsequent events that require disclosure in these financial statements.