

# **SPITFIRE BRITISH PROPERTY RECOVERY FUND**

## **Annual Report and Audited Financial Statements**

For the year ended 31 October 2018

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

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## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Directors, officer and other information

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<b>Directors:</b>	Alan Tennant Johnson Philip Peter Scales Vandana Harish
<b>Fund Registered Office</b>	20 Reid Street 3rd Floor, Williams House P. O. Box 2460 HMJX Hamilton HM11 Bermuda
<b>Investment Manager:</b>	Spitfire Asset Managers (Bermuda) Ltd Clarendon House 2 Church Street Hamilton HM12 Bermuda
<b>Secretary:</b>	Sharon Ward Apex Fund Services Ltd 20 Reid Street 3rd Floor, Williams House P.O. Box 2460 HMJX Hamilton HM11 Bermuda
<b>Administrator:</b>	Apex Fund Services Ltd 20 Reid Street 3rd Floor, Williams House P.O. Box 2460 HMJX Hamilton HM11 Bermuda
<b>Custodian:</b>	Kleinwort Benson (Guernsey) Limited PO Box 44 Dorey Court Admiral Park St Peter Port Guernsey GY1 3BG
<b>Legal advisor:</b>	Conyers Dill & Pearman Clarendon House 2 Church Street Hamilton, HM 11 Bermuda
<b>Auditor:</b>	Deloitte LLP, The Old Courthouse Athol Street Douglas Isle of Man IM99 1XJ

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Directors, officer and other information (continued)

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**Listing and On-going Sponsor**

Apex Fund Services Ltd.  
20 Reid Street  
3rd Floor, Williams House  
P. O. Box 2460 HMJX  
Hamilton, HM11  
Bermuda

**Currency Hedge/Investment Advisor**

Canaccord Genuity Wealth (International) Ltd.  
PO Box 45  
The Grange, St. Peter Port  
Guernsey GY1 4AX

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Directors' report

For the year ended 31 October 2018

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The directors present herewith their report and audited financial statements for the year ended 31 October 2018.

#### **Date of incorporation**

Spitfire Funds (Bermuda) Ltd (the "Company"), a Bermuda Exempted Mutual Fund Segregated Account Fund number 42429, was incorporated in Bermuda on the 19 September 2008 under the Segregated Accounts Companies Act 2000.

The Spitfire British Property Recovery Fund (the "Fund") is a segregated account of the Company, under the Bermuda Companies Act 1981 which commenced operations on 1 October 2009.

Under the Segregated Accounts Companies Act 2000, the assets and liabilities of the Fund are segregated from other segregated accounts of the Company.

#### **Principal activity**

The Company is an exempted company and was incorporated on 19 September 2008 as an open-ended investment fund with limited liability in Bermuda and has been authorised as a standard fund under the Investment Funds Act 2006 ("IFA") and, as such, has power to issue and redeem shares. The Fund invests in open ended property funds, listed closed end property companies, global quoted property stocks, Real Estate Investments Trusts (REITS), and any other suitable property related investments, including ETFs (Exchange Traded Funds), which have exposure to real estate primarily in the British Isles. The actual allocations across these security types are actively managed to exploit the opportunities available and may vary over time to seek higher returns. The non-voting redeemable shares "Spitfire British Property Recovery Fund Class A Shares" issued by the Fund were admitted on 8 December 2009 to the Official List of the Bermuda Stock Exchange ("BSX"). The Fund's investment portfolio is in compliance with Section IV of the BSX listing rules. The Fund is classified as open marketing under Section IV of the BSX listing rules.

The Fund can issue Spitfire British Property Recovery Class A USD Shares, Spitfire British Property Recovery Class A Euro Shares and Spitfire British Property Recovery Class A Sterling Shares (collectively the "Shares"). Other classes of shares may be created and issued at the discretion of the directors of the Fund. See Note 8 of the financial statements for further disclosures regarding these share classes.

#### **Investment policy**

It should be noted that the investment policy of the Fund, which includes investment in underlying funds, will result in multiple layers of fees or a duplication of certain costs that will be charged to the underlying funds by their service providers, as well as to the Fund by the service providers of the Fund. Such costs will include, but are not limited to, formation expenses, custodian, domiciliary, management fees, audit expenses and other associated costs.

In investing in the Fund, which in turn may invest through underlying funds, a shareholder, in effect, incurs the cost of the management fee, performance fees and any commissions paid to the Investment Manager as well as the advisory fees, incentive fees and other fees paid to the investment advisors of an underlying fund.

By investing in an underlying fund, the Fund incurs its proportionate share of the operating costs and expenses of the underlying fund, including, but not limited to, custody and brokerage commissions, interest charges, legal and accounting fees and disbursements, in addition to the operating costs and expenses detailed in the relevant offering memorandum. As a result, the operating expenses of the Fund may constitute a higher percentage of the Net Asset Value of the Fund than would be found in other investment schemes. Also, the purchase of an investment in an underlying fund may involve payment by the Fund of substantial subscription fees or premiums.

## **SPITFIRE BRITISH PROPERTY RECOVERY FUND**

### **Directors' report (continued)**

For the year ended 31 October 2018

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#### **Accounting Standards**

The directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies adopted have been outlined in Note 3 of the financial statements.

#### **Result for the year**

The loss for the year is set out in the statement of profit or loss and other comprehensive income on page 14.

#### **Going concern**

The directors have a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future. The fund supplement to the memorandum of the Company allows for a maximum of 5% of the redeemable shares in issue to be accepted for redemption in any one redemption period. As such, this will allow the Fund to satisfy shareholder redemptions without significantly impacting the going concern considerations of the Fund. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. For further details see "Gate Provision on Redemptions" paragraph below.

As the Company's net assets are mainly cash and investments, there was no write down of assets. The financial statements include all known provisions for costs that were committed at the date of the financial statements

#### **Brexit**

On the 23 June 2016, the United Kingdom voted to leave the European Union (Brexit). This vote has resulted in uncertainty in economic and political spheres. The timing and outcome of negotiations between the UK and the EU as to the manner of the UK's exit is still not clear. The directors have discussed "Brexit" and while it may not be possible yet to conclude with certainty on the impacts of Brexit, the board believes that any impact would be minimal.

#### **Dividend**

No dividend was proposed or paid during the year. (2017: USD nil)

#### **Directors**

The directors of the Company holding office during the year and through to the date of this report are:

Alan Tennant Johnson

Philip Peter Scales

Vandana Harish

#### **Directors' Interests**

The directors receive fees from the Fund which are set out in the statement of profit or loss and other comprehensive income. Related party transactions where directors are involved are detailed in Note 9 of the financial statements. None of the directors own shares in the Fund.

#### **Secretary**

The secretary of the Company holding office during the year and through to the date of this report was Sharon Ward, who was appointed on 28 October 2008.

#### **Auditor**

Deloitte LLP were appointed as independent auditor to the Fund on 9 November 2009 and, being eligible, have indicated their willingness to continue in office in accordance with Section 89(1) of the Companies Act 1981.

#### **Subsidiaries**

The Fund has no subsidiaries.

#### **Ownership of shares**

The directors, the investment manager and the investment advisors do not own participating shares and have no right to receive distributions from the Fund. The investment manager owns the management share and is entitled to exercise voting rights in connection with this share as disclosed in Note 8 of the financial statements. The participating shares have no voting rights and are redeemable.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Directors' report (continued)

For the year ended 31 October 2018

#### List of Investments

As at 31 October 2018, the Fund held the following property investments with a value greater than five percent (5%) of the Fund's investment portfolio:

Security	CCY	2018	2018	2018	2018
		Quantity	Book Cost	Market Value	Percentage of Total Portfolio
			USD	USD	
Grainger Plc Ord GBP 0.05	GBP	120,000	286,185	414,760	11.25%
Henderson UK Property Fund	GBP	286	638,700	790,317	21.43%
iShares FTSE EPRA/NAR UK PRP ETF	GBP	139,000	1,129,855	1,025,391	27.81%
Land Securities Plc	GBP	47,750	654,741	519,602	14.09%
Picton Property Income Ltd	GBP	200,000	145,952	221,409	6.00%
BRITISH LAND CO PLC	GBP	45,000	331,672	339,767	9.21%
IR Property Investment Trust Plc	GBP	74,268	186,140	376,044	10.20%
At 31 October 2018			3,373,245	3,687,290	100.00%

No provision for diminution in value of investments was taken. Financial assets are held at fair value through profit or loss.

As at 31 October 2017, the Fund held the following property investments with a value greater than five percent (5%) of the Fund's investment portfolio:

Security	CCY	2017	2017	2017	2017
		Quantity	Book Cost	Market Value	Percentage of Total Portfolio
			USD	USD	
BlackRock UK Property Fund	GBP	9,292	508,945	531,568	7.95%
Empiric Student Property Plc	GBP	300,000	479,113	387,240	5.79%
Grainger Plc Ord GBP 0.05	GBP	120,000	286,185	443,424	6.63%
Hammerson Plc	GBP	92,500	689,886	643,342	9.62%
Henderson UK Property Fund	GBP	286	638,700	770,359	11.52%
Land Securities Plc	GBP	71,250	976,969	913,547	13.66%
Redrow Plc	GBP	80,000	316,373	691,258	10.34%
iShares FTSE EPRA/NAR UK PRP ETF	GBP	139,000	1,129,855	1,087,596	16.27%
Other Investments	GBP	394,268	1,006,965	1,217,104	18.22%
At 31 October 2017			6,032,991	6,685,438	100.00%

#### Fees

The Fund incurred charges of USD 104,622 (2017: USD 137,340) and USD nil (2017: USD nil) respectively for investment management fees and performance fees in favour of the investment manager for the year. The director fees amounted to USD 20,141 (2017: USD 21,233) for the year.

None of the directors or service providers' fees have been waived during the year, with the exception of performance fees which have been waived by the Investment Manager as disclosed in note 9.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Directors' report (continued)

For the year ended 31 October 2018

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#### Gate Provision on Redemptions

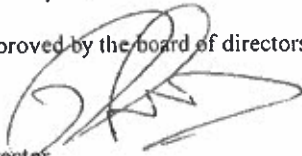
The Fund is subject to a 5% gate of the net asset value ("NAV") and as such all redemption requests are being processed on this basis.

The Fund has received aggregate redemptions exceeding 5% of the Fund's NAV for redemption dates commencing 01 March 2014 onwards. In accordance with the Fund's supplement, the number of shares of the Fund redeemed on any Redemption Day is limited to five percent (5%) of the total net asset value of the Fund ("the Gate"). The Gate applies on a "first come/first served basis" with regards to the number of redemption requests received to a particular Redemption Day and unsatisfied requests are carried forward for redemption to the next dealing date ("monthly") until the original request has been satisfied in full. As at the date of these financial statements the Gate remains in operation.

It is estimated that it will take less than one year to satisfy all the redemption requests currently received and approximately 90% of the shares (that were in issue prior to the lifting of the suspension), will have been redeemed by that time. The directors believe that the level of redemption requests received to date do not unduly disadvantage the interests of the remaining Shareholders. Where redemption requests have been received but have not been accepted because they are in excess of the 5% gate, as the directors have the powers to suspend these redemption requests at any time, they are not accounted for until they are accepted.

Approved by the board of directors and signed on its behalf on 30 April 2019 by:

Director





## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Directors' responsibility for the financial statements

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The directors acknowledge their responsibility to prepare the annual report and the financial statements in accordance with International Financial Reporting Standards which give a true and fair view of the state of affairs of the Fund at the end of each financial year and of the profit or loss of the Fund for the year then ended. In preparing those financial statements, International Accounting Standard 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 International Financial Reporting Standards ("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 Fund's ability to continue as a going concern.

The directors are responsible for ensuring that adequate accounting records are kept which are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund and which enable the directors to ensure that the financial statements comply with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for safeguarding the assets of the Fund, 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 Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPITFIRE BRITISH PROPERTY RECOVERY FUND

Report on the audit of the financial statements

Opinion

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**In our opinion the financial statements of Spitfire British Property Recovery Fund (the 'fund'):**

- **give a true and fair view of the state of the company's affairs as at 31 October 2018 and of its loss for the year then ended; and**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).**

We have audited the financial statements which comprise:

- the statement of financial position;
- the statement of profit or loss and other comprehensive income;
- the statement of changes in net assets attributable to holders of redeemable shares;
- the statement of cash flows; and
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs.

Basis for opinion

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We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the fund in accordance with the ethical requirements of International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPITFIRE BRITISH PROPERTY RECOVERY FUND (CONTINUED)

**Valuation of financial assets at FVTPL**

**Key audit matter description**



The underlying financial assets held by the fund comprised of listed investments in the international property market. The total value of the investments was \$3,687,837 (2017: \$6,686,249) and is stated at fair value. This makes up 87.7% of total assets of the fund, and therefore it is highly material to the fund.

Further details can be located on the statement of financial position (page 11) of the financial statements, the accounting policies in note 2, note 3 and within note 5 and 13 of the financial statements.

**How the scope of our audit responded to the key audit matter**



We evaluated the design and implementation of key controls over the valuation of financial assets.

We directly obtained external prices to check the valuation of the investments.

We received an independent confirmation directly from the custodian in relation to the number of units held for all investments.

**Key observations**



Based on the work performed we concluded that the financial assets held by the fund were appropriately valued.

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

***We have nothing to report in respect of these matters.***

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPITFIRE BRITISH PROPERTY RECOVERY FUND (CONTINUED)

### Responsibilities of directors

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

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

### Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieved fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPITFIRE BRITISH PROPERTY RECOVERY FUND (CONTINUED)

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unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of our report

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Our audit report is made solely to the directors, as a body in accordance with this engagement letter and solely for the purpose of filing the Company's financial statements with the Bermudan Stock Exchange. Our work will be undertaken so that we might state to the company's members, as a body those matters we are required to (or have expressly agreed in this letter to) state to them in an independent auditors' report and for no other purpose. To the fullest extent permitted by law, we will not accept or assume responsibility to anyone other than that company and the company's members, as a body, for our audit work, for our reports, or for the conclusions we form.



David Heaton  
For and on behalf of Deloitte LLP  
Douglas, Isle of Man  
30 April 2019

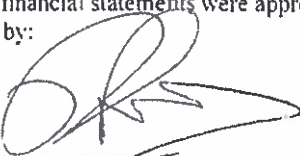
## SPITFIRE BRITISH PROPERTY RECOVERY FUND


### Statement of financial position

As at 31 October 2018

	Note	31 October 2018 USD	31 October 2017 USD
<b>Assets</b>			
<b>Non-current assets</b>			
Financial assets at fair value through profit or loss	5	<u>3,687,837</u>	<u>6,686,249</u>
		3,687,837	6,686,249
<b>Current assets</b>			
Cash and cash equivalents	4	513,480	205,077
Dividends receivable		3,558	19,597
Prepayments		1,829	1,529
Due from broker		-	-
		<u>518,867</u>	<u>226,203</u>
		518,867	226,203
<b>Total assets</b>		<u><b>4,206,704</b></u>	<u><b>6,912,452</b></u>
		4,206,704	6,912,452
<b>Equity</b>			
Management shares	8	<u>1</u>	<u>1</u>
		1	1
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued expenses	7	<u>115,552</u>	<u>46,314</u>
		115,552	46,314
<b>Non-current liabilities</b>			
Financial liabilities at fair value through profit or loss	5	<u>208</u>	<u>475</u>
		208	475
<b>Total liabilities (excluding net assets attributable to holder of redeemable share)</b>		<u><b>115,760</b></u>	<u><b>46,789</b></u>
		115,760	46,789
<b>Net assets attributable to holders of redeemable shares</b>		<u><b>4,090,943</b></u>	<u><b>6,865,662</b></u>
		4,090,943	6,865,662
<b>Total liabilities and equity</b>		<u><b>4,207,704</b></u>	<u><b>6,912,452</b></u>
		4,207,704	6,912,452

These financial statements were approved by the board of directors, authorised for issue on 30 April 2019 and signed on its behalf by:

  
Philip Peter Scales  
Director

  
Vandana Harish  
Director

The notes on pages 17 to 36 form an integral part of the financial statement.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Statement of profit or loss and other comprehensive income

For the year ended 31 October 2018

	Note	31 October 2018 USD	31 October 2017 USD
<b>Investment income</b>			
Dividend income		169,311	223,847
Net realised gain on financial assets and financial liabilities at fair value through profit or loss		328,783	344,194
Net unrealised (loss)/gain on financial assets and financial liabilities at fair value through profit or loss		(591,969)	828,481
Net (loss)/gain on exchange differences		(9,605)	27,440
Other income		17	-
<b>Total investment (loss)/income</b>		<b>(103,463)</b>	<b>1,423,962</b>
<b>Operating expenses</b>			
Investment management fees	9(a)	104,622	137,340
Investment advisory fees	9(e)	16,995	22,828
Administration fees	9(f)	5,366	7,544
Custodian fees	9(g)	6,125	5,215
Directors' fees	9(c)	20,141	21,233
Audit fees		11,996	6,189
Other operating expenses		46,581	48,380
<b>Total operating expenses</b>		<b>211,826</b>	<b>248,729</b>
<b>(Loss)/profit before tax</b>		<b>(315,289)</b>	<b>1,175,233</b>
Withholding tax		(10,357)	(16,546)
<b>Total operating (loss)/profit after taxes</b>		<b>(325,646)</b>	<b>1,158,687</b>
Other comprehensive income		-	-
<b>Total comprehensive (loss)/ income for the year</b>		<b>(325,646)</b>	<b>1,158,687</b>

*The notes on pages 17 to 36 form an integral part of the financial statement.*

All results derive from continuing operations.

**SPITFIRE BRITISH PROPERTY RECOVERY FUND**

**Statement of changes in net assets attributable to holders of redeemable shares**

For the year ended 31 October 2018

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	<b>31 October 2018 USD</b>	31 October 2017 USD
<b>Total comprehensive (loss)/income for the year</b>	<b>(325,646)</b>	1,158,687
<b>From capital share transactions</b>		
Redemption of redeemable shares	<u>(2,449,073)</u>	<u>(1,251,155)</u>
<b>Net decrease in net assets attributable to redeemable shares</b>	<b>(2,774,719)</b>	<b>(92,468)</b>
<b>Net assets attributable to redeemable shares at the beginning of the year</b>	<u><b>6,865,662</b></u>	<u>6,958,130</u>
<b>Net assets attributable to redeemable shares at the end of the year</b>	<u><u><b>4,090,943</b></u></u>	<u><u>6,865,662</u></u>

*The notes on pages 17 to 36 form an integral part of the financial statement.*



## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Statement of cash flows

For the year ended 31 October 2018

	31 October 2018 USD	31 October 2017 USD
<b>Cash flows (used in)/from operating activities:</b>		
Total comprehensive (loss)/income for the year	(325,646)	1,158,687
Adjustment:		
Dividend income	(169,311)	(223,847)
Realised gain on sale of investments	(328,783)	(344,194)
Net change in unrealised loss/(gain) on investments	591,969	(828,481)
<b>Net cash flows before movements in working capital changes</b>	<u>(231,771)</u>	<u>(237,835)</u>
Change in operating assets and liabilities		
Net change in prepayments	(300)	3,213
Net change in accounts payable and accrued expenses	69,238	(24,794)
Dividend income received	185,350	230,496
<b>Net cash flows used in operating activities</b>	<u>(22,517)</u>	<u>(28,920)</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	-	(686,193)
Proceeds on sale of investments	2,734,959	1,731,290
<b>Net cash flows provided by investing activities</b>	<u>2,734,959</u>	<u>1,045,097</u>
<b>Cash flows used in financing activities</b>		
Payments made on redemptions of redeemable shares	(2,449,073)	(1,251,155)
<b>Net cash flows used in financing activities</b>	<u>(2,449,073)</u>	<u>(1,251,155)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	308,403	(234,978)
<b>Cash and cash equivalents at the beginning of the year</b>	<u>205,077</u>	<u>440,055</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>513,480</u>	<u>205,077</u>

*The notes on pages 17 to 36 form an integral part of the financial statement.*

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements

For the year ended 31 October 2018

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#### 1. Reporting entity

The Spitfire British Property Recovery Fund (the "Fund") is a segregated account of the Spitfire Funds (Bermuda) Ltd (the "Company"), a company incorporated in Bermuda under the laws of Bermuda as a segregated accounts Fund. The Fund commenced operations on 1 October 2009. The registered office of the Fund is at 20 Reid Street, 3rd Floor, Williams House, P. O. Box 2460 HMJX, Hamilton HM11, Bermuda.

The investment objective of the Fund is to seek initially to exploit recovery themes and select a range of property related investment opportunities offering the potential for investment returns derived from the property markets of the British Isles.

#### 2. Basis of preparation

##### 2.1 Statement of compliance

These financial statements represent the annual financial statements of the Fund prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

##### 2.2 Basis of measurement

The financial statements have been prepared using the historical cost convention except for the following which are measured at fair value:

- derivative financial instruments; and
- financial instruments designated at fair value through profit or loss.

##### 2.3 Going concern

The directors have a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future. The fund supplement to the memorandum of the Company allows for a maximum of 5% of the redeemable shares in issue to be accepted for redemption in any one redemption period. As such, this will allow the Fund to satisfy shareholder redemptions without significantly impacting the going concern considerations of the Fund.

After making enquiries, the directors have a reasonable expectation that the Fund has adequate resources, to continue in operational existence until the Fund is either consolidated or liquidated.

##### 2.4 Functional and presentation currency

The financial statements are presented in the United States Dollars (USD), which is also the functional currency of the Fund, rounded to the nearest unit.

##### 2.5 Use of estimates

The preparation of financial statements in conformity with IFRSs requires the use of certain accounting estimates. It also requires directors to exercise judgements in the process of applying accounting estimates.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

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#### 2. Basis of preparation (continued)

##### 2.5 Use of estimates (continued)

Estimates are continually evaluated and are based on experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the following accounting estimates have been made in the course of preparing these financial statements.

##### (i) Fair value of financial instruments

When the fair value of financial instruments held by the Fund and recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques employed by the Fund that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include consideration of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy. The ultimate proceeds of such investments could differ from their carrying values, and the difference could be significant. The models are calibrated regularly by the Fund and tested for validity using prices from any observable current market transactions in the same instrument (without modification and repackaging) or are based on any other available observable market data.

As at 31 October 2018 and 31 October 2017, investments in other funds were fair valued using the net asset value per share issued by the manager and/or administrator of the underlying fund. No estimates were applicable. As at 31 October 2018, derivative financial instruments were fair valued using models.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 13 – *Fair values of financial assets and financial liabilities* and note 14 – *Financial risks management*.

##### 2.6 Use of judgements

The preparation of financial statements in conformity with IFRSs requires the use of certain accounting judgements. It also requires directors to exercise judgements in the process of applying accounting estimates. Judgements are continually evaluated and are based on experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the following accounting judgements have been made in the course of preparing these financial statements.

##### (i) Fair value of financial instruments

When the fair value of financial instruments held by the Fund and recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques employed by the Fund that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include consideration of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy. The ultimate proceeds of such investments could differ from their carrying values, and the difference could be significant. The models are calibrated regularly by the Fund and tested for validity using prices from any

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

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#### 2. Basis of preparation (continued)

##### 2.6 Use of judgements (continued)

observable current market transactions in the same instrument (without modification and repackaging) or are based on any other available observable market data.

As at 31 October 2018 and 31 October 2017, investments in other funds were fair valued using the net asset value per share issued by the manager and/or administrator of the underlying fund. No judgements were applicable. As at 31 October 2018, derivative financial instruments were fair valued using models.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 13 – *Fair values of financial assets and financial liabilities* and note 14 – *Financial risks management*.

#### 3. Summary of significant accounting policies

##### 3.1 Foreign currency

Transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are re-translated to the functional currency at the exchange rate ruling at year-end. Exchange differences arising on the settlement and on the re-translation of monetary items are dealt within the statement of profit or loss and other comprehensive income.

##### 3.2 Due from broker

Amounts due from brokers include receivables for securities sold that have been contracted for, but not yet delivered, on the reporting date.

Amounts due from brokers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

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#### 3. Summary of significant accounting policies

##### 3.3 Financial assets and liabilities

###### *Financial instruments*

Financial assets and financial liabilities are recognised when the Fund becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at their fair value plus directly attributable transaction costs for all financial assets or financial liabilities not classified at fair value through profit or loss.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Fund has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities are derecognised when they are extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

###### (i) Trade and other receivables

Trade and other receivables are classified with assets and are stated at their nominal value unless the effect of discounting is material. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of profit or loss and other comprehensive income when there is objective evidence that the asset is impaired.

###### (ii) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities as at fair value through profit or loss are those that are held for trading purposes or those that are so designated by the Fund upon initial recognition. The Fund uses this designation when doing so results in more relevant information because a group of financial assets, liabilities or both are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the entity's key management personnel or when a contract contains one or more embedded derivatives and the entity elects to designate the entire hybrid contract as a financial asset or liability as at fair value through profit or loss. The Fund's investments are monitored on a periodic basis by the investment committee appointed by the Investment Manager and the board of directors. After initial recognition, financial assets at fair value through profit or loss are measured at their fair value.

For all financial instruments which are quoted or otherwise traded in an active market, for exchange traded derivatives, exchange traded funds and for other financial instruments for which quoted prices in an active market are available, fair value is determined directly from those quoted market prices.

Gains and losses arising from a change in fair value are recognised in profit or loss in the period in which they arise. Where applicable, dividend income and interest income on financial assets at fair value through profit or loss is disclosed separately in profit or loss. Fair value gains and losses are recognised within net gain on financial instruments at fair value through profit or loss.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

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### 3. Summary of significant accounting policies (continued)

#### 3.3 Financial assets and liabilities (continued)

##### (ii) Financial assets and liabilities at fair value through profit or loss (continued)

- Derivative financial instruments

Derivative financial assets and derivative financial liabilities are classified as held for trading unless they are designated as effective hedging instruments. During the year under review, the Fund did not designate any of its derivative financial instruments in a hedging relationship for accounting purposes.

A forward currency contract involves an obligation to purchase or sell a specific currency at a future date, at a price set at the time the contract is made. Forward foreign exchange contracts are valued by reference to the forward price at which a new forward contract of the same size and maturity could be undertaken at the valuation date. The unrealised gain or loss on open forward currency contracts is calculated as the difference between the contract rate and this forward price, and is recognised in the statement of profit or loss and other comprehensive income.

##### (iii) Trade and other payables

Trade and other payables are stated at their nominal value unless the effect of discounting is material.

##### (iv) Realised and unrealised gains and losses

Investment transactions are recorded on a trade date basis. Realised gains or losses on investments are calculated on a weighted average cost and are disclosed within net gain on financial assets at fair value through profit or loss in the statement of profit or loss and other comprehensive income.

##### (v) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position only when the Sub-Fund has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

##### (vi) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group or entity are recognised at the proceeds received, net of direct issue costs. Repurchase of the Fund's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Fund's own equity instruments.

#### 3.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term investments in an active market with original maturities of three months or less.

#### 3.5 Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Fund and these can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

##### (i) Dividend income

Dividend income is recognised in profit or loss on the date that the Fund's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

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### 3. Summary of significant accounting policies (continued)

#### 3.6 Expenses

All expenses, including management, administrator and custodian fees, are recognised in profit or loss on an accruals basis.

#### 3.7 Management shares and redeemable shares

The Fund has issued two different classes of shares, management shares and redeemable shares. The management shareholder shall be entitled to vote and is not entitled to any dividend. Redeemable shares are redeemable at the holder's option (see Note 8). Accordingly, such redeemable shares are classified as financial liabilities.

Redeemable shares are issued and redeemed at the holder's option at prices based on the Fund's net assets value per share at the time of issue or redemption subject to lock-ups. Where redemption requests have been received, but have not been accepted because they are in excess of the 5% gate, as the directors have the powers to suspend these redemption requests at any time, they are not accounted for until they are accepted. The Fund's net asset value per share is calculated by dividing the net assets attributable to the holders of each class of redeemable shares with the total number of outstanding redeemable shares for each respective class.

#### 3.8 Standards, amendments and interpretations in issue but not yet effective

The directors are currently evaluating the impact on the financial statements of the Fund in the period of initial application of the following International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective.

- The final version of IFRS 9 *Financial Instruments* issued on 24 July 2014 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The Standard supersedes all previous versions of IFRS 9.

IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule based requirements that are generally considered to be overly complex and difficult to apply.

The new model also results in a single, forward-looking 'expected loss' impairment model that will require more timely recognition of expected credit losses.

IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. IFRS 9 is effective for annual periods commencing on or after 1 January 2018.

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalizes their amendments to defer the effective date of IFRS 15 by one year. The Fund is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Only the amendments that are relevant to the Fund have been disclosed above. The Fund, however, expects no impact from the adoption of the amendments on its financial position or performance.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

#### 4. Cash and cash equivalents

	31 October 2018 USD	31 October 2017 USD
Cash held with custodian	504,025	198,120
Cash held with Investment Advisor	9,455	6,957
	<u>513,480</u>	<u>205,077</u>

#### 5. Classification and fair values of financial assets and liabilities

The table below provides a reconciliation of the Fund's financial assets and liabilities at fair value through profit or loss.

	31 October 2018 USD	31 October 2017 USD
<b>Assets</b>		
<b>Designated as at fair value through profit or loss</b>		
Fund investments	3,687,290	6,685,439
<b>Held for trading</b>		
Forward contracts	547	810
<b>Total financial assets at fair value through profit or loss</b>	<u>3,687,837</u>	<u>6,686,249</u>
<b>Liabilities</b>		
<b>Held for trading</b>		
Forward contracts	(208)	(475)
<b>Total financial liabilities at fair value through profit or loss</b>	<u>(208)</u>	<u>(475)</u>



## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

#### 5. Classification and fair values of financial assets and liabilities (continued)

The table below sets out the classification of the carrying amounts of the Fund's financial assets and financial liabilities into categories of financial instruments.

31 October 2018	Designated as at fair value USD	Loans and receivables USD	Other financial liabilities USD	Total carrying amount USD
Cash and cash equivalents	-	513,480	-	513,480
Dividends receivable	-	3,558	-	3,558
Prepayments	-	1,829	-	1,829
Financial assets at fair value through profit or loss	<u>3,687,837</u>	<u>-</u>	<u>-</u>	<u>3,687,837</u>
<b>Total assets</b>	<b><u>3,687,837</u></b>	<b><u>518,867</u></b>	<b><u>-</u></b>	<b><u>4,206,704</u></b>
Accounts payable and accrued expenses	-	-	(115,552)	(115,552)
Financial liabilities at fair value through profit or loss	<u>(208)</u>	<u>-</u>	<u>-</u>	<u>(208)</u>
<b>Total liabilities (excluding net assets attributable to holders of redeemable shares)</b>	<b><u>(208)</u></b>	<b><u>-</u></b>	<b><u>(115,552)</u></b>	<b><u>(115,760)</u></b>
31 October 2017	Designated as at fair value USD	Loans and receivables USD	Other financial liabilities USD	Total carrying amount USD
Cash and cash equivalents	-	205,077	-	205,077
Dividends receivable	-	19,597	-	19,597
Prepayments	-	1,529	-	1,529
Financial assets at fair value through profit or loss	<u>6,686,249</u>	<u>-</u>	<u>-</u>	<u>6,686,249</u>
<b>Total assets</b>	<b><u>6,686,249</u></b>	<b><u>226,203</u></b>	<b><u>-</u></b>	<b><u>6,912,452</u></b>
Accounts payable and accrued expenses	-	-	(46,314)	(46,314)
Financial liabilities at fair value through profit or loss	<u>(475)</u>	<u>-</u>	<u>-</u>	<u>(475)</u>
<b>Total liabilities (excluding net assets attributable to holders of redeemable shares)</b>	<b><u>(475)</u></b>	<b><u>-</u></b>	<b><u>(46,314)</u></b>	<b><u>(46,789)</u></b>

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

6. Due from broker	31 October 2018 USD	31 October 2017 USD
Balance due from broker	-	-
7. Accounts payable and accrued expenses	31 October 2018 USD	31 October 2017 USD
Audit fees payable	10,815	10,618
Investment management fees payable (Note 9 (a))	63,359	11,758
Investment advisory fee payable (Note 9 (e))	9,059	7,734
Administration fees payable (Note 9 (c))	702	603
Directors' fees payable	14,287	1,595
Other payables	17,330	14,005
	<u>115,552</u>	<u>46,314</u>

Investment management fees payable are due to related parties. The terms and conditions of the amounts owed to such related parties are disclosed in note 9. These amounts are unsecured, interest free and repayable on demand.

### 8. Share capital

The Spitfire Funds (Bermuda) Ltd ("the Company") has been authorized to issue 1 manager share of par value USD1.00 and up to 11,999,000 redeemable shares of par value USD0.001 each. The Fund can issue Spitfire British Property Recovery Class A USD Shares, Spitfire British Property Recovery Class A Euro Shares and Spitfire British Property Recovery Class A Sterling Shares (collectively the "Shares"). Other classes of shares may be created and issued at the discretion of the directors of the Company. The Manager shareholder shall be entitled to vote and is not entitled to any dividends. The Class A shares are non-voting redeemable shares and are redeemable at the option of the holder of the shares.

#### Class Funds

Each share class in the Fund has a Class Fund established in accordance with the offering memorandum. The Fund currently has Class Funds established as follows:

- Class A Euro redeemable shares
- Class A Sterling redeemable shares
- There were no Class A USD redeemable shares in issue.
- The proceeds from the allotment and issue of each class of shares are applied to the relevant share class. Investment gains and losses on assets allocated to each Class Fund are applied to the relevant class. In the case of any asset, liability, income or expense which the directors do not consider attributable to a particular Class Fund, the directors have the discretion to determine the basis on which the asset, liability income or expense is allocated between the Class Funds. The directors have based such allocations on the proportion of the Net Asset Value of the Fund each Class Fund comprises.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

#### 8. Share capital (continued)

##### Class Funds (continued)

- Investors in the EUR and GBP share classes are exposed to currency risk through the denomination of the share classes in a currency other than the reporting currency of the Fund. In accordance with the offering memorandum the directors have appointed an investment advisor to neutralise, to the extent possible, the impact of currency fluctuations for investors in the EUR and GBP share classes by taking out monthly forward foreign currency contracts which mirror the value of the non-base currency assets thus mitigating the risk from currency movements. The costs of hedging currency fluctuations in this manner, including gains and losses on forward foreign currency contracts, are allocated to the relevant Class Fund.

##### 31 October 2018

	Class A EUR	Class A GBP
Number of shares at beginning of the year	597	33,866
Redemptions during the year	(165)	(11,760)
Number of shares at end of the year	<u>432</u>	<u>22,106</u>

##### 31 October 2017

	Class A EUR	Class A GBP
Number of shares at beginning of the year	597	40,446
Redemptions during the year	-	(6,580)
Number of shares at end of the year	<u>597</u>	<u>33,866</u>

#### 9. Related party transactions

##### (a) Investment management fees

The investment manager is paid a minimum fee equal to the aggregate of 1.95% per annum of the Net Asset Value which is paid monthly in arrears on the last Business Day of each month. During the year USD104,622 (2017: USD137,340) management fees were charged by the Investment Manager. Investment management fees payable as at 31 October 2018 and 31 October 2017 amounted to USD63,359 and USD11,758, respectively.

##### (b) Performance fees

The investment manager is paid a performance fee equal to 20% per annum of the appreciation in the net asset value per share, above the appreciation had the assets been invested in the market at the 3-month LIBOR rate as quoted on the first day of each calendar quarter, above the base net asset value per share. The base net asset value per share represents the highest net asset value per share achieved. The performance fee is paid quarterly in arrears on the last Business Day of each calendar quarter.

##### (c) Key management personnel

The directors of the Fund are paid an annual fee of GBP16,000 for acting as directors of the Fund. The total directors' fee charged for the year under review is USD20,141 (2017: USD21,233) Directors' fees payable as at 31 October 2018 and 31 October 2017 amounted to USD14,287 and USD1,595, respectively.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements

For the year ended 31 October 2018

#### 9. Related party transactions (continued)

##### (d) Other transactions

Alan Tennant Johnson is the Chairman of The Spitfire Funds (Bermuda) Ltd.

Alan Tennant Johnson, Philip Peter Scales and Vandana Harish are the directors of The Spitfire Funds (Bermuda) Ltd, the Fund and are also directors of The Frontier Commercial Property Fund Plc and the Frontier Global Real Estate Fund Plc which have subscribed to the Fund.

During the year, the Fund carried out various transactions with the Frontier Global Real Estate Fund Plc and The Frontier Commercial Property Fund Plc at the prevailing market prices as follows:

Year ended 31 October 2018					
The Frontier Commercial Property Fund Plc					
Date	Trade	Security	CCY	No. of shares	Price
November 1, 2017	Redemption	Spitfire British Property Recovery Fund	EUR	(79)	154.50
December 1, 2017	Redemption	Spitfire British Property Recovery Fund	EUR	(75)	152.88
January 2, 2018	Redemption	Spitfire British Property Recovery Fund	EUR	(12)	160.79
November 1, 2017	Redemption	Spitfire British Property Recovery Fund	GBP	(1,649)	150.35
December 1, 2017	Redemption	Spitfire British Property Recovery Fund	GBP	(1,567)	148.86
January 2, 2018	Redemption	Spitfire British Property Recovery Fund	GBP	(244)	156.73
February 1, 2018	Redemption	Spitfire British Property Recovery Fund	GBP	(1,540)	151.92
March 1, 2018	Redemption	Spitfire British Property Recovery Fund	GBP	(1,463)	145.30
April 2, 2018	Redemption	Spitfire British Property Recovery Fund	GBP	(1,390)	149.40
May 1, 2018	Redemption	Spitfire British Property Recovery Fund	GBP	(1,320)	155.36
June 1, 2018	Redemption	Spitfire British Property Recovery Fund	GBP	(1,254)	153.46
July 2, 2018	Redemption	Spitfire British Property Recovery Fund	GBP	(1,192)	153.21
August 1, 2018	Redemption	Spitfire British Property Recovery Fund	GBP	(142)	152.29

Year ended 31 October 2017					
The Frontier Commercial Property Fund Plc					
Date	Trade	Security	CCY	No. of shares	Price
November 1, 2016	Redemption	Spitfire British Property Recovery Fund	GBP	(614)	138.81
January 2, 2017	Redemption	Spitfire British Property Recovery Fund	GBP	(1,765)	144.14
May 2, 2017	Redemption	Spitfire British Property Recovery Fund	GBP	(1,929)	153.98
June 1, 2017	Redemption	Spitfire British Property Recovery Fund	GBP	(1,834)	153.45
July 3, 2017	Redemption	Spitfire British Property Recovery Fund	GBP	(437)	150.22

##### (e) Investment advisory fees

The investment advisor is paid a fee equal to 0.324% of the Net Asset Value up to USD 200 million, 0.20% for the next USD 200 million and 0.1% thereafter. Fees are based on the monthly NAVs and are calculated monthly and payable quarterly. During the year USD16,995 (2017: USD22,828) was charged by the Investment Advisor. Investment advisor fees payable as at 31 October 2018 and 31 October 2017 amounted to USD9,059 and, USD7,734, respectively.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

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#### 9. Related party transactions (continued)

##### *(f) Administration fees*

The administrator charges a fee of 0.1% of the monthly Net Asset Value, which accrues monthly and is payable quarterly in arrears. The administrator charges USD 15 per shareholder transaction and an additional corporate secretarial service at USD 5,000 per annum (pro-rated amongst segregated accounts of the Fund).

During the year a charge of USD5,366 (2017: USD7,544) was incurred in relation to the administration fees and USD3,605 (2017: USD3,429) for the corporate secretarial fees. USD702 and USDNil for administration services and corporate secretarial services respectively were payable as at 31 October 2018. USD603 and USDNil for administration services and corporate secretarial services respectively were payable as at 31 October 2017.

##### *(g) Custodian fees*

The custodian is paid a fee not exceeding 0.05% of the Net Asset Value subject to a minimum annual fee of GBP 6,000 which accrues monthly and is payable monthly in arrears on the last Business Day of each month. Additionally, the Custodian is paid a transaction fee of GBP100 per trade plus full recovery of all counter-party charges and reimbursement of all out of pocket expenses. During the year a charge of USD6,125 (2017: USD5,215) was charged by the Custodian. Custodian fees payable as at 31 October 2018 and 31 October 2017 amounted to USD1,091 and USD492, respectively.

#### 10. Deferred sales charges

The Fund reserves the right to pay an initial fee to introducers by way of commission. Such costs of acquiring and procuring subscriptions are limited to a maximum of 5% of the amount subscribed and these costs are expensed as they are incurred. No deferred sales charge was paid during the year (2017: USDNil) and USDNil was payable as at 31 October 2018 and 31 October 2017.

#### 11. Early redemption fees

Redemptions are subject to an early redemption fee of a percentage of the value of the redemption proceeds between 5% and nil, calculated on a pro rata basis over a period of 50 months from the date of subscription subject to the Directors discretion. In both the current and prior year, no redemption fees were charged to investors and no income was recognised.

#### 12. Taxation

Under current Bermuda laws, the Fund is not required to pay any taxes in Bermuda on either income or capital gains. The Fund has received an undertaking from the Minister of Finance in Bermuda exempting it from any such taxes at least until the year 2035.

It is management's belief that the Fund is not engaged in a United States trade or business and will not be subject to United States income or withholding taxes in respect of the profits or losses of the Fund, other than the 30% withholding tax on U.S. source dividends.

**SPITFIRE BRITISH PROPERTY RECOVERY FUND**

**SPITFIRE BRITISH PROPERTY RECOVERY FUND**

**Notes to the financial statements (continued)**

For the year ended 31 October 2018

**13. Fair values of financial assets and financial liabilities**

At 31 October 2018 and 31 October 2017 the fair value of listed investments is based on quoted prices in an active market at the end of the reporting year. The fair values of derivative contracts are valued by reference to the price at which a new contract of the same size and maturity could be undertaken at valuation date. The fair value of financial assets and liabilities that are not traded in an active market is determined using broker quotes and other methodology designed to assess the value after acquisition, having regard to market terms at the measurement date, including interest rates and liquidity and other factors. The fair values of other financial assets and financial liabilities are not materially different from their carrying amounts. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes observable, requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following is a summary of the inputs used as of 31 October 2017 and 31 October 2016 in valuing the Fund's investments and derivatives carried at fair value:

31 October 2018	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Fund investments	2,896,973	-	790,317	3,687,290
Total investments	<u>2,896,973</u>	<u>-</u>	<u>790,317</u>	<u>3,687,290</u>
Derivative assets	-	547	-	547
Derivative liabilities	-	208	-	208
31 October 2017	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Fund investments	5,383,512	-	1,301,927	6,685,439
Total investments	<u>5,383,512</u>	<u>-</u>	<u>1,301,927</u>	<u>6,685,439</u>
Derivative assets	-	810	-	810
Derivative liabilities	-	475	-	475

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

#### 13. Fair values of financial assets and financial liabilities (continued)

There were no transfers between levels during the year ended 31 October 2018 and 2017.

At 31 October 2018 and 31 October 2017, the carrying amounts of other financial assets and liabilities approximated their fair values due to the short-term nature of these balances.

The changes in financial assets at fair value through profit or loss in the Level 3 category are as follows:

	31 October 2018	31 October 2017
	USD	USD
Balance at 1 November	1,301,927	1,768,119
Sales	(644,190)	(654,168)
Realised gain on investments	135,245	139,035
Net change in unrealized gain (loss) on investments included in comprehensive income	(2,665)	48,941
Balance at 31 October	<u>790,317</u>	<u>1,301,927</u>

The fair value of investments is based on the unaudited net asset values obtained from the administrators or managers of the underlying funds. The unaudited net asset values reported to the Fund may subsequently be adjusted when audited financial statements for the managed investment funds are issued. Such adjustment may be material to the Fund. On occasion the Directors will permit the use of estimated net assets value should estimate net assets values better reflect the fair value of the underlying funds. Estimated net assets values will be based on information supplied by the relevant funds and will be subject to verification by the managers of the relevant funds. As at 31 October 2018 and 31 October 2017, two underlying funds were valued using an estimated net asset value.

#### Valuation methods

##### *Fair value determined using a valuation technique*

Where the fair value of financial assets and liabilities at fair value through profit or loss is determined using a valuation technique, the methods and assumptions will vary according to the instrument being valued.

OTC derivative contracts include forward contracts related to foreign currencies. Depending on the product and the terms of the transactions, the fair value of the OTC derivative products can be modelled using a series of techniques, including simulation models. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgements and the pricing inputs are observed from actively quoted markets.

##### *Forward foreign currency contracts*

Forward foreign currency contracts are valued by reference to the forward price at which a new forward foreign currency contract of the same size and maturity could be undertaken at the valuation date. Forward foreign currency contracts are categorised within level 2 of the fair value hierarchy.

##### Investments in non-exchange traded funds

Investments in non-exchange traded funds are typically valued utilising net asset valuations provided by the managers of the underlying funds and/or their administrators. The Directors of the Fund, in corroboration with the Investment Manager, consider subscription and redemption rights, including any restrictions on the disposal of interests in the determination of fair value. Investments in non-exchange traded funds are included in level II of the fair value hierarchy when the fair value is determined based on the net asset values of the non-exchange traded funds. Where an adjustment has been made to the net asset values as provided to account for liquidity concerns, e.g. redemption restrictions, side pockets, etc., the investments in these non-exchange traded funds are included in level III of the fair value hierarchy.

The fair value measurement methodology is detailed in note 3.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

#### 14. Financial risks management

The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed by the Fund are discussed below.

##### 14.1 Market risk

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and price risk.

The Fund's investment strategy to manage the market risk is outlined in the Fund's offering supplement. The Fund's market risk is managed on a regular basis by the investment manager using different investment techniques as outlined in the supplement of the Fund. The Fund's overall market positions are monitored daily by the investment advisor.

The Fund's exposure to the different types of investments is summarised in note 5 to the financial statements.

##### 14.1.1 Currency risk

The Fund may invest in securities and other investment companies and enter into transactions denominated in currencies other than the US Dollar. Consequently, the Fund is exposed to risks that the exchange rate of the US Dollar relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the US Dollar.

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The following table sets out the Fund's total exposure to foreign currency risk split between assets and liabilities, net assets attributable to non-USD denominated share classes, forward foreign exchange contracts (stated at the notional values) and the resulting net exposure to foreign currencies:

	<u>Assets</u> USD	<u>Liabilities</u> USD	Net assets attributable to non-USD denominated <u>Share Classes</u> USD	Forward FX <u>Contracts</u> USD	<u>Net Exposure</u> USD
31 October 2018					
EUR	-	-	54,374	(208)	54,166
GBP	4,204,386	(39,585)	2,471,236	547	6,636,584
	4,204,386	(39,585)	2,525,610	339	6,690,750



**SPITFIRE BRITISH PROPERTY RECOVERY FUND**

Notes to the financial statements (continued)

For the year ended 31 October 2018

**14. Financial risks management (continued)**

*14.1 Market risk (continued)*

*14.1.1 Currency risk (continued)*

	<u>Assets</u>	<u>Liabilities</u>	Net assets attributable to non-USD denominated <u>Share Classes</u>	<u>Forward FX</u> <u>contracts</u>	<u>Net Exposure</u>
	USD	USD	USD	USD	USD
31 October 2017					
EUR	-	-	78,488	(474)	78,014
GBP	6,910,172	(21,864)	3,836,185	809	10,725,302
	<u>6,910,172</u>	<u>(21,864)</u>	<u>3,914,673</u>	<u>335</u>	<u>10,803,316</u>

The amounts in the table above are based on the carrying values of assets and liabilities, net assets attributable to non-USD denominated share classes and the underlying notional amounts of forward foreign exchange contracts.

Forward foreign exchange contracts are entered into by the Fund to hedge exposure to monetary assets and liabilities denominated in currencies other than USD and to hedge the exposure of certain share classes denominated in currencies other than USD.

The gains and losses on forward foreign exchange contracts entered into for the purpose of hedging the exposure to monetary assets and liabilities are recorded in gains and losses on forward foreign exchange contracts in the statement of operations. The gains and losses on contracts entered into for the purpose of hedging the exposure of share classes denominated in currencies other than USD are also recorded in gains and losses on forward foreign exchange contracts in the statement of operations, but are allocated specifically to the non-USD denominated share classes to which the hedging activities, and resultant gains and losses, relate.

At 31 October 2018, had the US Dollar strengthened by 5% in relation to the EUR and GBP currency, there would also be an approximate net impact of USD334,538 (2017: USD540,166) on the statement of operations and on the net assets attributable to all share classes.

At 31 October 2018, the Fund had the following open forward foreign exchange contracts disclosed at its notional value:

<u>Currency to be bought</u>	<u>Currency to be sold</u>	<u>Contract due date</u>	<u>Fair value</u>
			USD
EUR 65,100	GBP 57,877	11 May 2018	547
GBP 152,205	EUR 171,200	11 May 2018	(208)
Net unrealised gain on open forward foreign exchange contract			<u>339</u>

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2017

#### 14. Financial risks management (continued)

##### 14.1 Market risk (continued)

##### 14.1.1 Currency risk (continued)

At 31 October 2017, the Fund had the following open forward foreign exchange contracts disclosed at its notional value:

<u>Currency to be bought</u>		<u>Currency to be sold</u>		<u>Contract due date</u>	<u>Fair value</u> USD
EUR	91,200	GBP	80,388	3 November 2017	810
GBP	136,977	EUR	155,400	3 November 2017	(475)
<b>Net unrealised gain on open forward foreign exchange contract</b>					<b>335</b>

##### 14.1.2 Interest rate risk

Interest rate risk arises when an entity invests in or issues interest-bearing financial instruments. The Fund's exposure to interest rate risk is limited to its cash and cash equivalents amounting to USD513,480 (31 October 2017: USD205,077) This risk is considered by the investment advisor as insignificant.

##### *Interest rate risk sensitivity analysis*

At 31 October 2018, if the interest rates increased by 50 basis points, this would have increased the net assets attributable to holders of redeemable shares by USD2,567 (31 October 2017: USD1,025) an equal change in the opposite direction would have decreased the net assets attributable to holders of redeemable shares by an equal but opposite amount.

##### 14.1.3 Price risk

The Fund's investment in property funds are susceptible to price risk arising from uncertainties about future prices of instruments. The Fund may employ various techniques and enter into hedging transactions to attempt to mitigate a portion of the risks inherent to its investment strategies. The Fund did not use derivative financial instruments for speculative purposes and had not designated any of its derivative financial instruments in a hedging relationship for accounting purposes.

As all of the Fund's financial instruments are carried at fair value with fair value changes recognised in the statement of profit or loss and other comprehensive income, all changes in market price will directly affect net investment income.

The Fund's investment strategy is to invest primarily in the property funds. As at 31 October 2018 and 31 October 2017 all of the Fund's investments held in the property funds.

##### *Price risk sensitivity analysis*

The directors' policy to minimise price risk is to maintain a diverse portfolio of investments in accordance with the respective investment objectives, which is managed by a professional investment advisor. The Fund's overall market positions are monitored frequently by the investment advisor. At 31 October 2018, if the price of the investments increased by 10%, this would have increased the net assets attributable to holders of redeemable shares by USD368,729 (31 October 2017 USD668,544) an equal change in the opposite direction would have decreased the net assets attributable to holders of redeemable shares by an equal but opposite amount. Actual results will differ from this sensitivity analysis and the difference could be material.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

#### 14. Financial risks management (continued)

##### 14.2 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 Fund. It is the Fund's policy only to enter into financial instruments with reputable counterparties. Therefore, the Fund does not expect to incur material credit losses on its financial instruments. Financial assets, which potentially subject the Fund to credit risk, consist principally of trade and other receivables, cash and cash equivalents and derivative assets classified at fair value through profit or loss.

	31 October 2018 USD	31 October 2017 USD
Cash and cash equivalents	513,480	205,077
Dividends receivable	3,558	19,597

The principal credit risks for the Fund are in relation to deposits with banks Kleinwort Benson (Guernsey) Limited ("KB") acts as the principal banker to the Funds, and as custodian of its assets. The securities held by KB as Custodian are held in trust and are registered in the name of the Fund. KB is a wholly owned subsidiary of RHJ International S.A. which is listed on Euronext. Kleinwort Benson is no longer rated by Moody's and Standard & Poor's. The credit risk associated with debtors is limited to any unrealised gains on open forward foreign currency contracts as detailed above and other receivables.

##### 14.3 Liquidity risk

It is the Fund's policy to invest into an investment portfolio of regulated schemes which deal on a regular basis and are considered generally readily realisable. The Fund's liquidity risk is managed through diversification of the investment portfolios and by maintaining a portion of its assets as cash.

The Fund can also invest in hedge funds or listed closed end property companies that are more illiquid and require the directors to instruct redemption to raise cash between one and three months in advance of cash being received. As at 31 October 2018 and 31 October 2017, the Fund's portfolio of financial assets includes assets with daily and monthly liquidity.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's liquidity position frequently, and the Board of Directors reviews it on a regular basis.

All amounts included in creditors at the balance sheet date are payable within three months.

As described in Note 8 to the financial statements, the Fund's redeemable shares are redeemable at the shareholder's option for cash equal to a proportionate share of the Fund's net asset value. The Fund is therefore potentially exposed to monthly redemptions by its shareholders.

The number of shares of the Fund which can be redeemed in any month is limited to 5% of the total net asset value of the Fund.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

#### 14. Financial risks management (continued)

##### 14.3 Liquidity risk (continued)

The following table shows the contractual, undisclosed cash flows of the Fund's financial liabilities as at 31 October 2018 and 31 October 2017.

31 October 2018	Less than 1 month USD	1-3 months USD	3 months to 1 year USD	More than 1 year USD	Total
<b>Financial liabilities</b>					
Financial liabilities at fair value through profit or loss	208	-	-	-	208
Accounts payable and	-	115,552	-	-	115,552
Redemptions payable	-	-	-	-	-
Net assets attributable to redeemable shares	204,547	409,094	1,840,924	1,636,377	4,090,942
31 October 2017	Less than 1 month USD	1-3 months USD	3 months to 1 year USD	More than 1 year USD	Total
<b>Financial liabilities</b>					
Financial liabilities at fair value through profit or loss	475	-	-	-	475
Accounts payable and	-	46,314	-	-	46,314
Redemptions payable	-	-	-	-	-
Net assets attributable to redeemable shares	343,283	686,566	3,089,548	2,746,265	6,865,662

##### 14.4 Custody risk

The Fund is also exposed to operational risks such as custody risk. Custody risk is the risk of a loss being incurred on financial instruments held in custody as a result of a custodian's or prime broker's insolvency, negligence, misuse of assets, fraud, poor administration or inadequate record-keeping. Although an appropriate legal framework is in place that reduces the risk of loss of value of the financial instruments held by the custodian or prime broker in the event of its failure, the ability of the Fund to transfer the securities might be temporarily impaired.

##### 14.5 Capital management

Capital is represented by the net assets attributable to the holders of redeemable shares.

Capital is managed in line with the investment parameters of the Fund seeking to generate returns for shareholders whilst seeking to minimize risk.

The Fund was incorporated as an open-ended Investment Fund in Bermuda to seek opportunities for capital growth resulting from investing in the Commercial Property Market and the listed shares of property related companies, by investing in a range of underlying funds. The fund is not subject to any externally imposed capital requirements.

As further explained in the Directors' Report and Note 2 to the financial statements, the Fund is subject to a 5% gate of the net assets value and as such all redemption requests are being processed on this basis.

## SPITFIRE BRITISH PROPERTY RECOVERY FUND

### Notes to the financial statements (continued)

For the year ended 31 October 2018

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**15. Ultimate Controlling Party**

The Company is under the ultimate control of Mr Johnson by virtue of his controlling the management shareholders, which are the voting shares of the Company.

**16. Events during the reporting period**

There were no other material events during the financial year, which necessitate revision of the figures or disclosures included in the financial statements.

**17. Events after the reporting period**

There were no other material post financial events, which necessitate revision of the figures or disclosures included in the financial statements.

