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Gresham House
Specialist asset management

FIM SUSTAINABLE TIMBER & ENERGY LP

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MAY 2019

CONTENTS

MANAGER'S REPORT

The Manager presents its Report on the results of FIM Sustainable Timber & Energy LP (the LP) for the year ended 31 May 2019.

1. EXECUTIVE SUMMARY

The Manager is pleased with the results of the LP and has recorded a £0.4 million profit after paying a distribution on all Limited Partnership Shares, except for "D" Additional Limited Partnership Shares. The LP has total net assets of £206.4 million or £24.10 per Limited Partnership Shares and has delivered a blended IRR of 11.7% per annum since formation.

Significant events during the year are as follows:

- A successful fund raise closed on 31 January 2019, having raised £33.8 million (net of fees), of which £27.4 million was deployed prior to the year end, with the balance committed for further investment;
- Record timber prices and high electricity prices were achieved contributing towards the strong trading results;
- Despite the strong timber prices recorded in the year, the Manager is currently experiencing subdued UK timber market conditions resulting in timber prices being edged back to levels last seen in Summer 2016;
- Record income of £1.9 million from the LP's investments in onshore wind farms and solar parks (2018: £1.4 million) provided over 50% of the distributions paid to Limited Partners in May 2019;
- Rental income from onshore wind farm leases continues to improve the LP's financial position, increasing to £0.6 million in the year (2018: £0.5 million);
- Transfer of the wind farms owned by FIM Windfarms 2 LP to Gresham House Wind Energy 1 plc (GHWE) after the year end will allow GHWE to raise money and expand thereby benefitting GHWE with greater economies of scale; and
- Distribution of £0.52 per share was paid in May 2019 as outlined in the "D" Additional Limited Partnership Shares Information Memorandum. This will increase annually by the Consumer Price Index (CPI) plus 1% each year to provide inflation protected distributions.

1.1 LP's Strategy

Despite the uncertain political environment and the associated macroeconomic conditions, the Manager remains optimistic about the long term future of the LP. This is primarily as a result of its belief in:

- the medium to long term outlook for timber prices and consequently an increase in forestry values; and
- the value placed on renewable energy investments which will continue to deliver long term, index linked cash flows.

The business strategy remains to service as much as possible of the planned annual distribution, from income generated by the renewable energy assets and rental income, leaving the timber resources to add volume and value for the long term. This will allow the Manager to maximise timber prices and minimise harvesting so that the LP benefits from a rise in timber prices.

The Manager continues to believe that a larger fund increases liquidity for investors, provides economies of scale and a more diversified investment portfolio, thus minimising investment risk.

1.2 Total Return 2018/19

The total return on all Limited Partnership Shares (except for "D" Additional Limited Partnership Shares) in the year was 10.7% net of all fees and costs (2018: 15.7%). The total return comprised:

- A 2.4% income return (2018: 2.7%); and
- An 8.3% capital gain (2018: 13.0%).

The capital gain is lower in 2018/19 due to:

- The cost of investing £20.2 million in forest properties (c.8% cost due to stamp duty, acquisition fees, legal etc) and £7.3 million into renewable energy investments; and
- The cash "drag" of £9.1 million of available cash from the fund raise at year end.

1.3 Fund Performance

The blended internal rate of return (IRR) to 31 May 2019 is 11.7% (2017: 12.0%).

Limited Partnership Share	Since	IRR
Founder	May to August 2010	13.2%
"A" Additional	August to October 2010	11.4%
"B" Additional	August 2011 to February 2012	11.3%
"C" Additional	February 2014 to November 2014	9.7%
"D" Additional	September 2018 to January 2019	(7.2%)
All		**11.7%**

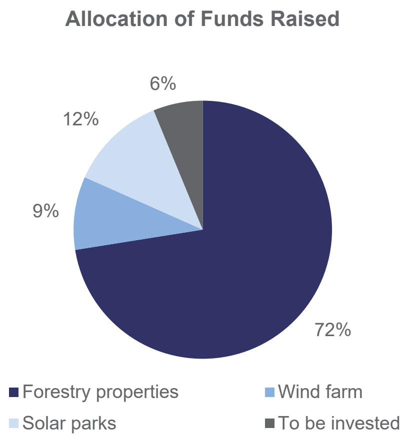
The NAV per Limited Partnership Share of £24.10 has not yet exceeded the issue price of the "D" Additional Limited Partnership Shares of £24.70 per share, providing a negative return of 7.2%.

1.4 Fund Raising

The issue of "D" Additional Limited Partnership Shares ran from 26 September 2018 to 31 January 2019.

The issue raised £33.8 million, net of expenses of £0.7 million, for investment in the LP's business. The Manager issued 1,398,623 "D" Additional Limited Partnership Shares at £24.70 each. These shares rank pari passu with the other share classes, except that they do not qualify for a distribution until May 2021.

Approximately £2.1 million, or 6% of the funds raised, remains to be invested (see chart below). This is all fully committed to identified investments.



Once deployed, the LP will be fully invested in a balanced portfolio with the following asset allocation:

- Forestry – 79.3%; and
- Renewables – 19.5%; of which onshore wind is 9.0% and solar is 10.5%.

2. PERFORMANCE SUMMARY

2.1 Results for the Year Ending 31 May 2019

The Manager is happy with the performance of the LP's investments in forestry and renewable energy and their high level results are presented below.

2.1.1 Forestry Portfolio

Forestry revenue for the year amounted to £4.9 million (2018: £6.3 million), of which £4.8 million (2018: £6.1 million) was generated through timber sales as presented in the table below.

Timber Sales 2018 and 2019:

	2018	2019
Timber Sales	£6,140,649	£4,784,657
Average Price (£/Tonne)	£42.20	£57.44
Area (Hectares)	286.1	223.5
Tonnes	145,984	83,295
Tonnes/Hectare	510	373
Total Return (£/Hectare)	£21,463	£21,408

The average timber price achieved increased year on year by 36% to £57.44 per tonne. The Manager continued to take advantage of the high timber prices by placing timber onto the market later during the year in order to maintain the highest total return £/hectare. This strategy caused some delay in selling but ensured that the average timber price was high. Additionally, the area and volume harvested was lower by 22% and 43% respectively.

Total return per hectare decreased by a small amount to £21,408 as a result of lower average volumes of 373 tonnes per hectare. The Manager took advantage of the high prices to place the poorer quality timber onto the market which required harvesting for silvicultural reasons, such as being too old, oversized or wind blown.

Forestry expenditure (recorded within Operating Costs) was £2.0 million (2018: £1.9 million adjusted). Replanting was implemented as required, maintaining the value in the forestry portfolio. Replanting is undertaken with improved Sitka spruce where appropriate to enhance production and value from the next rotation.

Wind farm leases generated rental income of £0.6 million during the year (2018: £0.5 million) from two operational wind farms, Penmanshiel and Craignane, and two wind farms that remain in construction, Cowans Law and Kirtleton South.

2.1.2 Renewable Energy Portfolio

The LP's income from its Renewable Energy Portfolio was £1.9 million (2018: £1.4 million), and comprises the following:

Currency: £m	2018	2019
FIM Windfarms 2 LP	0.6	0.7
FIM Wind Energy LP	0.1	0.2
FIM Solar Distribution LLP	0.7	1.0
TOTAL	**1.4**	**1.9**

A summary of the 2018/19 Output is shown below:

	2018/19 Output (MWh)		
	Budget	Actual	Variance %
Wind farms	213,230	201,559	(5.5)
Solar parks	32,092	34,017	6.0
Total	**245,322**	**235,576**	**(4.0)**

Wind Farms

Production figures are an aggregate of the latest full year production figures from the four wind farms in which the LP holds interests: Mynydd Portref, Wathegar, Torrance and Harburnhead.

Wind speeds have been marginally below average across the UK this year which has impacted output, but favourable power prices and action taken by the Manager to fix power prices helped achieve above budgeted levels of income.

Solar Parks

The solar parks were ahead of budgeted output due to the exceptionally good summer in 2018 and high irradiance.

The output figures above are for Oak Cottage, Higher Bye, Askern, Stripe, East Appleton and Wymeswold for the year ending 31 May 2019; and Carditch for the last six months of the year.

The Manager had operational control and oversight over these solar parks for the full year to 31 May 2019 and has successfully extended the planning permissions at Askern and Higher Bye by 15 years to 40 years, adding value to these sites.

3. FINANCIAL RESULTS 2018/19

3.1 Income Statement

Turnover

Total turnover decreased by 25% to £5.5 million (2018: £7.3 million) primarily due to delayed timber harvesting.

Turnover comprised the following:

Currency: £m	2018	2019
Forestry operations	6.5	4.9
Wind farm rents	0.5	0.6
Oak Cottage solar park	0.3	nil
Total Turnover	**7.3**	**5.5**

Turnover from forestry operations was lower as a result of the Manager delaying the tendering of harvesting contracts in order to benefit from the higher timber prices being paid during the Winter 2018/19. Approximately £0.7 million of timber revenue was delayed as a result of this short term strategy of maximising timber revenue, which will now be recognised in the current year. Furthermore, timber compensation of c.£0.7 million was not received owing to a delay in the construction of a wind farm on the LP's property at Cowans Law. The combined impact was c.£1.4 million of lower timber income.

Other Operating Income

Wind farm rents are steadily increasing year on year as progress continues to be made in the construction of two wind farms, albeit slower than expected (See Section 5.1.2).

Oak Cottage was transferred into FIM Solar Distribution LLP last year and thus its revenue and expenditure is now recorded in Income from Investments.

Operating Costs

Operating costs are higher at £2.0 million (2018: £1.9 million adjusted to exclude Oak Cottage's operating costs). This relates to restocking, maintenance and management costs across the forestry portfolio and was within budget.

Administrative Expenses

Administrative expenses were £1.2 million during the year, £0.5 million higher than the previous year (2018: £0.7 million) due to the following:

- GHAM Annual Management Fee was £0.6 million (2018: £0.4 million as adjusted): as a result of the fund raising and a fee rebate in 2018;
- Bank charges of £0.1 million (2018: £Nil): as a result of a loan entered into during the year; and
- Disallowed VAT of £0.1 million (2018: £Nil); due to a partial exemption calculation with regards to wind farm rent (on which no VAT is charged) compared to the expenditure on the forest properties that did charge VAT.

Income from Investments

Renewable energy income increased by £0.5 million to £1.9 million as a result of the Manager locking in favourable energy prices in Autumn 2018 even though energy production was below budget by 4.0%.

Profit for the year before Revaluation

Profit for the year before revaluation was £4.1 million (2018: £5.8 million) which, after the payment of the distribution of £3.7 million (2018: £3.8 million), generated a retained profit of £0.4 million (2018: profit of £1.9 million).

3.2 Balance Sheet

The LP's NAV increased by 8.3% to £24.10 per Limited Partnership Share (2018: 13.0% increase to £22.25) due to a revaluation surplus of £12.8 million (2018: £16.1 million) and profits increasing the Profit and Loss Reserves.

Increase in Net Assets:	Amount £
Forestry Portfolio	11,116,699
Solar Parks	1,005,980
Wind Farms	670,444
Revaluation Surplus	**12,793,123**
"D" Partnership Shares, net of issue expenses	33,815,713
Movement in Profit and Loss Reserve	400,613
Increase in Net Assets	**£47,009,449**

3.3 Gearing and Bank Debt

The LP has the ability to employ gearing to a maximum of 20% of the NAV calculated at the time the gearing is put in place. The 20% limit includes direct debt (bank loans) and indirect debt or the value of equity invested by the LP in renewable energy projects or any Special Purpose Vehicle (SPV).

On this basis, gearing was 9.7% of net assets (2018: 10.1%) and represented indirect debt, as all the direct debt (see below) was repaid during the year.

Two forestry acquisitions prior to the beginning of the fund raise were funded by a short-term £12 million loan from Barclays Bank plc. The Manager considered that plantation values were lagging behind the increase in timber prices and accelerated acquisitions accordingly. The facility enabled the Manager to acquire the forests at advantageous prices. The facility was repaid in full in February 2019.

As at 31 May 2019, the LP had the ability to draw down a total of c. £41 million of debt and remain within the LP's maximum gearing levels. The recent facility of £12 million, now repaid, has expired but can easily be drawn to access investment opportunities should they arise.

3.4 Statement of Cash Flows

Cash flows from operating activities and investments (before the payment of the distribution) in the year amounted to £9.9 million (2018: £3.4 million) comprising:

Currency: £m	2019	2018
Net cash flow from operating activities	2.0	5.4
Purchase of forestry properties and disposals	(20.1)	-
Capital expenditure on the Forestry Portfolio	(0.3)	(0.4)
Investment in renewable assets	(7.3)	(3.0)
Issue of new shares, net of expenses	33.8	-
Net interest	(0.1)	-
Distributions from renewable energy assets	1.9	1.4
Cash flows from operating activities and investments	**9.9**	**3.4**
Distribution paid	(3.7)	(3.8)
Net increase/(decrease) in Cash	**6.2**	**(0.4)**
Opening Cash	**3.0**	**3.4**
Closing Cash	**9.2**	**3.0**

4. BUDGET 2019/20

The Budget 2019/20 has been prepared on the basis of the existing forestry and renewables portfolio as at 31 May 2019.

4.1 LP's Budget Income Statement

The LP is budgeting to generate a turnover of £6.4 million (2019: £5.5 million) comprised as follows:

- Forestry operations £5.7 million (2019: £4.9 million); and
- Wind farm rents £0.7 million (2019: £0.6 million).

Operating profit is budgeted to be £2.5 million (2019: £2.3 million).

The LP is budgeting to receive income of £2.4 million from its investment in renewable energy assets (2019: £1.9 million). This will result in a budgeted operating profit for the year of £4.9 million (2019: £4.1 million).

The budgeted distribution payable on all Limited Partnership Shares, except "D" Additional Limited Partnership Shares, in May 2020 is £3.9 million (2019: £3.7 million) such that a surplus of £1.0 million (2019: surplus of £0.4 million) is budgeted to be retained in the Profit and Loss reserves.

4.2 LP's Budget Cash Flow

Cash outflows from operating activities, investments and the payment of the distribution in 2020 is budgeted to be £7.5 million (2019: cash inflow of £6.2 million) comprising:

Currency: £m	2020	2019
Net cash flow from operating activities	2.5	2.0
Purchase of forestry properties and disposals	(6.0)	(20.1)
Capital expenditure on the Forestry Portfolio	(0.8)	(0.3)
Investment in renewable assets	(1.7)	(7.3)
Issue of new shares, net of expenses	-	33.8
Net interest	-	(0.1)
Distributions from renewable energy assets	2.4	1.9
Cash flows from operating activities and investments	**(3.6)**	**9.9**
Distribution planned / paid	(3.9)	(3.7)
Net increase/(decrease) in Cash	**(7.5)**	**6.2**
Opening Cash	**9.2**	**3.0**
Closing Cash	**1.7**	**9.2**

The planned distribution of £3.9 million is payable on all Limited Partnership Shares except "D" Additional Limited Partnership Shares in May 2020 at a rate of c.£0.54 per Limited Partnership Share (dependent on the level of inflation).

5. INVESTMENT PORTFOLIO

5.1 Forestry Portfolio

As at 31 May 2019, the Forestry Portfolio (including the wind farm leases), was valued by the Manager at £159.1 million (2018: £127.6 million), and comprised 77.1% of the LP's net assets (2018: 80.1%), although this is expected to increase to 79.3% once the funds are fully deployed.

Forestry values (excluding wind farm leases) have increased on a like for like basis i.e excluding properties that were acquired during the year, by 10.0%.

5.1.1 Forestry Portfolio (excluding wind farm leases)

Value: £148.4 million (2018: £116.3 million)

There were five acquisitions during the year and no disposals. A summary of the properties added to the portfolio during the year is as follows:

Location	Weighted Average Age	Hectares
Huntly, East Scotland	26	117
Strathdon, East Scotland	42	83
Inverary, West Scotland	33	1,239
Moffat, South Scotland	39	293
Builth Wells, Mid Wales	17	258
Total Area		**1,990**

The forestry portfolio consisted of 16,167 hectares, of which 11,878 hectares is either stocked with commercial crop or has recently been harvested and is due for restocking.

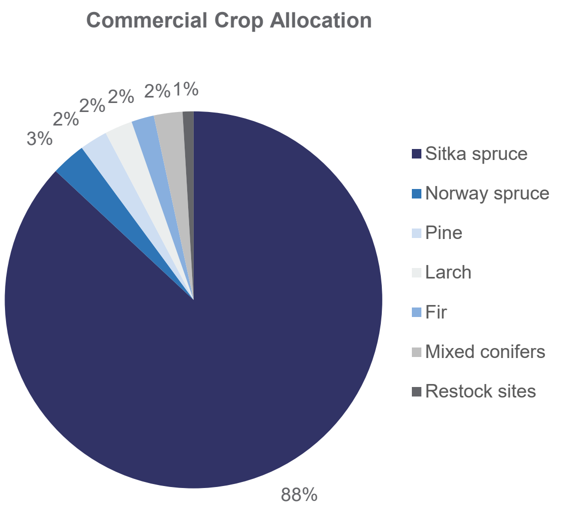
The three properties acquired after 31 May 2019 expanded the Forestry Portfolio to 16,585 hectares or 66 properties, of which 12,201 hectares is commercial crop. A summary of the properties added to the portfolio after the year end is as follows:

Location	Weighted Average Age	Hectares
Machynlleth, Mid Wales	32	144
Huntly, East Scotland	18	189
Tarbert, West Scotland	28	85
Total Area		**418**

The portfolio continues to provide geographic diversification across Scotland, north England and Wales, and comprises high yield class, large scale and well-located commercial forestry plantations.

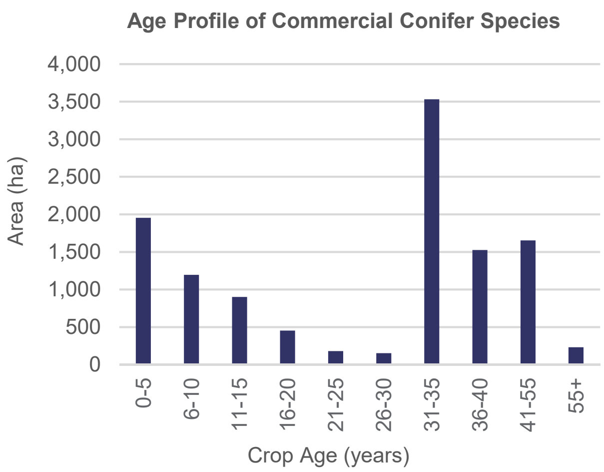
Forestry Portfolio: Locations

The commercial crop area consists of 88% Sitka spruce (the UK's most productive species), and 1% of land which has recently been harvested and is due for restocking. The balance comprises secondary commercial conifer species.



The total portfolio now includes 12,201 hectares of commercial conifer species, of which 7,100 hectares is over 30 years of age (2018: 6,214 hectares), and some 1,990 hectares over 40 years (2018: 1,722 hectares).
This mature crop provides the LP with significant flexibility to generate revenue from timber harvesting as required, with felled areas being replanted with stock from genetically improved sources where ground conditions permit.

The weighted average age of the commercial crop remains at 26 years, distributed as follows:



5.1.2 Wind Farm Leases

Value: £10.7 million (2018: £11.3 million)

The LP benefits from five wind farm leases.

Two operational wind farms on Craignane and Penmanshiel are budgeted to produce a combined annual rental income for the LP of c.£408,000 next year.

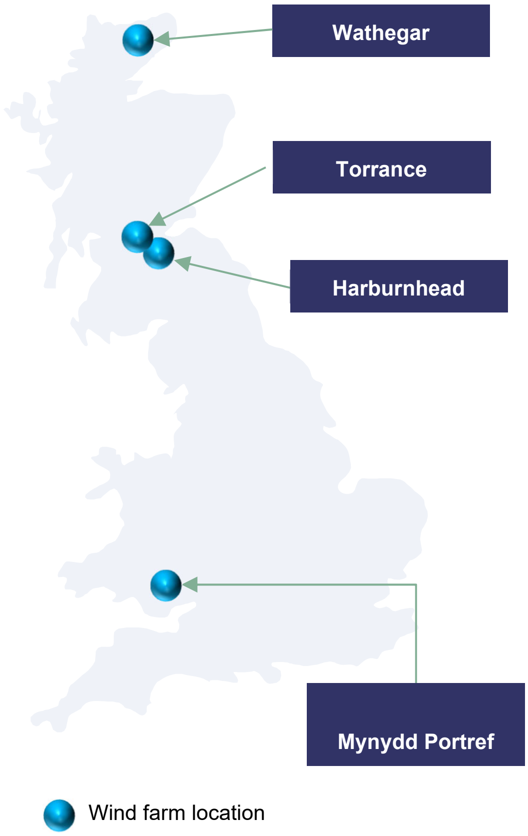
Sneddons Law, part of which is being built on the LP's forest at Cowans Law, continues to experience delays in construction. Base rent of c.£145,000 continues to be paid, but once operational, the rent will increase to c.£200,000 per annum.

Solway Bank Wind Farm which benefits the LP's forest of Kirtleton South, was due to become operational in December 2019, at this point rent is expected to be c.£65,000 per annum. The Renewable Infrastructure Group (listed on the London Stock Exchange under the ticker of TRIG), the owner of Solway Bank Wind Farm, has informed the Manager that as a result of Senvion (the turbine manufacturer) going into administration, Solway Bank's turbines will be delivered to site in June 2020, thus delaying energy generation until December 2020. Access rent will continue to be paid to the LP which amounts to c.£40,000 per annum.

There is progress on the proposed development of the site at Tangy. Argyll and Bute Council voted unanimously to raise no objection to the Tangy IV application in June 2019 and the application has now progressed to the Energy Consents Unit for a final decision expected by January 2020. If successful and constructed, rental income of c.£50,000 per annum would begin in c.2023.

When fully operational, rental income from all wind farm leases could be as high as £700,000 per annum.

5.2 Renewable Energy Portfolio



As at 31 May 2019, investments in renewable energy generating assets totalled £38.4 million (2018: £29.4 million), 18.6% of the LP's net assets (2018: 18.4%).

FIM Windfarms 2 LP was valued by Jones Lang LaSalle at 31 May 2019 in order to transfer the assets into GHWE at an independent valuation.

The following investments were valued by the Manager at their respective year ends:

- FIM Wind Energy LP at 31 March 2019; and
- FIM Solar Distribution LLP at 5 April 2019.

The Manager does not believe that there has been any material change in the value of FIM Wind Energy LP and FIM Solar Distribution LLP as at 31 May 2019.

The whole portfolio will generate c.247,000 MWh per annum, enough to supply over c.59,000 homes and save over c.106,000 tonnes of CO2 emissions per annum.

5.2.1 Wind Farms

The LP has total wind farm investments valued at £16.6 million (2018: £12.8 million) in two wind farm entities, 8% of the LP's net assets.

Gresham House Wind Energy 1 plc (formerly FIM Windfarms 2 LP)
Interest 57.5%: value £15.2 million (2018: £11.4 million)

This entity has an interest in three operating wind farms.

Site	Location	Turbines	Capacity
Mynydd Portref	South Wales	11 x Gamesa 0.85MW	9.35MW
Wathegar	Caithness	5 x Senvion 2.05MW	10.25MW
Torrance	North Lanarkshire	3 x Siemens 3.00MW	9.00MW
Total			**28.60MW**

An investment of £3.1 million was made during the year into FIM Windfarms 2 LP to acquire the remaining 50% of Wathegar.

FIM Wind Energy LP
Interest 5.5%: value £1.4 million (2018: £1.4 million)

FIM Wind Energy LP has a 50% interest in LDV Harburnhead Holdings Limited, which owns and operates the Harburnhead Wind Farm.

The LP holds a c.2.25% interest in Harburnhead Wind Farm and invested via FIM Wind Energy LP alongside two Local Authority Pension Funds and individual investors.

Site	Location	Turbines	Capacity
Harburnhead	West Lothian	22 x Enercon 2.35MW	51.7MW

5.2.2 Solar Parks

The LP has total solar park investments valued at £21.8 million (2018: £16.6 million).

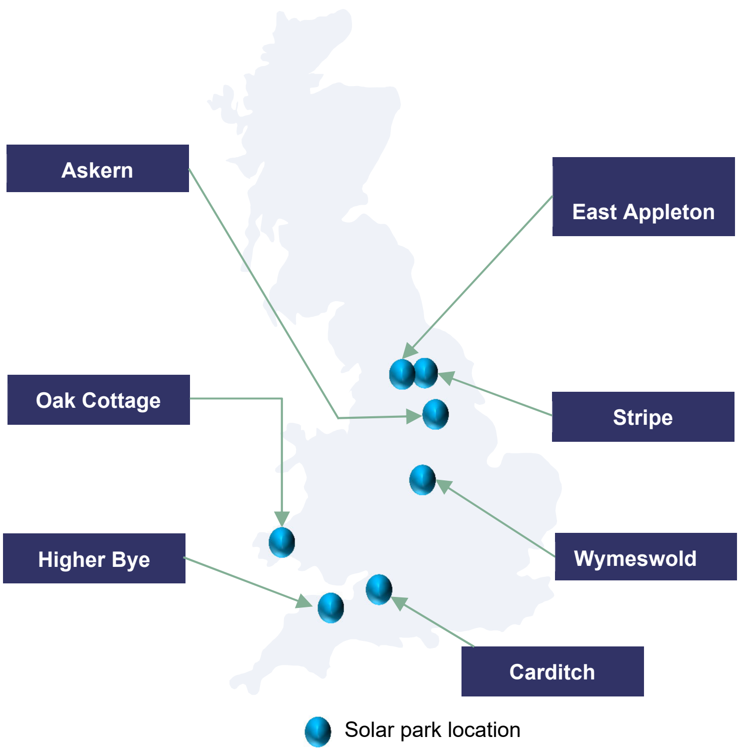
FIM Solar Distribution LLP
Interest 40.6%: value £21.8 million

The LP made an investment in FIM Solar Distribution LLP during the year of £4.2 million.

A summary of the solar parks held by FIM Solar Distribution LLP is shown below.

Solar park	Size (MW)	Annual output (MWh)
Carditch	4.95	4,670
Wymeswold	4.28	3,900
Stripe	4.98	4,750
East Appleton	4.98	4,750
Askern	4.97	4,650
Higher Bye	6.79	6,750
Oak Cottage	4.87	4,750
Total	**35.82**	**34,220**

All seven sites are fitted with top tier manufacturer solar panels and equipment and have long-term operation and maintenance agreements in place. All projects benefit from Renewables Obligation Certificates (ROCs) for 20 years from their accreditation date and now have between two and three years operational history.



6. MARKET REVIEW AND OUTLOOK

TIMBER MARKET

Gresham House (GH) Timber Index increased in the six months to March 2019.

Nominal timber prices over the 10 years to 31 March 2019, as measured by the GH Timber Index, increased at an annualised rate of 12.0%, significantly exceeding UK inflation, which averaged 2.1% per annum over the same period.

Following this upward trajectory, prices in real terms are now similar to those in 1995. There is potential for a significant real increase in global timber prices, driven by rising demand.

During the last 12 years the only significant decline in the GH Timber Index was in 2009, due to the swift and substantial fall in output in the construction sector as a result of the 2008 financial crisis.

The Manager considers that the fundamentals of demand and supply are such that prices will increase in real terms over the coming years. Higher timber prices feed through to both higher revenues and capital values.

Outlook for Timber Prices

While there have been some decreases in timber price from the peak in late 2018, these are deemed temporary as supply and demand balance out.

Short term oversupply effects included high volume harvesting in Europe due to storm and beetle damage in 2018; overbuying and over importing by UK buyers which was triggered by an anticipated Brexit in March and a relatively mild winter which has meant sawmills have had continuous supply over the winter.

This oversupply has led to falls of between 10% and 15% during Q2, but oversupply is now working its way through the system and with a reduced quantity of UK standing timber being offered to the market over the remainder of 2019, the Manager expects prices to recover by Q4.

Global Supply and Demand

Long term, commercial forestry remains an excellent diversifying investment with a strong outlook for increase in timber price and consequently forest value.

As global demand rises due to a growing global population, an increased GDP per capita and an increasing array of uses for timber, supply is becoming more constrained.

Supply is being constrained through a general reduction in illegal logging, consumers demanding that timber is sourced sustainably and increasing pressure for naturalisation of land and agricultural uses.

This is further encouraged by the rapid need for greater carbon capture and the increasing need for more sustainable raw material in construction, energy production and plastic replacement.

The longer term growth cycle of timber means that the supply demand imbalance is set to continue for some time.

UK Timber Demand

More specifically in the UK, wood is increasingly being used in housing as timber frame construction continues to increase its market share. Timber frame construction has increased to 28.1% of the new build market in 2016 from 22.8% in 2011. The Structural Timber Association estimates the market share to increase to 33.9% by the end of 2020.

The UK Government has also made it clear that it sees offsite modular construction as a key route to increasing building capacity and a potential beneficiary of new government funding. The UK timber frame sector accounts for up to 90% of all offsite modular construction. An average three bedroom house takes about 40 weeks to build and costs c.£120,000; this timeframe is reduced to 10 days and the cost also reduced dramatically if the house is built in sections in a factory and then assembled onsite.

With the need to provide more housing in the UK, the prospects for the use of softwood timber are improving as combinations of solid wood and engineered wood products become preferred choices for architects, designers and engineers. Rising numbers of housing starts, together with methods of construction favouring wood use, will drive demand for timber higher.

An additional key driver behind the increase in use of construction timber is the rapid decarbonisation of the economy. Steel production accounts for about 3% of the world's greenhouse gas emissions and concrete about 5%. According to the recent report from the Intergovernmental Panel on Climate Change drastic emissions cuts are required to keep global warming below 1.5°C. This will require building construction to be carbon neutral as soon as 2020, which means using less concrete and steel and more timber.

UK Timber Processing

Norbord's investment of over £100 million in an Oriented Strand Board (OSB) mill line at its plant near Inverness, increased its timber requirement from 520,000 cubic meters to 800,000 cubic meters per annum. Since going live last year, this has already had an impact in west and central Scotland, with more competition for limited stock pushing prices up in previously marginal areas.

Close to £1.25 billion has been invested in the UK timber processing industry since 2007. Furthermore, the Irish processing industry has benefitted from around €250 million of investment over the last three to four years, with a further €250 million announced at the start of 2019. Timber from west Scotland is exported to Ireland, although exports are currently reduced due to a sawmill fire in Ireland; this is set to return to production by Spring 2020.

The UK has a vibrant and modern timber processing sector, creating strong and diverse demand for homegrown timber.

UK Supply

While UK demand continues to increase, the country is still importing c.80% of its timber requirements. Limitations on harvesting volume set against a weaker currency all point towards a robust UK timber market for the foreseeable future.

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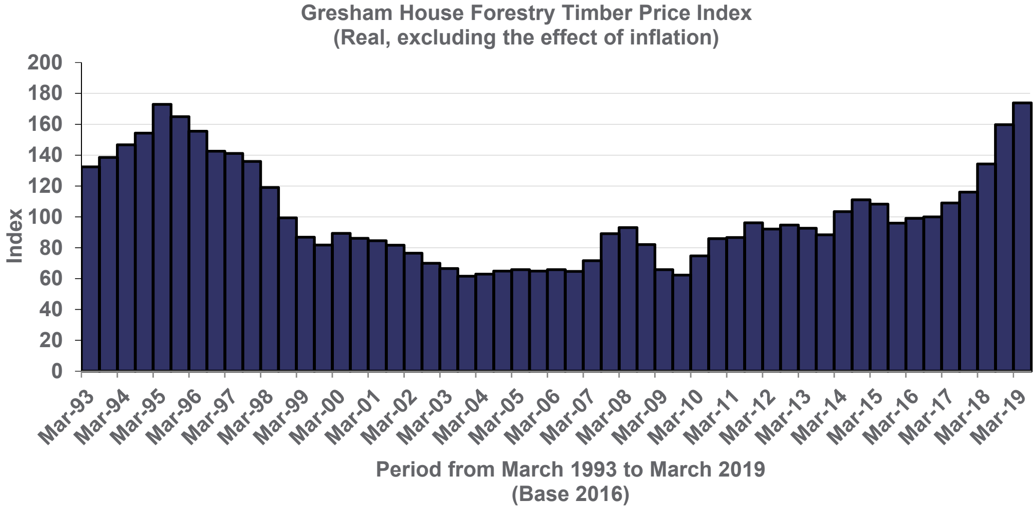


Source: Forestry Commission, National Audit Office

The GH Timber Index uses statistics published by the Forestry Commission (FC). It comprises an equal weighting of the Coniferous Standing Sales Price Index (CSSPI), being the average price of standing conifer timber sales, and the Softwood Sawlog Price Index (SSPI), which represents the average price of all softwood sawlogs sold on the FC estate.

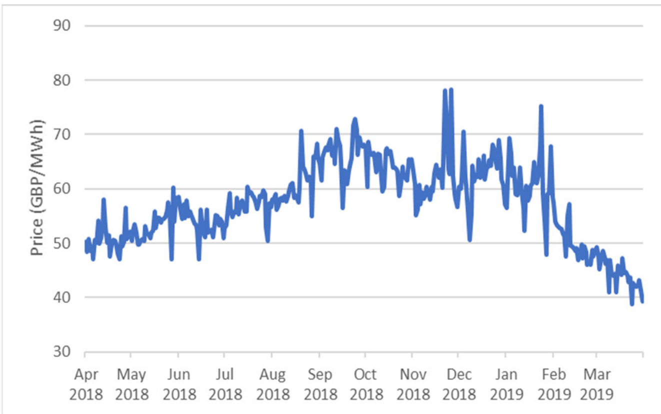
RENEWABLE ENERGY MARKET

Electricity Prices

Electricity prices have remained volatile over the year as can be seen in the graph to the right.

- Weather: Prices spiked in the run up to Winter 2018 as supply concerns were raised enabling the Manager to lock in favourable prices which has led to excellent trading results of the LP's renewable energy investments. Having had a milder winter than anticipated prices fell away in the new year and have continued to do so. As winter approaches prices tend to increase.
- Oil/Gas prices: Gas prices have been lower than anticipated reflecting the milder winter. Oil prices remain volatile, driven by global oil production, foreign exchange price fluctuations, political uncertainty and a reduction in global oil demand.
- Brexit: Increased Brexit uncertainty as the UK approached and passed the planned exit date of 29 March 2019, stipulated by Article 50 of the Lisbon Treaty. At the time of writing, the exit date has been extended to 31 October 2019, but uncertainty will remain.
- Carbon: During the year, carbon prices increased per ton of carbon dioxide equivalent, as can be seen from the graph on the following page, which helped electricity prices rise between April and December 2018.

Day Ahead Power Price (GBP/MWh)



Source: N2EX Day Ahead Auction Prices

Decarbonisation Policy

Following the Paris Agreement, the European Union (EU) is currently updating its decarbonisation policy to reflect greater ambition by 2050.

Strengthening EU resolve to fully tax the cost of carbon has seen European Union Allowance (EUA) carbon prices on the emissions reduction tool, the EU Emissions Trading Scheme (EU ETS), increase 65% in the last twelve months to 31 March 2019 from €13.46 to €22.23 per ton of carbon dioxide equivalent, peaking at over €27 in April 2019. In May 2017, levels were below €5 per ton of carbon dioxide equivalent.

In January 2019, a new policy designed to absorb surplus carbon credits came into force, known as the Market Stability Reserve. It will cancel 24% of the surplus credits each year until 2023 and then 12% thereafter, which has been the key driver in recent carbon price strength.

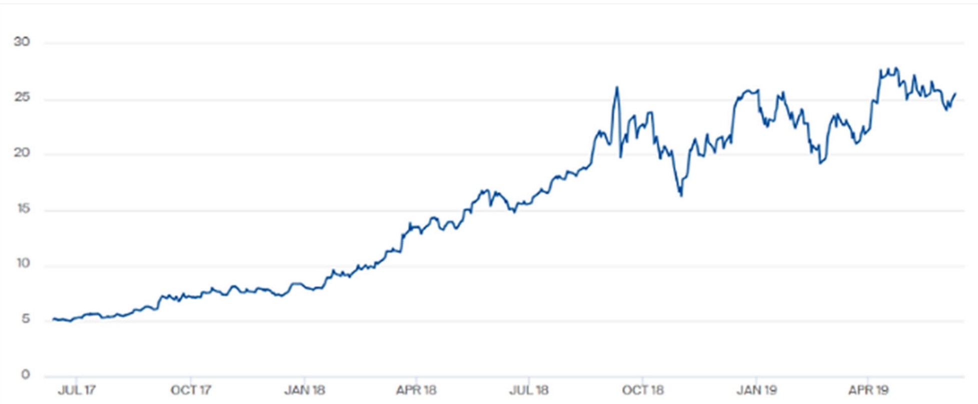
By moving closer to becoming carbon neutral there is a push towards greater electrification particularly in transport and heating buildings, increasing the demand for electricity which in turn is likely to push up electricity prices.

Looking forward, the Manager believes the following will continue to drive prices:

- Unseasonal weather patterns can have a huge influence on power prices.
- Brexit uncertainty will undoubtedly have an impact until a new relationship is established between Europe and the UK.
- European coal plant closures have been brought forward in many European countries (France, Ireland, Germany, the Netherlands, Spain and Italy) which could increase power prices in the short term.
- Decarbonisation policy will continue to put upward pressure on carbon prices.
- Geopolitical tensions across the Middle East, China and trade wars with the US will all add pressure to oil prices.
- An increase in electrification in everything from transport to heating may be underestimated in current power price forecasts, which along with other positive fundamentals, should help lift power prices higher.

It is expected that with a proven operating history and the potential for higher earnings from higher electricity prices, the discount rate applied to the renewable energy portfolio future earnings stream will decline, creating a further capital gain on the value of the portfolio.

Dec20 EUA Annual Prices (€/t)



Source: Intercontinental Exchange

7. BUSINESS STRATEGY

7.1 Investment Objectives

The Investment Objectives of the LP are to invest 80% of the LP's assets in sustainable UK commercial forestry and 20% in renewable energy generating assets (onshore wind farms and ground mounted solar parks), to achieve a balance between income and capital growth, with gearing to be restricted to a maximum of 20% of net assets.

7.2 Portfolio Management

The Manager continues to follow the strategy of limiting harvesting and managing expenditure on the forest estate whilst maintaining an operating surplus. When the surplus is combined with cash receipts from renewable energy investments and rental income from wind farm leases, the net profit is sufficient to meet the planned distributions to Limited Partners.

With a positive medium to long term outlook for timber prices, harvesting of the LP's timber resource will continue to be minimised, subject to operational requirements. The Manager will continue to actively manage the portfolio in order to add value as appropriate.

Following the deployment of the proceeds from the fund raise, the Manager will continue to consider new acquisitions if adjacent to the LP's holdings or advantageous in respect of renewable energy investments. However, valuations for commercial forestry properties and renewable energy investments are currently high, as interest in the two asset classes remains significant. The Manager believes that there are good reasons to continue to invest but will be cautious about doing so.

A short term £12 million loan facility was put in place in 2018 to fund the purchase of a further two forests with advanced age crops at advantageous prices, prior to the beginning of the fund raise. The facility was repaid in full in February 2019 from funds subscribed from the fund raising. The Manager will keep the securities in place to take advantage of any potential investment opportunities that meet the LP's investment criteria.

The Manager considers that renewable energy assets continue to add flexibility and diversification to the LP's income streams and will seek appropriate opportunities to invest, up to the maximum of 20% allowed under the LP's Investment Objectives.

Distributions payable to Limited Partners are largely underwritten by the income received from the renewable energy investments and rental income allowing the Manager to tactically manage timber harvesting.

7.3 Management Services

In order to maximise the performance of the LP on behalf of investors, the Manager services the LP by:

- "Buying right" as a result of its experience in the market place, with the ability to originate attractive investment opportunities on and off market for both the forestry and renewable energy portfolios;
- Providing independent advice on timber and electricity sales to maximise returns to the LP;
- Actively managing the LP to enhance returns, ensuring the timely and cost effective management of the assets, tight cost and budgetary control;
- Providing detailed analysis of opportunities to enhance value of the assets through higher and better use in the forestry portfolio and lease extensions within the renewable energy portfolio; and
- Minimising risk by maintaining a well managed forestry portfolio with diversified geographic locations and age classes, whilst maintaining suitable insurance to cover fire, wind blow and public liability risks.

7.4 Distributions

The LP plans to pay a distribution of c.£0.54, calculated as £0.52 plus 2.5% (assumed CPI) plus 1%, on all Limited Partnership Shares in May 2020, except for "D" Additional Limited Partnership Shares which will qualify for a first distribution in May 2021.

Distributions will increase each year by CPI plus 1%.

The policy is designed so that Limited Partners will receive an annual increase in the real value of distributions as opposed to the "step change" every five years under the previous distribution policy.

7.5 LP Duration

The First Termination Date has been extended to 31 May 2028. There is a right for Limited Partners to vote to extend this by one five year period, subject to 75% by value of those voting being in favour of continuing the LP at the AGM following the year ended 31 May 2027.

The Final Termination Date is 31 May 2033, when it is currently planned that the LP will be wound up. The Manager will consider options to allow Limited Partners to maintain their IHT relief post the eventual Termination Date.

7.6 Forest Certification

The LP continues with the policy of certifying all forests to Forest Stewardship Council (FSC) standards at the time harvesting commences. Certification schemes provide a way of defining sustainable forest management, as well as third party independent verification that a timber source meets the definition of sustainability. These schemes include a mechanism for tracing products from the certified source forest to end use, providing evidence that it is both legal and sustainable.

All timber harvested, together with the restocking and management of the forests thereafter will continue to be in accordance with the UK Woodland Assurance Standard (UKWAS) to ensure FSC Certification of these forests.

7.7 Pest and Disease

Ips typographus (Ips) is a spruce bark beetle which attacks Norway spruce trees. The beetle is native to continental Europe and northern Asia, where Norway spruce is native.

In December 2018, the Forestry Commission identified a breeding population in the UK for the first time in a woodland in Kent. It is thought that this is likely to have been introduced through Channel Ports. The Forestry Commission has set up a 50 kilometre exclusion zone around the site to prevent timber movements spreading the pest.

Ips is particularly associated with biologically over-mature and drought stressed spruce, and so whilst there is clear evidence that Ips is affecting Continental European Norway spruce, there remains a risk that it may cross over to Sitka spruce.

However, the main spruce growing areas in the UK are relatively wet, so that trees are much less likely to be drought stressed. Furthermore, by harvesting the trees relatively young, the Manager's management regime avoids the risk associated with over-mature crops. As with all crops there remains a risk of loss of production from pests and diseases, risks which are unable to be covered by insurance.

Pest and disease tend to have their greatest impact on slow growing or less vigorous trees. The Manager mitigates the risk in the following ways:

- By avoiding growing spruce on sites where it will be drought stressed, and by focussing on Sitka spruce which are grown on relatively short rotations of 35-40 years as compared to other species such as larch of 50-60 years and pine of 75+ years, providing an element of in-built protection;
- Diversification within a portfolio, both in geographic locations and variable age classes in the crop help to minimise risk as disease tends to impact trees in specific locations and affect specific ages; and
- There is an industry wide active programme of genetically improving Sitka spruce. Such plants are now used routinely in the LP's restocking and new afforestation. This makes it feasible to breed in resistance to disease, should one appear which would have an economic impact on the productivity of Sitka spruce.

The importance of diversification has always been a cornerstone of the Manager's strategy.

7.8 Health & Safety

The Manager manages the LP's forestry and renewable energy portfolio in accordance with UK Health & Safety (H&S) legislation.

The Manager actively engages with the UK Forest Industry Safety Accord (FISA), a body which sets out the industry commitment to raise the standard of health, safety and welfare in the work place.

This primarily requires that all woodland and renewable energy managers confirm that they have the requisite H&S standards in place, and these standards are followed rigorously and continually.

8. ADMINISTRATION

8.1 Ongoing Charges Figure

The Ongoing Charges Figure (OCF) for the year ended 31 May 2019 was 0.62% (2018: 0.59% adjusted). The increase in OCF is due to the LP incurring additional legal and professional fees in connection with the loan facility to acquire additional forestry properties ahead of the fund raise.

The OCF includes all recurring expenditure incurred by the LP, including management charges, recurring fees arising from renewable energy leases, legal and professional fees arising at the LP level, General Partner fees and other recurring overheads (audit, depositary services etc). This is calculated as a percentage of the average of the opening and closing NAV of the LP.

The OCF excludes any non-recurring expenditure including promotion fees due to the Manager in relation to the fund raising, transaction fees due on the acquisition and disposal of investments and one off fees to the Manager arising from renewable energy options and leases.

8.2 Advisory Committee

Following the approval from the Limited Partners and the Advisory Committee to pursue a fund raising, there was no other requirement for the Manager to consult with the Advisory Committee during the year.

The Manager consulted, and will continue to consult, the Advisory Committee on issues as required in the management of the LP.

Two members of the Advisory Committee retired on 31 May 2018. During the year, the Manager identified two individuals who have accepted an Advisory Committee position.

Under the terms of the Limited Partnership Agreement, the Manager is not able to continue with a course of action should the Advisory Committee not waive any potential conflict of interest associated with it.

8.3 Liquidity

During the year a total of 99,980 Limited Partnership Shares were sold, 1.2% of the total in issue at the year end.

The weighted average purchase price for the most recent sale was £27.02 per Limited Partnership Share, 21% higher than the published NAV as at 31 May 2018 of £22.25, or 12% higher than the latest NAV of £24.10 as at 31 May 2019.

8.4 Issuance of New Limited Partnership Shares in the LP

The change in the number of Limited Partnership Shares during the year is as follows:

	No. of Limited Partnership Shares
As at 1 June 2018	7,164,872
Issued during the year	1,398,623
As at 31 May 2019	**8,563,495**

In accordance with clause 8 of the Limited Partnership Agreement, Limited Partners who were members of a trust that contributed a property to the LP at formation, and who are still Limited Partners in the LP as at the date a wind farm lease commences at that property, shall receive Limited Partnership Shares in the LP equivalent to 40% of the net present value of the total estimated cash flow from this lease applying a discount rate of 10%.

The total value of such Limited Partnership Shares will be allocated amongst the Limited Partners in the proportions they previously owned the wind farm property as members of the trust. The Manager will calculate the number of Limited Partnership Shares to be allocated once the lease is entered into and the rental income arising thereunder is established. Limited Partners who were members of FIM Timber Growth Fund II, which contributed Cowans Law to the LP, shall receive Limited Partnership Shares once the wind farm is fully operational, which is now expected to be in 2022. The estimated number of shares to be issued is 21,653, a dilution of c.0.3%.

This does not apply in the case of Craignane and Kirtleton South, as these properties were acquired after the formation of the LP.

8.5 Valuations

The LP's portfolio was valued as at 31 May 2019 on the following basis:

- Forestry Portfolio, including wind farm leases, was valued internally by the Manager in accordance with the Royal Institution of Chartered Surveyors Red Book, defined as:

  "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgably, prudently and without compulsion."

- Renewables Portfolio, of which the investment in FIM Windfarms 2 LP, was valued externally by Jones Lang LaSalle on an open market basis as a result of the transfer of assets to GHWE, and the remaining investments in FIM Wind Energy LP and FIM Solar Distribution LLP were valued internally by the Manager.

The LP's portfolio is subject to an Independent Valuation every three years. The next Independent Valuation will be carried out on 31 May 2021. In the intervening period the Manager will provide an annual internal valuation as at 31 May 2020.

8.6 Incorporation of FIM Windfarms 2 LP

On 26 June 2019, the Manager transferred the assets of FIM Windfarms 2 LP into GHWE. The LP's revised percentage ownership of GHWE is 57.5%.

The purpose of the transfer was to incorporate FIM Windfarms 2 LP's wind farm assets in order to enable a fund raising to occur and thus increase the size of the company to diversify the risk of owning just three wind farm assets. A fund raising begins in September 2019, and any investors wishing to participate should contact the Manager to receive details.

As a result of the transfer, the LP will now receive dividends instead of distributions. A dividend of £454,500 was paid by GHWE to the LP in July 2019.

8.7 Carried Interest

Carried Interest represents a performance fee due to the Manager on Termination of the LP and is currently valued at £4.3 million (2018: £3.8 million). It is not included on the Balance Sheet as a long-term liability, as no decision has been taken to terminate the LP. As soon as that decision is taken, the Carried Interest will crystallise, and the Manager will record the liability in the Balance Sheet. Until that time, the Manager will continue to disclose to Limited Partners its potential value annually.

8.8 Amendments to the Limited Partnership Agreement

At an Extraordinary General Meeting on 24 May 2018, the Limited Partners approved all three Resolutions proposed by the Manager in the Memorandum to Limited Partners dated 24 April 2018, with 97% of votes cast being in favour. The three Resolutions were:

- A revised target distribution from May 2019 to be set at £0.52 per share increasing annually thereafter by CPI plus 1%;
- An extension of the LP's First Termination Date by seven years to a new First Termination Date of 31 May 2028, removing the Second Termination Date of 31 May 2026 and extending the Final Termination Date to 31 May 2033, to give a total remaining term of 15 years; and
- To expand the LP by issuing "D" Additional Limited Partnership Shares at an 11% premium to NAV (i.e. £24.70 per share), eligible for a first distribution in May 2021.

All amendments were incorporated into an Amended Limited Partnership Agreement dated 20 July 2018.

8.9 Report and Financial Statements

The results from the LP's investments in FIM Solar Distribution LLP, Gresham House Wind Energy 1 plc (formerly FIM Windfarms 2 LP) and FIM Wind Energy LP are not consolidated as the LP does not have management control over these entities.

8.10 Taxation

The Manager issued Taxable Income Statements for the Tax Year 2018/19 to Limited Partners providing details to be included on Limited Partners' tax returns for 2018/19.

The Taxable Income Statements are based on taxable income arising in the year ended 31 May 2018. Taxable income arose on the Forestry Portfolio from rental income derived from the wind farm leases and sporting rents. The LP also received a small amount of taxable interest.

The LP has received minimal taxable income since 2012/13 in respect of the renewable energy portfolio, however as capital allowances are now insufficient to extinguish all taxable profits in relation to these assets, the benefit of retaining the assets in a Limited Partnership structure is now limited. Therefore, the LP's holding in FIM Windfarms 2 LP has been transferred into a plc company structure. In consequence, all future distributions, from the former FIM Windfarms 2 LP assets will appear as dividends on Limited Partners Taxable Income Statements.

8.11 National Insurance Contributions (NICs)

There are no taxable profits in the LP arising in the Tax Year 2018/19 which are subject to NICs.

8.12 Alternative Investment Fund Managers Directive (AIFMD)

The LP is classified as an Alternative Investment Fund (AIF) under AIFMD. The main implication of this classification is that the LP has appointed IQ-EQ Depositary Company (UK) Limited (IQ-EQ) as its provider of depositary services. IQ-EQ provides independent governance, oversight and cash monitoring services to the LP as required by AIFMD.

The Manager is authorised and regulated by the Financial Conduct Authority and has appropriate authorisations in place to operate the LP.

8.13 Annual General Meeting (AGM)

This year's AGM is to be held on 2 October 2019 at The Lansdowne Club to discuss the results of the LP and its future business. A Notice is attached.

8.14 Gresham House Website Access

Limited Partners are able to obtain details of their holdings in the LP including a valuation via a secure section of Gresham House's website. If you have already registered to use the website, you can access your valuation at: https://www.fimltd.co.uk/client/login

If you have not already registered to use the website, please follow this link to complete the registration process: https://www.fimltd.co.uk/client/register

If you would like to receive an annual Partnership Shareholding Statement by post, please contact us on 01451 844655 or admin@greshamhouse.com.

8.15 Client Satisfaction

Please do not hesitate to contact a member of the team if you wish to discuss your investment or provide any feedback on this Report. The Manager is committed to ensuring the needs and expectations of clients are met at all times and would therefore welcome any suggestions to improve our service delivery.

8.16 The LP's Management Team

Oliver Hughes, Fund Director
01451 843905 / o.hughes@greshamhouse.com

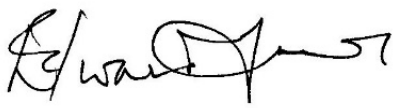
Edward Daniels, Fund Manager
01451 843094 / e.daniels@greshamhouse.com

Stephen Beck, Divisional Finance Director
01451 843097 / s.beck@greshamhouse.com

Josh Phillips, Investment Analyst
01451 843092 / j.phillips@greshamhouse.com

Heather Hanson, Fund Administrator
01451 843082 / h.hanson@greshamhouse.com

Krystyna Slota, Finance Manager
01451 843915 / k.slota@greshamhouse.com



Signed by Edward Daniels
On behalf of Gresham House Asset Management Limited, Manager

29 August 2019

APPENDIX

REGISTERED NUMBER: SL007703 (SCOTLAND)

REPORT OF THE PARTNERS AND

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MAY 2019

FOR

FIM SUSTAINABLE TIMBER & ENERGY LP

Critchleys Audit LLP
Beaver House
23-38 Hythe Bridge Street
Oxford
OX1 2EP

REPORT OF THE GENERAL PARTNER

The General Partner presents the Report and Financial Statements of FIM Sustainable Timber & Energy LP (the LP) for the year ended 31 May 2019.

GENERAL PARTNER

The General Partner is FIM Forest Funds General Partner Limited, a wholly owned subsidiary of Gresham House Asset Management Limited.

PRINCIPAL ACTIVITY

The principal activity of the LP is the ownership of commercial woodlands for the production of timber and ownership of renewable energy assets for production of electricity.

RESULTS FOR THE YEAR

The results for the year are shown on page 5.

The General Partner is pleased with the year's performance, providing a total return to all Limited Partners, except "D" Additional Limited Partnership Shares of 10.7% for the twelve months from 1 June 2018 to 31 May 2019.

STATEMENT OF GENERAL PARTNER'S RESPONSIBILITIES

The General Partner is responsible for preparing this Report and the Financial Statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the General Partner to prepare accounts for each financial period which give a true and fair view of the state of affairs of the LP and of the results of the LP for that period. In preparing those accounts the General Partner is required to select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; prepare the accounts on the going concern basis unless it is inappropriate to presume that the LP will continue in business.

The General Partner is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the LP and to enable it to ensure that the accounts comply with the Companies Act 2006, as modified by SI 2008/569. It is also responsible for safeguarding the assets of the LP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the General Partner is aware, there is no relevant audit information (information needed by the LP's auditors in connection with preparing their report) of which the LP's auditors are unaware.

Finally, the General Partner has taken all the steps that it ought to have taken as a General Partner in order to make itself aware of any relevant audit information and to establish that the LP's auditors are aware of that information.

Signed by Stephen Beck
29 August 2019

On behalf of FIM Forest Funds General Partner Limited, General Partner

PARTNERSHIP INFORMATION

Limited Partnership Number	**SL007703**
Manager and Operator	**Gresham House Asset Management Limited** Glebe Barn Great Barrington Burford Oxon OX18 4US
General Partner	**FIM Forest Funds General Partner Limited** Glebe Barn Great Barrington Burford Oxon OX18 4US
Solicitors	**Brodies LLP** 15 Atholl Crescent Edinburgh EH3 8HA
Auditors	**Critchleys Audit LLP** Beaver House 23-38 Hythe Bridge Street Oxford OX1 2EP
Bankers	**Clydesdale Bank plc** 5 Northgate Street Gloucester GL1 2AH
Depositary Services	**IQ EQ Depositary Company (UK) Limited** 2 London Bridge London SE1 9RA

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of FIM Sustainable Timber & Energy LP (the 'LP'') for the year ended 31 May 2019, which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Cash Flows, and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice)).

This report is made solely to the LP's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as modified by SI 2008/569. Our audit work has been undertaken so that we might state to the LP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LP and the LP's members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion the financial statements:

- give a true and fair view of the state of the LP's affairs as at 31 May 2019 and of its results for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, as modified by SI 2008/569.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the LP in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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.

Conclusions relating to going concern

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the LP's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the General Partner; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Report of the General Partner to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on Financial Statements

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the General Partner's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the General Partner has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the LP's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Report of the General Partner for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the General Partner has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the LP and its environment obtained in the course of the audit, we have not identified material misstatements in the Manager's Report and the General Partner's' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Partners' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the General Partner

As explained more fully in the Statement of General Partner's Responsibilities set out on page 1, the General Partner is 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 General Partner determines 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 General Partner is responsible for assessing the LP'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 General Partner either intends to liquidate the LP or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement 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 LP's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the General Partner.
- Conclude on the appropriateness of the General Partner'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 LP'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 LP 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 achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the LP to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the LP audit. We remain solely responsible for our audit opinion.

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.

Original Signed

Robert Kirtland
Senior Statutory Auditor

For and on behalf of:
Critchleys Audit LLP, Statutory Auditor
Beaver House
23-38 Hythe Bridge Street
Oxford
OX1 2EP

Date 29 August 2019

INCOME STATEMENT

	Notes	2019 £	2018 £
Turnover	2a	4,884,736	6,806,122
Other operating income		618,551	536,919
Total turnover		**5,503,287**	**7,343,041**
Operating costs		(2,030,677)	(2,033,988)
Administrative expenses		(1,207,199)	(724,014)
General Partner's share		(1,000)	(1,000)
Operating profit before depreciation		**2,264,411**	**4,584,039**
Depreciation		-	(203,346)
Operating profit after depreciation		**2,264,411**	**4,380,693**
Interest receivable		119,168	6,008
Interest payable		(159,969)	-
Income from Investments		1,902,736	1,374,821
Profit for the year before revaluation	3	**4,126,346**	**5,761,522**
Unrealised surplus on revaluation of Investments	4	12,793,123	15,498,545
Profit for the year after revaluation		**16,919,469**	**21,260,067**
Number of shares	7	8,563,495	7,164,872
Profit before revaluation per share		£0.48	£0.80

Statement of Comprehensive Income

	Notes	2019	2018
Profit for the year after revaluation		16,919,469	21,260,067
Unrealised surplus on revaluation of Tangible Assets	4	-	572,721
Total comprehensive income for the financial year		16,919,469	21,832,788

BALANCE SHEET

	Notes	2019 £	2018 £
Fixed Assets			
Investments	4	197,463,582	156,970,321
		197,463,582	156,970,321
Current Assets			
Debtors	5	1,117,591	603,501
Cash at bank		9,208,208	2,985,305
		10,325,799	3,588,806
Creditors: amounts falling due within one year	6	(1,389,717)	(1,168,911)
Net current assets		8,936,083	2,419,895
Total assets less liabilities and net assets attributable to Partners		**206,399,664**	**159,390,216**
Represented by			
Limited Partners' capital	7	122,454,272	88,638,560
Revaluation reserve	7	76,582,999	63,789,876
Profit and loss account	7	7,362,393	6,961,780
Limited Partners' funds		**206,399,664**	**159,390,216**
Total Limited Partnership Shares	7	8,563,495	7,164,872
Net Asset Value per Limited Partnership Share		£24.10	£22.25

These financial statements were approved by the General Partner and authorised for issue on 29 August 2019 and are signed on its behalf by:

Stephen Beck
On behalf of FIM Forest Funds General Partner Limited, General Partner

STATEMENT OF CASH FLOWS

	Notes	2019 £	2018 £
Cash flows from operating activities			
Operating profit after depreciation		2,264,411	4,380,693
(Increase)/decrease in debtors		(514,090)	995,306
Increase/(decrease) in creditors		220,806	(212,354)
Depreciation		-	203,346
Net cash flow from operating activities		**1,971,127**	**5,366,991**
Cash flows from investing activities			
Purchase of forestry properties	4	(20,497,922)	(369,625)
Interest in FIM Windfarms 2 LP	4	(3,144,361)	-
Disposal of part of a forest property	4	106,621	-
Purchase of renewable energy assets	4	(4,164,476)	(2,970,000)
Net cash flow from investing activities		**(27,700,138)**	**(3,339,625)**
Cash flows from financing activities			
Interest received		119,168	6,008
Interest paid		(159,969)	-
Partnership shares issued	7	33,815,712	-
Bank loan drawdown		11,202,067	-
Bank loan repayment		(11,202,067)	-
Distributions received from investments		1,902,736	1,374,821
Distributions to Limited Partners	7	(3,725,733)	(3,828,353)
Net cash flow from financing activities		**31,951,914**	**(2,447,524)**
Net increase/(decrease) in cash		**6,222,903**	**(420,158)**
Cash at the start of the year		2,985,305	3,405,463
Cash at the end of the year		9,208,208	2,985,305

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Preparation

These financial statements have been prepared in accordance with applicable UK accounting standards, including Financial Reporting Standard 102 and Companies Act 2006.

The financial statements are presented in Sterling.

Going Concern

After reviewing the LP's forecast and projections, the General Partner has a reasonable expectation that the LP has adequate resources to continue in operational existence for the foreseeable future. The LP therefore continues to adopt the going concern basis in preparing its financial statements.

2. Principal Accounting Policies

a. Turnover

Turnover represents amounts receivable by the LP, net of value added tax. In respect of the ownership of commercial woodlands and the sale of commercial timber income is recognised when the timber is harvested, and the relevant invoice raised.

b. General Partner's Share

The General Partner's share for the LP has been charged in the accounts at £1,000 for the year, as set out in the Limited Partnership Agreement.

c. Income from Investments

The timing of when undistributed profits from investments in other entities are recognised has been revised. Previously, where the LP has a small interest in another entity, the LP recognised profits based on when cash distributions were received and where the LP has a larger interest profits were recognised according to when they were allocated in the relevant partnership documentation. Any profits allocated but not yet paid were held on the Balance Sheet as a debtor.

From 2018 onwards all such profits are recognised only when distributions are received as no control is exercised over these entities. Therefore, no debtors are held on the Balance Sheet for allocated but undistributed profits.

d. Valuation of Investments

Forest Properties

Forest properties were internally valued at 31 May 2019 on the basis of their open market valuation on that date. The valuation is in accordance with the Royal Institution of Chartered Surveyors Valuation Standards 9th edition.

Included in the value of forest properties are values attributed to wind farm leases entered into and these are valued from the date of commissioning based on the forecast rental income discounted at an appropriate discount rate.

Onshore Wind Farms

Three onshore wind farms owned by FIM Windfarms 2 LP were externally valued by Jones Lang LaSalle as part of a separate valuation exercise as at 31 May 2019 and included in the financial statements. The onshore wind farms are valued on the basis of open market evidence to ascertain the appropriate discount rate. Each wind farm is valued using a Net Present Value (NPV) model using this discount rate.

The LP has a 57.5% holding in Gresham House Wind Energy 1 plc (formerly FIM Windfarms 2 LP). These results have not been consolidated into these financial statements as the LP has no management rights over Gresham House Wind Energy 1 plc.

The Harburnhead wind farm, 50% of which is owned by FIM Wind Energy LP, was internally valued by the Manager at 31 March 2019 and included in the financial statements. The LP has a 5.5% holding in FIM Wind Energy LP. These results have not been consolidated into these financial statements as the LP has no management rights over FIM Wind Energy LP.

Solar Parks

The investment in FIM Solar Distribution LLP was valued internally by the Manager at 5 April 2019. The LP has a 40.6% holding in FIM Solar Distribution LLP. These results have not been consolidated into these financial statements as the LP has no management rights over FIM Solar Distribution LLP.

3. Profit for the Year

Profit for the year is stated after charging:

	2019	2018
	£	£
Auditors' remuneration – audit services	11,700	9,500
Depreciation	-	203,346

4. Investments

	Forest Properties	Onshore Wind Farms	Solar Parks	Total
	£	£	£	£
As at 1 June 2018	127,600,000	12,780,591	16,589,730	156,970,321
Additions	20,497,922	3,144,361	4,164,476	27,806,759
Disposals	(106,621)	-	-	(106,621)
Revaluation	11,116,699	670,444	1,005,980	12,793,123
As at 31 May 2019	159,108,000	16,595,396	21,760,186	197,463,582

Forest Properties

All forest properties were internally valued at 31 May 2019, as detailed in Note 2 to the accounts.

Onshore Wind Farms

Onshore wind farms represent the value of the investments in FIM Windfarms 2 LP and FIM Wind Energy LP. FIM Windfarms 2 LP was externally valued as at 31 May 2019 as part of the establishment of value to transfer assets into Gresham House Wind Energy 1 plc. FIM Wind Energy LP was internally valued by the Manager as at 31 March 2019.

Solar Parks

Solar Parks represent the value of the investment in FIM Solar Distribution LLP and was internally valued by the Manager at 5 April 2019.

		2019	2018
5.	**Debtors**	**£**	**£**
	Trade debtors	683,558	400,704
	Sundry debtors	7,753	-
	Accrued income	285,202	46,496
	Prepayments	132,958	129,564
	VAT	8,120	26,737
		1,117,591	**603,501**

		2019	2018
6.	**Creditors: amounts falling due within one year**	**£**	**£**
	Trade creditors	1,014,277	886,530
	Deposits and down-payments	281,321	125,000
	Accruals	43,166	66,100
	Timber harvesting fees	5,963	5,322
	Distributions to Limited Partners unpaid at year end	44,990	40,678
	Other creditors	-	13,564
	FIM Solar Distribution LLP	-	31,717
		1,389,717	**1,168,911**

7. **Statement of Changes in Capital**

	Limited Partners	Special Limited Partner	Revaluation Reserve	Profit & Loss Account	Total
	£	£	£	£	£
As at 1 June 2017	**88,638,460**	**100**	**47,718,610**	**5,069,289**	**141,426,459**
Revaluation	-	-	16,071,266	-	16,071,266
Profit for the year	-	-	-	5,761,522	5,761,522
Distribution	-	-	-	(3,869,031)	(3,869,031)
As at 1 June 2018	**88,638,460**	**100**	**63,789,876**	**6,961,780**	**159,390,216**
New Shares Issued	33,815,712	-	-	-	33,815,712
Revaluation	-	-	12,793,123	-	12,793,123
Profit for the year	-	-	-	4,126,346	4,126,346
Distribution	-	-	-	(3,725,733)	(3,725,733)
As at 31 May 2019	**122,454,172**	**100**	**76,582,999**	**7,362,393**	**206,399,664**

	2019	2018
	No.	No.
Founder Limited Partnership Shares	2,588,275	2,588,275
“A” Additional Limited Partnership Shares	1,161,952	1,161,952
“B” Additional Limited Partnership Shares	1,540,730	1,540,730
“C” Additional Limited Partnership Shares	1,873,915	1,873,915
“D” Additional Limited Partnership Shares	1,398,623	-
Total Limited Partnership Shares allotted	**8,563,495**	**7,164,872**

8. Related Parties

Controlling Entity

The immediate controlling party is Gresham House plc due to its ownership of the General Partner, FIM Forest Funds General Partner Limited.

Related Party Transactions

Gresham House Asset Management Limited

Gresham House Asset Management Limited is the Manager of the LP. The accounts include the following amounts paid to Gresham House Asset Management Limited.

	2019 £	2018 £
Recurring fees		
Management charges	659,163	427,364
Timber marketing fees	90,890	122,906
Wind farm rent	51,803	33,889
Sundry	-	13
Total recurring fees	**801,856**	**584,172**
Non-recurring fees		
Timber marketing – timber compensation	-	14,570
Wind farm option fees	2,374	1,188
Promotion fee on fund raising	690,920	-
Acquisition fees	377,296	-
Other	12,772	20,550
Total non-recurring fees	**1,083,362**	**36,308**
	1,885,218	**620,480**

Amounts due to Gresham House Asset Management Limited were £237,126 at 31 May 2019 (2018: £nil).

FIM Forest Funds General Partner Limited

FIM Forest Funds General Partner Limited is the General Partner of FIM Sustainable Timber and Energy LP. A General Partner fee of £1,000 per annum is due to the General Partner by the LP.

FIM Executives Limited Partnership

FIM Executives Limited Partnership is the Special Limited Partner of FIM Sustainable Timber and Energy LP.

9. Post Balance Sheet Events

The LP acquired the following properties after the year end:

Property Location	Hectares
Machynlleth, Mid Wales	144
Huntly, East Scotland	189
Tarbert, West Scotland	85
	418

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