

ADVANCE TERRAFUND REIT

INTERIM FINANCIAL STATEMENT

31 March 2014

ADVANCE TERRAFUND REIT

STATEMENT OF FINANCIAL POSITION

AS OF 31 MARCH 2014

All amounts are in BGN thousands, unless otherwise indicated

	Note	As of 31.03.2014	As of 31.12.2013
ASSETS			
Investment property	4	153,439	159,862
Non-current assets held for sale	5	12,240	4,008
Rent and other receivables	6	6,705	4,657
Advances to suppliers	7	564	564
Cash and cash equivalents	8	64,324	64,059
		<u>237,272</u>	<u>233,150</u>
TOTAL ASSETS			
LIABILITIES			
Current liabilities	9	35,150	33,164
Provisions		100	100
TOTAL LIABILITIES		<u>35,250</u>	<u>33,264</u>
		202,022	199,886
NET ASSETS			
CAPITAL			
Core capital	10	85,110	85,110
Premiums from issues		43,411	43,411
Non-allocated profit		73,501	71,365
TOTAL CAPITAL		<u><u>202,022</u></u>	<u><u>199,886</u></u>

The interim financial statement is approved by the Board of Directors and signed on behalf of Advance Terrafund REIT on 23 April 2014 by:

Radoslav Manolov

Executive Director

Yoana Georgieva

Chief Accountant

The enclosed Notes are an integral part of this financial statement.

ADVANCE TERRAFUND REIT

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 MARCH 2014

All amounts are in BGN thousands, unless otherwise indicated

	Note	The period ended 31.03.2014	The year period 31.03.2013
Interest income		643	857
Revenues from sales and exchange of investment property		2,090	3,289
Book value of the sold property		(1,295)	(2,173)
		<u>795</u>	<u>1,116</u>
Revenues from lease and rent of investment property	4	1,511	1,453
Other revenues		13	5
OPERATING REVENUES		<u>2,962</u>	<u>3,431</u>
Costs for hired services	11	(794)	(969)
Costs related to the personnel		(28)	(28)
Loss from subsequent valuation of investment property, net		-	-
Financial costs		-	(1)
Other costs		(4)	(5)
OPERATING COSTS		<u>(826)</u>	<u>(1,003)</u>
NET PROFIT		<u>2,136</u>	<u>2,428</u>
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		<u>2,136</u>	<u>2,428</u>
Income per share (BGN)	15	<u>0.03</u>	<u>0.03</u>

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ADVANCE TERRAFUND REIT

CASH FLOW STATEMENT

For the period ended 31 March 2014

All amounts are in BGN thousands, unless otherwise indicated

	The period ended 31.03.2014	The period ended 31.03.2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Purchase of investment property	(3,950)	(3,290)
Payments related to commercial partners	(291)	(211)
Revenues from rent and sales	5,274	4,234
Payments related to labor remunerations	(28)	(22)
Interest received	229	1,401
Other cash flows from core activities	(957)	(1,106)
NET CASH FLOWS FOR OPERATING ACTIVITIES	277	1,006
CASH FLOWS FROM FINANCIAL ACTIVITIES		
Cash flows from distribution of dividends	(12)	(5)
Other cash flows from financial activities	-	(1)
NET CASH FLOWS FOR FINANCIAL ACTIVITIES	(12)	(6)
NET INCREASE OF CASH AND CASH EQUIVALENTS	265	1,000
CASH AND CASH EQUIVALENTS AT THE START OF THE PERIOD	64,059	76,018
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	64,324	77,018

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ADVANCE TERRAFUND REIT

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2014

All amounts are in BGN thousands, unless otherwise indicated

	Core capital	Premiums from issues	Accumulated profit/(loss)	Total
BALANCE ON 1 JANUARY 2013	85,110	43,411	71,277	199,798
Total comprehensive income by 31 March 2013	-	-	2,428	2,428
Other comprehensive income	-	-	-	-
BALANCE AS OF 31 MARCH 2013	<u>85,110</u>	<u>43,411</u>	<u>73,705</u>	<u>202,226</u>
BALANCE AS OF 1 JANUARY 2014	85,110	43,411	71,365	199,886
Total comprehensive income up to 31 March 2014	-	-	2,136	2,136
Other comprehensive income	-	-	-	-
BALANCE AS OF 31 MARCH 2014	<u>85,110</u>	<u>43,411</u>	<u>73,501</u>	<u>202,022</u>

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1. BACKGROUND

Advance Terrafund REIT

Advance Terrafund REIT (“The Company”) is a public joint-stock company established at the Constituent Assembly from 12 April 2005, with initial capital amounting to BGN 500 thousand, allocated into 500,000 shares with par value of BGN 1 each. The Company was re-registered with the Trade Register of the Registry Agency under UIC 131418187. The seat and management address of the Company are at 1 Zlatovruh Str., Sofia.

The Company’s subject of activity is investment of funds raised through public offering of securities in real estate (securitization of real estate) through purchase of right of ownership and other material rights on real estate and building constructions and improvements to them, with the purpose of their management, rental, leasing, and/or sale.

The special purpose legislation related to the activity of the Company is contained and arises mainly from the Act on the Special Investment Purpose Companies (ASIPC) and the Act on the Public Offering of Securities (APOS). On the basis of them the Company is subject to regulation by the Financial Supervision Commission (FSC). The Company obtained license № 10-ДСИЦ/08.12.2005, issued on the basis of Decision № 452-ДСИЦ from 14 July 2005 of the Financial Supervision Commission.

The Company has been established for an unlimited term.

The Company has a one-tier management system. The Board of Directors (BD) of the Company is composed of: Radoslav Iliev Manolov – Executive Director, Borislav Vitanov Petkov – Chairman of the BD and Nencho Ivanov Penev – Member of the BD.

Karoll Finance EOOD is the servicing company of Advance Terrafund REIT, which as of 31 March 2013 is a shareholder holding 18.60% of the capital of Advance Terrafund REIT, rendering consultancy and other services, such as administrative, accounting and human resources services.

After the establishment of the company in 2005, five subsequent increases of the capital of the Company have been carried out, and as of 31 March 2013 the capital of the Company amounts to BGN 85,110,091.

Investment strategy, objectives and restrictions of the Company

Advance Terrafund REIT is a joint-stock company with the special investment purpose of securitization of real state. The Company has the right to acquire material rights only on agricultural, urbanized and forestry real estate located on the territory of the Republic of Bulgaria. As per the Statutes of Advance Terrafund REIT adopted at the Constituency Assembly of the Company from 12 April 2005, its investment objectives are:

- Providing its shareholders with the opportunity to invest in a diversified portfolio of real estate, acting on the principle of risk allocation;
- Ensuring for its shareholders retention and increase of the value of their investments through the realization of a stable income under a balanced risk allocation.

1. BACKGROUND (CONTINUED)

The strategy of the Company provides for investments in real estate meeting the requirements of Article 9 of the Statutes of Advance Terrafund REIT with the objective of receiving current revenues from rental and leasing contracts, transferred right of use and from the sale of these estates, with a view of the formation of a stable income. In order to achieve its main objective the Company may apply appropriate strategies to safeguard against market and currency risks.

Financial objectives:

- Ensuring a steadily increasing current income for the shareholders in the form of cash dividend through renting out the owned land;
- Maximizing the value of the investments of the shareholders through continuous active management of the Company's assets and acquisition/sale of agricultural land;
- Diversification of the portfolio of agricultural lands through investment in various types of agricultural real estate (arable land, perennial plants, vineyards, etc.), located in various regions of the Republic of Bulgaria with the aim of reducing the non-systematic risks of the investment portfolio;
- Providing liquidity for the shareholders of the Company through listing of the shares of Advance Terrafund REIT for trade at Bulgarian Stock Exchange - Sofia;
- Making the necessary capital increases with the aim of structuring a balanced portfolio of real estate.

The investment policy of the Company provides that it invests the raised capital in real estate defined through their main and specific designation, as per the territory planning schemes and the detailed territory plan as follows:

- Real estates in urbanized territories /towns and villages / – designated for residential, public service, manufacturing, warehousing, resort, country housing, sports and entertainment functions;
- Real estate in agricultural territories – arable land /fields, orchards and vegetable gardens, vineyards, meadows, etc. / and non-arable lands;
- Land in forest territories – forests and forestry lands;

According to the investment policy of the Company the investments in land represent up to 90% of the book value of the assets of the Company for the respective year, as per its annual financial statements.

The Company has the following options for investment of its free funds:

- Securities issued or guaranteed by the Bulgarian State and bank deposits – no restrictions;
- Mortgage bonds issued following the procedures and terms of the Mortgage Bonds Act – up to 10% of the Company's assets.

The Act on the Special Investment Purpose Companies also allows for investments of up to 10% of the Company in one or more servicing companies.

2. BASIS FOR DRAFTING OF THE FINANCIAL STATEMENTS

The Company prepares and presents its financial statements on the basis of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations on their application issued by the International Financial Reporting Interpretations Committee (IFRIC), adopted by the Commission of the European Union (The Commission) and applicable in the Republic of Bulgaria.

ASIPC requires the investment property of the Company is valued at the end of each year. At the end of each financial year the investment property is valued by a licensed independent appraiser attested by the Ministry of Agriculture on the basis of Article 20, Paragraphs 1 and 2 of ASIPC. For the valuation of the investment property of the Company as of 31 December 2012 the independent auditor used the fair market value model.

The present financial statements are prepared in compliance with the convention of the historic price, with the exclusion of the investment property revaluated according to fair value. The other financial assets and liabilities and the non-financial assets and liabilities are accounted for according to depreciated or historic value.

Accounting assumption and accounting estimates

The drafting of the financial statements requires from the management to make estimates and assumptions which influence the book value of the assets and liabilities as of the date of the statement of financial position and the amount of the revenues and costs during the reported period, as well as on the disclosure of contingent assets and liabilities. Although these estimates are based on the most precise estimation of the current events by the management and the available information as of the date of issuance of the financial statements, the actual future results may differ from the estimates.

The main source of uncertainty for the Company regarding the assumptions and estimates is the assessment of the fair value of the investment property (see Note 3).

Functional currency and representation currency

According to the requirements of the Bulgarian accounting legislation the company keeps accounts and drafts its financial statements in the national currency of the Republic of Bulgaria – the Bulgarian lev, which is the functional currency of the Company. From 1 January 1999, the Bulgarian lev has been pegged to the euro at an exchange rate of BGN 1.95583 = EUR 1.

3. KEY ELEMENTS OF THE ACCOUNTING POLICY

Investment property

The investment property in which the Company invests is land, held for revenues in the form of rent and with the purpose of capital increase.

The investment property is valued initially according to prime cost, including the price of acquisition and all direct costs related to the acquisition of the property.

The subsequent costs related to the investment property which has already been recognized are added to the book value of the investment property when it is probable that the company will receive future economic benefits exceeding the initially valued norm of performance of the existing investment property.

Subsequent valuations of the investment properties are made using the fair value model which values an investment property after an initial valuation according to acquisition price, with adjustments to the fair value, recognized in the statement of comprehensive income as profit and loss for the year.

At the end of each financial year the investment property is valued by a licensed independent appraiser.

The Company rents out its investment property, respectively retaining all considerable risks and benefits arising from the ownership of this property.

Non-current assets held for sale

The Company classifies non-currents asset as held for sale when its carrying amount will be recovered through sale rather than through continuing use. In order for this to be the case, the asset must be available for immediate sale in its present condition and the sale is likely to be implemented within 12 months. These assets are presented separately in the statement of financial position.

The Company estimates assets classified as held for sale at the lower of their carrying value immediately after their designation as held for sale and their fair value less costs to sell them.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in current accounts and deposits in banks with maturity of up to 12 months. The Management of the Company considers that deposits with maturity of up to 12 months meet the criteria for cash equivalents as they are easily convertible into cash with an immaterial loss of value. These deposits are convertible into cash without a written notice and without the Company being charged indemnities for premature termination.

Financial instruments

All financial assets and liabilities are valued initially according to fair value, which is the fair value of the paid (for assets) or received (for liabilities) compensation. The financial assets include financial assets reported at fair value as profit or loss, loans and receivables held to maturity and financial assets available for sale.

3. KEY ELEMENTS OF THE ACCOUNTING POLICY (CONTINUED)

The financial assets reported at fair value as profit or loss are subsequently valued according to fair value, where the changes in the fair value are recognized as profit or loss in the statement of comprehensive income. Financial assets available for sale are valued at fair value, where the changes in the fair value are reported in the statement of comprehensive income as other comprehensive income and are reported as revaluation reserves in the equity. The loans, receivables and financial assets held to maturity are subsequently valued according to depreciated value using the method of the effective interest rate.

The debt and capital instruments are classified respectively as financial liabilities or equity, according to the respective contracts. A capital instrument is any contract which ensures residual value in the assets of the Company after the deduction of all liabilities. Capital instruments are accounted for according to the received returns, net from the issue costs. The financial liabilities are classified either as financial liabilities reported at fair value in the profit or loss, or as other financial liabilities. Each revenue/cost related to financial liabilities reported at fair value is accounted in the profit and loss. The other financial liabilities, including loans, are initially valued according to fair value, net from the transaction costs. They are subsequently valued according to depreciated value using the method of the effective interest rate, with the costs for interest recognized on the basis of effective profitability.

As of the date of the statement of financial position a review of the available financial assets is made for indications of depreciation or revaluation. In case that there are such indications, the recoverable value of the asset is determined and depreciation loss is recognized.

Operations in foreign currencies

Transactions denominated in foreign currencies are accounted for in BGN, according to the exchange rate of the Bulgarian National Bank (BNB) on the dates of the respective transactions. The assets and liabilities denominated in foreign currencies are accounted for as of the date of drafting of the statement of financial position, according to the closing exchange rate of BNB.

The profit and loss resulting from exchange rate variations and trade in currency are accounted for in the statement of comprehensive income as profit or loss for the period of their occurrence.

As at 1 January 1999 the Bulgarian lev has been pegged to the currency of the European Union, at an exchange rate of EUR 1 for BGN 1.95583. The fluctuations of all other currencies with respect to the BGN reflect the fluctuations of the same currencies with respect to the EUR at the international markets.

The Company does not have significant transactions in currencies different from the BGN and EUR and is not exposed to currency risks.

Revenues from rent

The revenues from renting out of investment property are recognized in the statement of comprehensive income in compliance with the principle of current accumulation for the term of the contract.

Interest income

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 MARCH 2014

All amounts are in BGN thousands, unless otherwise indicated

The interest income from deposits is recognized for the current period in the statement of comprehensive income of the Company in compliance with the conditions of the deposit contract. The realized interest from securities held for trade is accounted for as interest income.

4. INVESTMENT PROPERTY

	Agricultural land	Property in regulation	Property against which there are lawsuits filed	Other	Total
Book value					
As of 1 January 2013	140,998	14,642	161	65	155,866
Acquired during the year	20,018	-	-	228	20,246
Derecognized during the year	(26,219)	-	(12)	(48)	(26,279)
Claims filed	-	-	-	-	-
Claims terminated	-	-	-	-	-
Classified as assets held for sale	(4,008)	-	-	-	(4,008)
As of 31 December 2013	<u>130,789</u>	<u>14,642</u>	<u>149</u>	<u>245</u>	<u>145,825</u>
Subsequent valuation to fair value	14,091	(54)	-	-	14,037
As of 31 December 2013	<u>144,880</u>	<u>14,588</u>	<u>149</u>	<u>245</u>	<u>159,862</u>
Book value					
As of 1 January 2014	144,880	14,588	149	245	159,862
Acquired during the period	3,100	-	-	5	3,105
Derecognized during the period	(906)	-	-	-	(916)
Claims filed	-	-	-	-	-
Claims terminated	-	-	-	-	-
Classified as assets held for sale	(8,612)	-	-	-	(8,612)
As of 31 March 2014	<u>138,452</u>	<u>14,588</u>	<u>149</u>	<u>250</u>	<u>153,439</u>
Subsequent valuation to fair value	-	-	-	-	-
As of 31 March 2014	<u>138,452</u>	<u>14,588</u>	<u>149</u>	<u>250</u>	<u>153,439</u>

According to data from the legal team the lawsuits against the Company affecting fully or partially the ownership right on 614 decares of agricultural land will be lost, therefore, as of 31 March 2014 the fair value of such property has been adjusted by BGN 156 thousand to zero.

The fair value of the land with pending claims is determined as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 MARCH 2014

All amounts are in BGN thousands, unless otherwise indicated

	Fair value
As at 31 March 2014	305
Adjustment for lawsuit-related circumstances	(156)
Adjusted as at 31 March 2014	<u>149</u>

As of 31 March 2014, the Company has signed rental contracts for economic year 2013-2014 for approximately 163,814 decares agricultural land. The realized revenues from rent, amounting to BGN 1,511 thousand, are reported in the statement of comprehensive income. For comparison, the rental contracts signed as of 31 March 2013 for the past economic year - 2012-2013, were for 190,222 decares of agricultural land, with revenues realized from them amounting to BGN 1,453 thousand.

From the start of the reporting period to the end of March 2014, the Company has realized the sale of 1,753 decares of agricultural lands at an average price of BGN 1,192 per decare.

5. NON-CURRENT ASSETS HELD FOR SALE

As of 31 March 2014 the Company has concluded preliminary contracts for sale by the end of the year of 16,417 decares of agricultural lands which it classified as non-current assets held for sale with book value BGN 12,240 thousand.

The Company has classified these properties as non-current assets for sale as follows:

	As of 31.03.2014	As of 31.12.2013
Non-current assets for sale	<u>12,240</u>	<u>4,008</u>
Total	<u>12.240</u>	<u>4,008</u>

6. RENT AND OTHER RECEIVABLES

	As of 31.03.2014	As of 31.12.2013
Advances to brokers and partners	2,076	1,197
Receivables from rent, net from depreciation	3,391	2,662
Receivables from interest on deposits in BGN	1,144	729
Receivables from indemnities	2	2

ADVANCE TERRAFUND REIT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 MARCH 2014

All amounts are in BGN thousands, unless otherwise indicated

Court and adjudicated receivables	77	54
Other	15	13
Total	<u>6,705</u>	<u>4,657</u>

The amount of the outstanding rental revenues is BGN 1,095 thousand and BGN 529 thousand as of 31.03.2014 and 31.12.2013, respectively.

As of 31 March 2014 the Company has collected as advance payment over 23% of its receivables under the signed contracts for lease for the current economic year 2013-2014.

7. ADVANCE PAYMENTS TO SUPPLIERS

On 14 September 2009 Advance Terrafund REIT signed a preliminary contract for purchase of a landed property of 38 decares in the area of the town of Veliko Tarnovo. Pursuant to this contract the Company has made an advance payment amounting to BGN 1,879 thousand.

Due to a substantial delay, the implementation of part of the mandatory provisions for signing a final agreement for purchase of the property, the Company negotiated with the sellers and reached an agreement on termination of the contract. Pursuant to an agreement signed on 25 April 2012, the contract was terminated by mutual agreement and the seller agreed to return to Advance Terrafund REIT the advance payment to the amount of BGN 1,879 thousand as well as compensation to the amount of BGN 100 thousand.

As of the end of the reporting period, there are still no payments made on this agreement, therefore the Company shall perform an impairment of the advance payment as follows:

	As of 31.03.2014	As of 31.12.2013
Balance at the start of the period	564	1,316
Calculated impairment	-	(752)
Balance at the end of the period	<u>564</u>	<u>564</u>

As of 31 March 2014 the total value of the advance payments to company suppliers amounts to BGN 564 thousand which marks no change since the end of 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 MARCH 2014

All amounts are in BGN thousands, unless otherwise indicated

8. CASH AND CASH EQUIVALENTS

	As of 31.03.2014	As of 31.12.2013
Cash on hand	33	36
Cash in BGN on demand account	3,282	1,514
Cash in BGN deposits	61,009	62,509
Total	<u>64,324</u>	<u>64,059</u>

9. CURRENT LIABILITIES

	As of 31.03.2014	As of 31.12.2013
Liabilities to suppliers and brokers	105	226
Received advances	3,860	1,467
Liabilities to the servicing company (Note 14)	603	882
Dividend liability (Note 16)	30,574	30,586
Other	8	3
Total	<u>35,150</u>	<u>33,164</u>

10. MAIN CAPITAL

	Number of shares	Par value, BGN	Main capital (in BGN thousands)
As of 1 January 2013	85,110	1	85,110
Shares issued in 2013	-	-	-
As of 31 December 2013	85,110	1	85,110
Shares issued in 2014	-	-	-
As of 31 March 2014	<u>85,110</u>	<u>1</u>	<u>85,110</u>

11. COSTS FOR HIRED SERVICES

	The period ended 31.03.2014	The period ended 31.03.2013
Costs for consultancy services (see Note 11A)	685	824
Costs for commissions	64	100
Annual fees	4	4
Advertising	7	12
Subsequent costs for management of the real estate	24	15
Other costs and charges	10	14
Total	<u>794</u>	<u>969</u>

11A. COSTS FOR CONSULTANCY SERVICES

	For the period ending on 31.03.2014	For the period ending on 31.03.2013
Remuneration for the servicing company (Notes 12 and 14)	665	807
Costs for auditing services	2	-
Costs for appraisals	15	15
Other consultancy services	3	2
Total	<u>685</u>	<u>824</u>

12. SERVICE CONTRACT

The Company has a service contract with Karoll Finance EOOD, which holds a share of the authorized capital of the Company amounting to 18.60%. According to the above contract Karoll Finance EOOD provides consultancy and administrative services and human resources services against an annual fee which is calculated as follows:

1. 0.375% of the value of the investment property of the Company according to acquisition price, payable for each quarter;
2. 10% of the receivables of the Company from rent and leasing, calculated at the end of each quarter;
3. 10% of the difference between the sales price and the acquisition price when realizing a sale, provided that an internal rate of return (IRR) amounting to a minimum of 15%, calculated on an annual basis, is reached for the transaction.

The total charge under the service contract amounts to BGN 665 thousand and BGN 807 thousand as of 31 March 2014 and 31 March 2013, respectively (Note 14).

13. REMUNERATION OF THE BOARD OF DIRECTORS AND MANAGEMENT

From the start of the reporting period to the end of March 2014 the Company paid remuneration amounting to BGN 17 thousand to the directors and management of the Company, who have not changed since 2013.

The Company does not apply a pension program for its employees or share-based payments.

14. TRANSACTIONS WITH RELATED PARTIES

For the period 01.01.2014 – 31.03.2014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 MARCH 2014

All amounts are in BGN thousands, unless otherwise indicated

	Liability at the start of the period	Charged during the period	Paid during the period	Liability at the end of the period
Consultancy services				
Karoll Finance EOOD				
(service company under ASIPC)	882	665	944	603
For the period 01.01.2013 – 31.03.2013				
	Receivable at the start of the period	Charged during the period	Received during the period	Receivable at the end of the period
Leases				
Agro Terra North AD (company under common control)	436	78	-	514
Remuss OOD (company under common control)	202	9	-	211
For the period 01.01.2013 – 31.03.2013				
	Liability at the start of the period	Charged during the period	Paid during the period	Liability at the end of the period
Consultancy services by the service company under ASIPC				
Karoll Finance EOOD (service company under ASIPC)	1,008	807	1,077	738
	Receivable at the start of the period	Charged during the period	Received during the period	Receivable at the end of the period
Leases				
Agro Terra North AD (company under common control)	383	89	-	472
Remuss OOD (company under common control)	215	48	-	263

15. INCOME PER SHARE

	The period ended 31.03.2014	The period ended 31.03.2013
Net profit (BGN thousands)	2,136	2,428
Daily average weighted number of share	85,110,091	85,110,091
Income per share (BGN)	0.03	0.03

The average weighted number of shares is calculated as a sum of the number of ordinary shares in circulation at the start of the period and the number of ordinary shares in circulation issued during the period, with each number of shares multiplied in advance by an average time factor.

16. DIVIDEND PER SHARE

As per ASIPC, Article 10, the Company is obliged to allocate as dividend no less than 90% of the financial result, converted following the procedure outlined in Article 10, Paragraph 3 of the same Act.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 MARCH 2014

All amounts are in BGN thousands, unless otherwise indicated

As of 31 December 2013, the Company has charged dividends amounting to BGN 30,480 thousand (BGN 0.358 per share), which are expected to be paid to the shareholders in 2014, following a decision made by the General Meeting.

The amount of the dividend for 2013 was determined as follows:

	Year ending on 31.12.2013
Book profit, as per the statement of comprehensive income	34,740
<i>Correction for:</i>	
Revenues from subsequent valuation of property, net (article 10, paragraph 3, item 1 of ASIPC)	(14,037)
Profit from transactions with transfers of title on property (article 10, paragraph 3, item 2 of ASIPC)	(22,010)
Difference between sales price and historic value of property (article 10, paragraph 3, item 3 of ASIPC)	35,174
<i>Adjusted financial result</i>	33,867
Dividend to be allocated - 90% of the corrected financial result	90%
Obligation for dividend payment	<u>30,480</u>

As of 31 March 2014 the Company has reported obligations related to unpaid dividends for 2012, 2011 and 2010 to the total of BGN 94 thousand.

17. FINANCIAL RISK MANAGEMENT

The activity of the Company is exposed to various financial risks: credit risk, interest risk, liquidity risk and market risk (including currency and price risk).

Credit risk

The Company applies credit policies in order to attract clients with credit reputation appropriate for management of investment property, credit history and financial means. The Company is not exposed to a considerable credit risk. The receivables are insured and are monitored regularly with the purpose of undertaking timely measures.

Liquidity risk

The Company monitors its cash flows, the maturity of its debts and its liquidity in order to assess its exposure to liquidity risks. The Company maintains sufficient cash available in order to fund its activity and mitigate the fluctuations of the cash flows. The Company ensures the necessary resources for its activity through public offering of securities and through a number of credit opportunities provided by financial institutions, securing the loans with its own investment property.

As of 31 March 2014

ADVANCE TERRAFUND REIT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 MARCH 2014

All amounts are in BGN thousands, unless otherwise indicated

FINANCIAL ASSETS	Under 1 month	1-3 months	3 months-1 year	Total
Cash and cash equivalents	7,315	29,000	28,009	64,324
Receivables from rent, net from depreciation	1,095	-	2,296	3,391
Advances to suppliers	-	-	564	564
Receivables from interest on deposits	131	639	374	1,144
Receivables from indemnities	-	-	2	2
Court and adjudicated receivables	-	-	77	77
Other receivables	-	-	15	15
	<u>8,541</u>	<u>29,639</u>	<u>31,337</u>	<u>69,517</u>
Total financial assets	<u><u>8,541</u></u>	<u><u>29,639</u></u>	<u><u>31,337</u></u>	<u><u>69,517</u></u>

FINANCIAL LIABILITIES	Under 1 month	1-3 months	3 months-1 year	Total
Received advances	1,171	871	1,818	3,860
Liabilities to suppliers and brokers	105	-	-	105
Liabilities to related companies	603	-	-	603
Dividend liability	94	-	30,480	30,574
Other liabilities	8	-	-	8
	<u>1,981</u>	<u>871</u>	<u>32,298</u>	<u>35,150</u>
Total financial liabilities	<u><u>1,981</u></u>	<u><u>871</u></u>	<u><u>32,298</u></u>	<u><u>35,150</u></u>

As of 31 December 2013

FINANCIAL ASSETS	Under 1 month	1-3 moths	3 months-1 year	Total
Cash and cash equivalents	1,550	7,000	55,509	64,059
Receivables from rent, net from depreciation	1,472	-	1,190	2,662
Advances to suppliers	-	-	564	564
Receivables from interest on deposits	-	179	550	729
Receivables from indemnities	-	-	2	2

ADVANCE TERRAFUND REIT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 MARCH 2014

All amounts are in BGN thousands, unless otherwise indicated

Court and adjudicated receivables	-	-	54	54
Other receivables	-	-	13	13
Total financial assets	<u>3,022</u>	<u>7,179</u>	<u>57,882</u>	<u>68,083</u>

FINANCIAL LIABILITIES	Under 1 month	1-3 months	3 months-1 year	Total
Received advances	59	57	1,351	1,467
Liabilities to suppliers and brokers	167	59	-	226
Liabilities to related companies	882	-	-	882
Dividend liability	106	-	30,480	30,586
Other liabilities	3	-	-	3
Total financial liabilities	<u>1,217</u>	<u>116</u>	<u>31,831</u>	<u>33,164</u>

Interest risk

The value of the assets of the Company depends on the dynamics of the market interest rates. The Company is exposed to risks from fluctuations of the interest rates because the profitability of the interest-bearing assets changes as a result of the changes in the market interest rates. Regarding floating interest rates the Company is exposed to risks depending on the interest rate index to which the respective financial instrument is pegged.

As of 31 March 2014	Under 1 month	1-3 months	3 months -1 year	1-5 years	Non-interest bearing	Total
Assets						
Other receivables and advances	-	-	-	-	4,049	4,049
Deposit interests	131	639	374	-	-	1,144
Cash on hand	-	-	-	-	33	33
Cash in banks	7,282	29,000	28,009	-	-	64,291
Total assets	<u>7,413</u>	<u>29,639</u>	<u>28,383</u>	<u>-</u>	<u>4,082</u>	<u>69,517</u>
Liabilities						
Liabilities to suppliers and brokers	-	-	-	-	105	105
Liabilities to related parties	-	-	-	-	603	603
Received advances	-	-	-	-	3,860	3,860
Dividend liability	-	-	-	-	30,574	30,574
Other	-	-	-	-	8	8
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,150</u>	<u>35,150</u>

ADVANCE TERRAFUND REIT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 MARCH 2014

All amounts are in BGN thousands, unless otherwise indicated

As of 31 December 2013	Under 1 month	1-3 months	3 months -1 year	1-5 years	Non-interest bearing	Total
Assets						
Other receivables and advances	-	-	-	-	3,295	3,295
Deposit interests	-	179	550	-	-	729
Cash on hand	-	-	-	-	36	36
Cash in banks	1,514	7,000	55,509	-	-	64,023
Total assets	1,514	7,179	56,059	-	3,331	68,083
Liabilities						
Liabilities to suppliers and brokers	-	-	-	-	226	226
Liabilities to related parties	-	-	-	-	882	882
Received advances	-	-	-	-	1,467	1,467
Dividend liability	-	-	-	-	30,586	30,586
Other	-	-	-	-	3	3
Total liabilities	-	-	-	-	33,164	33,164

Currency risk

The Company is exposed to currency risks when carrying out transactions with financial instruments denominated in foreign currencies. The transactions denominated in foreign currencies generate profit and loss from exchange rate variations. As of 31 March 2014 the financial assets and investments are denominated in BGN and EUR and under the conditions of an established currency board in the country the exchange rate of the BGN to the EUR is fixed and does not create currency risks. As of this date the Company has no exposure to currencies different from BGN and EUR.

Market risk

The market risk is a systematic risk which influences the value of all assets. It arises from the characteristics of the macroeconomic environment and the status of the capital market in the country. The market risk is beyond the control of the Company and as a whole cannot be diversified. The main method for reduction of the market risk and its components is collection and processing of information about the macroeconomic environment and on this basis – making projections and adjustments of the investment policy to the expected changes in the environment.

The Company invests a minimum of 80% of its portfolio in land designated for agricultural needs and up to 20% in land in urbanized territories. The agricultural land is exposed to low risk from changes in prices and rents. The potential reduction of the prices of agricultural land is favorable for the investment policy of the Company, and the fixed increases of the rental price by 20% as compared to the previous year increase the profitability of the investments. The increased risk in the sector affects

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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All amounts are in BGN thousands, unless otherwise indicated

mainly real estate designated for building construction and is a result of the global financial crisis. The current situation cannot pose a serious negative effect on the financial state and the results from the activities of the Company; nevertheless the Company has undertaken measures for reduction of the share of land in urbanized areas with the purpose of restriction of the price risk. Advance Terrafund REIT continues to follow its policy for investments in high quality property meeting the needs for development of modern agriculture and renting or leasing out to first-class tenant/lessees/ at conditions favorable for the Company.

Structure of the investment portfolio:

	31 March 2014		31 December 2013	
	Fair price	% of the net assets, valued at market price	Fair price	% of the net assets, valued at market price
Agricultural land	138,851	90.50	145,274	90.87
Property in urbanized territories	11,696	7.62	11,696	7.32
Property in regulation	2,892	1.88	2,892	1.81
Total	<u>153,439</u>	<u>100.00</u>	<u>159,862</u>	<u>100.00</u>

Capital risk

The Company manages its capital aiming to maximize returns for shareholders through optimization of the capital structure. The strategy of the Company remains without change since the end of 2013. The capital structure comprises of cash and cash equivalents and equity (see respectively notes 8 and 10).

18. EVENTS AFTER THE END OF THE REPORTING PERIOD

Pursuant to Article 223, Paragraph 1 of the Commerce Act, the Board of Director shall convene a regular General Meeting of the shareholders of Advance Terrafund REIT, to be held on 14 May 2014 at 12.00 p.m. at the seat of the Company in Sofia, address: 1 Zlatovruh Str.

In case of lack of quorum on the date announced for the convening of the General Meeting of the shareholders, pursuant to Article 227, paragraph 3 of the Commerce Act, the General Meeting shall be held on 29 May 2014 at 12:00 p.m. at the same place and under the same agenda.

ADVANCE TERRAFUND REIT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 MARCH 2014

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