

THE BLACK SEA PROPERTY FUND LIMITED

Audit Report and Consolidated Financial Statements

for the year ended 31 December 2010

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

TABLE OF CONTENTS

	<u>Pages</u>
Chairman's Statement	2 to 3
Directors' Report	4 to 7
Statement of Directors' Responsibilities	8
Independent Auditors' Report	9-10
Consolidated Statement of Comprehensive Income	11
Consolidated Statement of Financial Position	12
Consolidated Statement of Changes in Equity	13
Consolidated Statement of Cashflows	14
Notes to the Consolidated Financial Statements	15 to 37
Corporate Information	38

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Chairman's Statement

Dear Shareholders:

Our net asset value per share at year end was 8.7 pence per share as compared with 12.5 pence per share at year end 2009. The primary reason for this diminution in value was the Company's distribution of nearly £6 million of excess capital to shareholders in June, 2010. The appraised value of our portfolio remained stable year over year.

The year-end carrying value of our assets as compared with our total investment at cost and our previous year end valuation are as follows:

	Valuation		Valuation		Total investment & capitalised costs	
	2010	2010	2009	2009		
	€	£	€	£	€	£
Borovets Lakes	3,151,089	2,712,247	4,599,201	4,082,010	10,918,102	7,637,329
Byala	4,108,559	3,536,374	5,145,974	4,567,297	9,843,360	7,279,612
Evergreen	2,079,396	1,789,806	2,258,226	2,004,550	4,114,943	2,811,256
Nikea Park	3,050,003	2,625,239	357,197	317,029	4,489,607	3,534,532
Obzor	2,326,658	2,002,632	3,264,668	2,900,638	5,079,726	4,060,041
Pamporova	-	-	-	-	6,936,096	5,456,739
	<u>14,715,705</u>	<u>12,666,298</u>	<u>15,625,266</u>	<u>13,871,524</u>	<u>41,381,834</u>	<u>30,779,509</u>

As I have pointed out previously, these valuations figures are typically based on discounted asking prices rather than comparables because of the thinness of the market. This is a less robust methodology than comparable sales but our external valuers consider it an acceptable method in the circumstances. In connection with the Byala asset, shareholders should note that the impact of the Natura 2000 proposed legislation is not yet known and may have an adverse affect on future valuations. Shareholders should also note that the year over year change in the valuation of Obzor is primarily a reflection of unit sales.

Our major positive development over the past year was the settlement of the litigation with our partner, the Nikea Park developer. Nikea Park is a holiday development outside of Varna, on the Black Sea. That investment was structured as a loan. The developer defaulted and we endeavoured to repossess the collateral, units in the development. This took several years of wrangling in the Bulgarian courts. We have now entered into a settlement agreement with the developer. Consequently, Black Sea owns outright eighty-four units in that development. Our objective is to sell these units individually or as a block, and we have enlisted several local brokers with contacts in Russia.

Sales of Obzor units remain slow. The arrangement with the Obzor developer was restructured in 2009 and is based on a profit share between the developer and Black Sea. The developer maintains a sales office in Moscow with dedicated agents. Over the past year eighteen units have been sold and Black Sea has received Euro 1,031,296. Forty-one units remain in inventory available for sale.

There have been no further developments in connection with the Company's other assets – Evergreen, Byala, Borovets, and Pomporova. Evergreen is a plot of prime serviced and zoned land in Sofia. The original plan was to develop it, but it is now the Company's intent to sell Evergreen at an appropriate price. Byala and Borovets are plots of unserviced land, respectively, on the Black Sea and in the mountains outside of Sofia. The original plan for each was to piggy back on more established developers who held adjoining plots. With the financial meltdown in 2008, the developers on the adjoining plots have pulled back and there has been no development for several years. Our current strategy for these assets is to sell them at appropriate prices. Our final asset is Pomporova, where our investment was in the form of debt. The developer has defaulted and we have brought legal action to recover the collateral. Due to the vicissitudes of the Bulgaria legal system we have so far been unable to recover the collateral securing our debt. We continue legal action against our former partner.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Chairman's Statement (continued)

Bulgaria remains mired in recession. The change in real GDP has been negative for the last two years. The Company's primary focus is holiday homes. That sector is in a severe depression. There is substantial inventory and few buyers. Colliers estimates that there are over 79,000 unsold homes on the Black Sea and over 34,000 in the mountain regions. The demand side has changed as well. When Black Sea was floated the target purchasers were British and Irish speculators and end users buying "off plan." Those purchasers are no longer in the market and are attempting to unload their Bulgarian assets. The current target purchasers are Russian and Romanian end users. Nonetheless, as Colliers has recently noted: "[t]he demand side [of the Bulgarian holiday market] continued the trend of slowing down from the last six months of 2008, and 2009 and 2010 were marked by almost no sales transactions despite the significant price decrease."

Based on the available data, Bulgarian property prices have fallen substantially over the last two years. Nonetheless assets are still not clearing as demonstrated by the continuing build up in inventory.

Although we have no control over the macro factors affecting Bulgarian property prices, we do have some control over our cost structure. In order to conserve capital we have reduced the size of our board and post year end have reduced our advisory staff in Sofia to three persons. We will continue to explore additional ways of conserving capital and will endeavour to sell assets and return capital when the market turns.

Respectfully yours,

John D. Chapman
Chairman
The Black Sea Property Fund Limited

22 June 2011

THE BLACK SEA PROPERTY FUND LIMITED

Annual report and consolidated financial statements for the year ended 31 December 2010

Directors' Report

The Directors submit their Report and audited Consolidated Financial Statements for the year ended 31 December 2010.

The Black Sea Property Fund Limited (the "Company") was incorporated on 27 January 2005 in Jersey and was launched as an unclassified Fund on 14 March 2005 within the provisions of the Collective Investment Funds (Jersey) Law 1988, raising net proceeds of £50 million. On 4 March 2009, the shareholders resolved to apply for listed fund status and on 5 March 2009, listed fund status was granted to the Group. The Group is now self-managed and its wholly-owned subsidiary, BSPF Bulgaria EAD provides advisory services to the Company's board of directors in relation to its property portfolio. The Black Sea Property Fund Limited (the "Group") encompasses the Company and entities controlled by the Company.

Listing

The Company is quoted on AIM.

Investment objective and policy

The Group may invest in, acquire or develop residential or commercial real estate located in any part of Bulgaria including, but not limited to, real estate located along the Black Sea coastline. In addition, the Group may also invest in collective investment funds whose primary investment objective is property investment in the Balkan region.

The Group may also invest up to 75% of its assets (at the time of investment) in land, and in property backed and joint venture projects (which could include ski resort and golf course projects) with local and other partners (including banks).

The Group's investment policy does not prohibit it from taking management control of any underlying investments held by the Group.

Any cash held by the Group may only be held on deposit or invested in money-market funds or other near-cash investments.

The investment policy of the Group may only be varied in whole or in part by way of ordinary resolution of the holders of Shares but such sanction shall not be required if such variation is to correct a manifest error or is necessary to comply with fiscal or other statutory or official requirements, actual or proposed, or if the Directors shall certify that such variation does not materially prejudice the interests of the holders of ordinary shares and does not operate to a material extent to release the Directors from any responsibility to any such holders.

Distributions may be made by way of dividend or a redemption or repurchase of ordinary shares, at the Directors' discretion.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Directors' Report (continued)

Results and dividends

It is not intended in normal circumstances that the Company will pay income dividends on the shares.

If the ordinary shares are trading at a discount to net asset value, the Company may purchase ordinary shares for cancellation.

Proceeds realised from the property portfolio are available for reinvestment into further investment property (net of any performance fees due). The proceeds of sale of the property portfolio may be returned to shareholders as determined by the Board (see Life of the Group below).

If the Group generates rental yield through letting, such rental income (net of expenses) may be distributed by way of an annual dividend (or more frequently at the Directors' discretion if the amount available is significant).

The consolidated statement of comprehensive income is set out on page 11 of this Annual Report and Consolidated Financial Statements. The Directors announced a special dividend of £5,999,128 or 2.815 pence per ordinary share to shareholders which was paid on 23 June 2010.

The financial statements for the year ended 31 December 2009 have been restated and this is fully explained in Note 1(q) to these financial statements.

Life of the Group

On incorporation in 2005, the Group planned to have a life of 5 years plus up to 2 further years for the planned realisation of its property portfolio. On or before 30 June 2012, the Directors will convene an extraordinary general meeting of the Company to consider a special resolution to wind-up the Group. Under Jersey law a special resolution requires the approval of a majority of two-thirds of the votes cast to be passed. The Group's life may also be extended by special resolution of Shareholders.

Board of Directors

The Directors of the Company, all of whom (other than John Chapman) are non-executive, are:

John Chapman (Executive Chairman)
Antony Gardner-Hillman
Irena Komitova (resigned 1 March 2011)
Angelo Moskov
Bogdan Stanchev (resigned 1 March 2011)
Andrew Wignall

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Directors' Report (continued)

Change of Administrator and Registered Office

On 30 September 2010, the administration agreement with IPES (Jersey) Limited was terminated and Saltgate Limited were appointed as Administrator with effect from 1 October 2010 when the registered office became 22-24 Seale Street, St Helier, Jersey JE2 3QG.

Shareholders' Interests

The following table shows the spread of the Company's shareholder base as at 22 June 2011.

<i>Extent of holdings (number of shares)</i>	<i>No. of shareholders</i>
1-9,999	47
10,000-99,999	42
100,000-499,999	17
500,000+	27
	133

At 31 December 2010 the Company was aware of the following interests of 3% or more in the ordinary share capital of the Company:

	<i>Number</i>	<i>Percentage interest</i>
Vidacos Nominees Limited	63,126,806	29.62%
The Bank of New York (Nominees) Limited	35,389,181	16.61%
Securities Services Nominees Limited	22,036,000	10.34%
BNY (OCS) Nominees Limited	21,628,705	10.15%
Euroclear Nominees Limited	20,585,000	9.66%
Lynchwood Nominees Limited	7,229,900	3.39%
Nortrust Nominees Limited	7,135,400	3.35%

The Company has been informed of the following interests of 3% or more in the ordinary share capital of the Company from beneficial owners:

<i>Beneficial owner</i>	<i>Number</i>	<i>Percentage interest</i>
QVT Financial LP	63,126,806	29.62%
Weiss Asset Management	35,389,181	16.61%
Knox D'arcy	22,036,000	10.34%
SVM Asset Management Limited	21,871,825	10.26%
GLG Partners	20,585,000	9.66%
Baille Gifford	10,000,000	4.69%

The directors are not otherwise aware of interests of 3% or more in the Company's issued share capital.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Directors' Report (continued)

Resignation and Appointment of Group Auditors

The Board of Directors accepted the resignation of Ernst & Young LLP as auditors of the Group on 9 March 2011 and approved BDO LLP as auditors of the Group on the same date.

Auditors

All of the current directors have taken all steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

Directors' interests

At year end, Mr Angelo Moskov was a partner of QVT Financial LP, which owned or had a beneficial interest in 63,126,806 ordinary shares in the Group. No other director has an interest in the share capital of the Group.

Directors' remuneration

Directors' remuneration is comprised solely of salary payments received by the directors. No directors received any benefits under long term or short term incentive schemes.

The maximum amount of each director's ordinary remuneration permitted under Article 30.03 of the Company's Articles of Association is £100,000 per annum, plus expenses. The Directors received in aggregate £119,000 (2009: £99,733) for the year ended 31 December 2010. In addition John Chapman received special remuneration under Article 30.04 of £58,625 (2009: £60,640) by way of fees pursuant to his contract for Services with the Group.

	2010	2009
	£	£
John Chapman	58,625	60,640
Antony Garner-Hillman	25,000	25,000
Irena Komitova	20,000	20,000
Andrey Kruglylkin	-	4,233
Angelo Moskov	36,000	12,500
Bogdan Stanchev	20,000	20,000
Andrew Wignall	18,000	18,000
	177,625	160,373

By Order Of The Board
Saltgate Limited
Secretary

22 June 2011

THE BLACK SEA PROPERTY FUND LIMITED

Annual report and consolidated financial statements for the year ended 31 December 2010

Statement of Directors' Responsibilities

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

Jersey Company law requires the directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The financial statements of the Company are required by law to give a true and fair view of the state of affairs of the Company at the year end and of the state of the affairs of the Company and of the results of the Company for the year then ended. In preparing these financial statements, the directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- specify which generally accepted accounting principles have been adopted in their preparation; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping accounting records which are sufficient to show and explain the Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent Auditors' Report to the Members of The Black Sea Property Fund Limited

We have audited the consolidated financial statements of The Black Sea Property Fund Limited for the year ended 31 December 2010 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cashflows and the related notes. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards as adopted by the EU and the Companies (Jersey) Law 1991.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Basis for qualified opinion

In the prior year the directors applied a 30% discount (representing £1,957,413) on the valuation derived by the external valuer on the property at Byala. The prior year audit report was qualified as the directors were unable to provide sufficient appropriate audit evidence as regards the carrying amount of this investment property.

Any adjustment to the amounts included in the balance sheet in respect of this property as at 31 December 2009 would have a consequential effect on the loss for the year ended 31 December 2010.

Qualified opinion on Financial Statements

In our opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph above, the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Independent Auditors' Report to the Members of The Black Sea Property Fund Limited (continued)

Matters on which we are required to report by exception

Except as explained above, we have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept, or proper 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
- we have not received all the information and explanations we require for our audit.

Emphasis of matter

Without further qualifying our opinion, we draw attention to note 2 to the financial statements, which describes the uncertainties in relation to the group's investment properties which are included in the European Union's NATURA 2000 network of sites, assigned for protection of certain species and habitats. The impact of the legislation is not yet known and may have an adverse effect on future valuations if the group's investment properties are ultimately affected.

Geraint Jones
For and on behalf of BDO LLP
Chartered Accountants
55 Baker Street
London, W1U 7EU, UK

Date: 22 June 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Consolidated Statement of Comprehensive Income

		2010	Restated 2009
	<i>Notes</i>	£	£
Total revenue		-	-
Net loss on investments held at fair value through profit or loss	8	-	(758,937)
Gain on disposal of investment property		44,586	-
Revaluation of investment property	7 (a)	(1,485,099)	(5,349,595)
Net loss on investment property		<u>(1,440,513)</u>	<u>(5,349,595)</u>
Total loss		<u>(1,440,513)</u>	<u>(6,108,532)</u>
Operating expenses			
Net recovery of loans	7 (b)	1,742,460	1,024,552
Management fee	3	-	(136,212)
Other operating expenses	4	(1,050,397)	(1,092,976)
Foreign exchange losses		(285,543)	(2,297,740)
Total operating expenses		<u>406,520</u>	<u>(2,502,376)</u>
Operating loss before interest and tax		(1,033,993)	(8,610,908)
Interest receivable	5	354,141	208,148
Bank charges and interest payable		(4,013)	(16,009)
Loss before tax		<u>(683,865)</u>	<u>(8,418,769)</u>
Tax expense	6	(220,198)	(204,280)
Loss for the year after tax		<u>(904,063)</u>	<u>(8,623,049)</u>
Other comprehensive income			
Losses on movement of fair value of available for sale assets	7(c)	(205,024)	(269,723)
Losses on translation of foreign operations		(975,823)	(416,723)
Total comprehensive loss for the year		<u>(2,084,910)</u>	<u>(9,309,495)</u>
Earnings per share			
Basic (loss) per share (pence)	13	(0.42)	(4.05)
Diluted (loss) per share (pence)	13	(0.42)	(4.05)

All losses for the year and total comprehensive income are attributable to the owners of the parent.

The notes on pages 15 to 37 are an integral part of these consolidated financial statements.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Consolidated Statement of Financial Position
As at 31 December 2010

		31 December 2010	Restated 31 December 2009
	<i>Notes</i>	£	£
Non-current assets			
Plant and equipment	7 (a)	107,842	118,522
Investment properties	7 (a)	10,663,666	10,970,886
Available for sale assets	7 (c)	2,002,632	2,900,638
		<u>12,774,140</u>	<u>13,990,046</u>
Current assets			
Other receivables	10	326,997	1,965,767
Cash and cash equivalents		5,918,831	11,127,836
		<u>6,245,828</u>	<u>13,093,603</u>
Total assets		<u><u>19,019,968</u></u>	<u><u>27,083,649</u></u>
Equity and liabilities			
Issued share capital	12	46,478,064	46,478,064
Retained deficit		(26,357,186)	(19,453,995)
Foreign exchange reserve		(1,044,852)	(69,029)
Available for sale reserve		(474,747)	(269,723)
Total equity		<u>18,601,279</u>	<u>26,685,317</u>
Liabilities			
Other payables	11	199,816	192,908
Tax payable		218,873	205,424
		<u>418,689</u>	<u>398,332</u>
Total equity and liabilities		<u><u>19,019,968</u></u>	<u><u>27,083,649</u></u>
Number of ordinary shares in issue	12	213,112,896	213,112,896
Net asset value per ordinary share (pence)	13	8.7	12.5

The financial statements on pages 11 to 37 were approved and authorised for issue by the Board of Directors on 22 June 2011 and were signed on its behalf by:

Director Andrew Wignall

Director Antony Gardner-Hillman

The notes on pages 15 to 37 are an integral part of these consolidated financial statements.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Consolidated Statement of Changes in Equity

	Share capital £	Retained deficit £	Foreign exchange reserve £	Available for sale reserve £	Total £
As at 31 December 2009	46,478,064	(19,453,995)	(69,029)	(269,723)	26,685,317
Special dividend	-	(5,999,128)	-	-	(5,999,128)
Loss for the year	-	(904,063)	-	-	(904,063)
Other comprehensive income	-	-	(975,823)	(205,024)	(1,180,847)
As at 31 December 2010	<u>46,478,064</u>	<u>(26,357,186)</u>	<u>(1,044,852)</u>	<u>(474,747)</u>	<u>18,601,279</u>
As at 1 January 2009 as previously reported	46,478,064	(10,830,946)	347,694	-	35,994,812
Loss for the year	-	(10,548,897)	-	-	(10,548,897)
Other comprehensive income	-	-	(122,324)	-	(122,324)
At 31 December 2009 as previously reported	46,478,064	(21,379,843)	225,370	-	25,323,591
Prior year adjustments					
Reversal of impairment on recognition of available for sale asset	-	1,472,817	-	-	1,472,817
Movement in fair value of available for sale asset and notional interest	-	158,632	-	(269,723)	(111,091)
Reallocation of foreign exchange movements	-	294,399	(294,399)	-	-
As restated at 31 December 2009	<u>46,478,064</u>	<u>(19,453,995)</u>	<u>(69,029)</u>	<u>(269,723)</u>	<u>26,685,317</u>

The notes on pages 15 to 37 are an integral part of these consolidated financial statements.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Consolidated Statement of Cashflows

		31 December 2010 £	Restated 31 December 2009 £
Operating activities			
Operating loss before tax for the year		(904,063)	(8,623,049)
Depreciation	7 (a)	11,414	10,047
Loss on investments held at fair value through profit or loss	8	-	758,937
Gain on disposal of investment property		(44,586)	-
Revaluation of investment property	7 (a)	1,485,099	5,349,595
Foreign exchange losses		285,543	2,297,740
Net recovery of loans	7 (b)	(1,742,460)	(1,024,552)
Interest received		(354,141)	(208,148)
Finance expense		4,013	16,009
Tax expense		220,198	204,280
Movement in net cash outflow from operating activities		(1,038,983)	(1,219,141)
Decrease/(increase) in other receivables		1,638,770	(1,667,684)
Increase/(decrease) in other payables		6,908	(98,023)
Cash lost from operations		606,695	(2,984,848)
Withholding tax paid		(206,749)	(236,248)
Net cash outflow from operations		399,946	(3,221,096)
Investing activities			
Additions to investment properties	7 (a)	(221,681)	(114,024)
Acquisition of plant and equipment	7 (a)	(734)	(11,387)
Proceeds on disposal of investment property		145,030	-
Recovery of loans and receivables	7 (b)	311,222	2,818,204
Loans to developers	7 (b)	-	(297,467)
Cash received on available for sale assets	7 (c)	983,046	160,902
Sales of money market funds	8	-	10,995,134
Net cash inflow from investing activities		1,216,883	13,551,362
Financing activities			
Interest received	5	64,077	49,516
Interest paid		(4,013)	(16,009)
Special dividend	18	(5,999,128)	-
Net cash outflow from financing activities		(5,939,064)	33,507
Net (decrease)/increase in cash and cash equivalents		(4,322,235)	10,363,773
Cash and cash equivalents at beginning of year		11,127,836	1,196,045
Effect of foreign exchange rates		(886,770)	(431,982)
Cash and cash equivalents at end of year		5,918,831	11,127,836

The notes on pages 15 to 37 are an integral part of these consolidated financial statements

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements

1. Accounting policies

(a) Basis of preparation

The consolidated financial statements of the Company for the period ended 31 December 2010 comprise the financial statements of the Company and its subsidiaries (together, the "Group") and have been prepared in accordance with International Financial Reporting Standards ("IFRS"); adopted for use in the European Union in accordance with Article 3 of the IAS Regulation (EC) No. 1606/2002; issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Committee of the IASB (IFRIC).

The Black Sea Property Fund Limited is incorporated in Jersey with company number 89392 and registered office located at 22-24 Seale Street, St Helier, Jersey, Channel Islands, JE2 3QG.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. All companies within the Group have a 31 December year end and apply consistent accounting policies. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences up to the date that control ceases. All intra group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full. Assets and liabilities of subsidiaries denominated in foreign currencies are translated at the closing rate at the balance sheet date. Income statement amounts are translated at average rate. Differences are taken directly to foreign currency translation differences in equity.

(c) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for at least 12 months from the date of approval of these financial statements. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(d) Revenue

Revenue is recognised on rental income on investment properties and is reported net of VAT.

(e) Investment and interest income

Income on investments is recognised on an accruals basis.

Interest receivable on loans and receivables is recognised in 'loan interest' using the effective interest rate method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(e) Investment and interest income (continued)

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by a member of the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

(f) Expenses

Expenses are charged through the consolidated statement of comprehensive income, except for expenses which are attributable to the disposal of an investment, which are deducted from the disposal proceeds of the investment. In addition, development costs, legal fees and taxes associated with the acquisition of an investment are capitalised and reviewed for impairment on an annual basis.

Expenses associated with special dividends are recognised as legal and professional fees within other operating expenses in the consolidated statement of comprehensive income.

(g) Investments

Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of assets, other than land or properties under construction, over their estimated useful lives, using the straight line method, on the following bases:

Electricity transformer	4%
Mobile phones and computer equipment	50%
Office equipment	15%

The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

Investments at fair value through profit or loss

A financial instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the relevant member of the Group manages such investments and makes purchase and sale decisions based on their fair value. Fair value is the amount at which an investment could be exchanged between knowledgeable willing parties in an arms length transaction.

Purchases of investments are recognised on the settlement date, being the date that amounts are due for payment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the relevant member of the Group has transferred substantially all risks and rewards of ownership.

Investments are initially recognised at fair value being the transaction price. Transaction costs for all financial assets carried at fair value through profit or loss are expensed as incurred.

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(g) Investments (continued)

Investments at fair value through profit or loss (continued)

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in fair value are presented in the consolidated statement of comprehensive income in the year in which they arise. On disposal, realised gains and losses are also recognised in the consolidated statement of comprehensive income.

Investment property

Property that is held for capital appreciation, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises freehold land and freehold buildings. Land held for capital appreciation, or for development as an investment property, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Changes in fair value are recorded in the consolidated statement of comprehensive income.

Fair value is based on market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods.

Financial assets – Available for sale

Non-derivative financial assets not included in loans and receivables are classified as available-for-sale and comprise principally the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value, other than those arising due to exchange rate fluctuations and interest calculated using the effective interest rate, recognised in other comprehensive income and accumulated in the available-for-sale reserve.

Exchange differences on available for sale assets denominated in a foreign currency and interest calculated using the effective interest rate method are recognised in profit or loss.

Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognised in other comprehensive income, is recognised in profit or loss.

Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available-for-sale reserve.

On sale, the cumulative gain or loss recognised in other comprehensive income is reclassified from the available-for-sale reserve to profit or loss.

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(g) Investments (continued)

Loans and receivables at amortised cost

Loans and receivables include loans and advances originated by a member of the Group which are not intended to be sold in the short term and are recognised on an amortised cost basis. Loans and receivables are recognised when cash is advanced to borrowers and are derecognised when the borrowers repay their obligations, the loans are sold or written off or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

A provision for impairment is established when there is objective evidence that the relevant member of the Group will not be able to collect all amounts due from the relevant borrower. Where they are denominated in a foreign currency they are translated at the exchange rate at the date of each statement of financial position. The Group determines whether loans are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the loans by reference to the companies the loans are with. Estimating the recoverable amount is by reference to the higher of the fair value less costs to sell and 'value in use'. A value in use calculation requires the Group to make an estimate of the expected future cash flows from the company the loan is with and also to choose a suitable discount rate in order to calculate the present values of those cashflows.

(h) Movements in fair value

Changes in the fair value of all investments held at fair value through profit or loss and investment properties are taken to the consolidated statement of comprehensive income. On disposal, realised gains and losses are also recognised in the consolidated statement of comprehensive income.

(i) Other receivables

Other receivables are recognised at amortised cost and include prepayments. All amounts are recoverable within one year.

(j) Cash and cash equivalents

Cash and cash equivalents comprise current deposits with banks.

(k) Trade and other payables

Trade and other payables are recognised at amortised cost and relate to amounts accrued in the normal course of business which are payable within one year.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(l) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax would be payable on taxable profits for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Current taxes include irrecoverable withholding tax on the interest receivable on loans from the Company to its Bulgarian subsidiaries.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be sufficient profits from which the future reversal of the temporary differences can be deducted.

(m) Foreign currency

The results and financial position of the Group are expressed in GBP, which is the functional currency as share creations, cancellations or buybacks of the Company are denominated in pounds sterling. The functional currencies of the subsidiaries are the Euro and the Bulgarian Lev.

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. Assets and liabilities are translated at the date of each statement of financial position. Income and expenses are translated at year average exchange rates. All resulting exchange differences are recognised in other comprehensive income.

(n) Share capital

Ordinary share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are deducted from the proceeds of issue and shown as a deduction to reserves.

Founder shares

Founder shares are classified as equity.

(o) Operating leases

Rental payments under operating leases are expensed in the statement of comprehensive income on an accruals basis.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(p) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the prior year.

New standards, amendments and interpretations to published standards effective for the first time in accounting period under review:

Improvements to IFRS (2009)
Revised IFRS 1 – First-time adoption of International Financial Reporting Standards
Amendments to IFRS 2 – Group Cash Settled Share-Based Payment Transactions
Revised IFRS 3 – Business Combinations
Amendments to IAS 27 – Consolidated and Separate Financial Statements
Amendment to IAS 39 – Financial Instruments: Recognition and Measurement
IFRIC 15 Agreements for the Construction of Real Estate
IFRIC 17 – Distributions of Non-cash Assets to Owners
IFRIC 18 – Transfer of Assets from Customers

The introduction of the above new standards, amendments and interpretations has resulted in no change to the Company's accounting policies.

Standards, amendments and interpretations to published standards that are endorsed but not yet effective and have not been early adopted by the Group are:

Improvements to IFRS (2010)
Amendments to IFRS 1 – Exemptions for First-time Adopters
Amendments to IFRIC 14 – IAS 19 – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Revised IAS 24 – Related Party Disclosures
Amendment to IAS 32 – Classification of Rights Issues
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

Standards, amendments and interpretations to published standards that are effective in 2011 but not yet endorsed and have not been early adopted by the Group are:

Amendment to IFRS 1 - First-time adoption of International Financial Reporting Standards
Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to IFRS 7 – Disclosures – Transfers of Financial Assets
Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets
IFRS 9 – Financial Instruments
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements
IFRS 12 – Disclosure of Interests in Other Entities
IFRS 13 – Fair Value Measurement
IAS 27 – Separate Financial Statements
IAS 28 – Investments in Associates and Joint Ventures

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(q) Prior year adjustments

The following prior year adjustments have been included in these financial statements.

Accounting for available for sale asset

In July 2009 the Company renegotiated the terms of a loan agreement due from the developer of the properties in Obzor, and continued to account for this asset as a loan and receivable at amortised cost. On reconsideration of this accounting treatment it has been determined that the renegotiation of the asset resulted in a reclassification of the asset, which has been accounted for as an available for sale asset.

	2009
	£
Loan and receivable as previously reported	1,538,912
Reversal of impairment loss	1,472,817
Notional interest receivable	158,632
Movement in fair value on available for sale assets	<u>(269,723)</u>
Available for sale financial asset at 31 December 2009 as restated	<u><u>2,900,638</u></u>

As a result of this reclassification the following amendments have been made to the results for 2009:

- There has been a reversal of the impairment provision which had been recognised prior to the year ended 31 December 2009 of £1,472,817.
- Notional interest of £158,632 has been charged in accordance with International Accounting Standard 39.
- The financial asset has been valued at fair value resulting in a loss of £269,723 being recognised in other comprehensive income.

The impact of this prior year adjustment increased reported net assets by £1,361,726 and reduced the reported loss for the year by £1,631,449.

There was no impact on the cash flow statement in 2009 other than reclassification to show the impact of cash received on available for sale assets.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(q) Prior year adjustments (continued)

Reclassifications of other items within the financial statements

Reclassification of foreign exchange movements in prior year

Foreign exchange movements in 2009 were incorrectly allocated between 'Loss for the year' and 'Other Comprehensive Income'. During the year these classifications have been reconsidered, and an amount of £294,399 has been reallocated on the face of the Consolidated Statement of Income and is shown as a transfer to the Foreign Exchange reserve in the Consolidated Statement of Equity.

This had no impact on net assets, total comprehensive income or cash flow as reported in 2009.

Reclassification of other operating expenses and current tax in prior year

During the year it was identified that £99,335 of expenditure in relation to rates and local authority charges were incorrectly allocated to 'Tax' in the Consolidated Statement of Comprehensive Income' in the prior year financial statements.

In addition a credit of £5,662 in relation to 'Other Operating Expenses' was incorrectly reported as 'Investment Income' in the Consolidated Statement of Comprehensive Income'.

Both of these errors have been restated in the primary statements.

Neither of these restatements has had any impact on net assets, total comprehensive income or cash flow as reported in 2009.

Neither the prior year adjustment nor the restatement has any impact on the comparative figures brought forward at 1 January 2009. Consequently no third balance sheet has been presented.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Consolidated Financial Statements (continued)

2. Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The following areas require the directors to make significant judgments.

Investment property

The property valuations upon which the directors base their valuation of investments are prepared annually by Colliers International.

The determination of the fair value of investment properties requires the use of estimates such as future cashflows from assets and discount rates applicable to those assets. In addition development risks are also taken into consideration when determining the fair value of investment properties under construction. These estimates are based on local market conditions existing at the date of the statement of financial position.

The continuing volatility in the global financial system is reflected in the turbulence in commercial and residential property markets across the world. The significant reduction in transaction volumes continued this year. Therefore, in arriving at their estimates of market values at year end, the valuers have used their market knowledge and professional judgement and have not relied solely on historical transaction comparables. In these circumstances, there is a greater degree of uncertainty than exists in a more active market in estimating the market values of the investment property.

The lack of liquidity in capital markets also means that, if it was intended to dispose of the property, it may be difficult to achieve a successful sale of the investment property in the short term. The significant methods and assumptions used by Colliers International in estimating the fair value of investment property are set out below.

There are uncertainties in relation to the group's investment properties which are included in the European Union's NATURA 2000 network of sites, assigned for protection of certain species and habitats. The impact of the legislation is not yet known and may have an adverse effect on future valuations if the Group's investment properties are ultimately affected. In the prior year the directors applied a 30% discount (representing £1,957,413) on the valuation derived by the external valuer on the property at Byala. The directors do not consider that such an adjustment is required in the year ended 31 December 2010.

Borovets Lakes, Byala Land and Nikea Park

The Market Comparison Method has been used to value investment property in Borovetz Lakes and Byala as there is no approved concept design and it is uncertain when future development will be undertaken given the current market situation. The values were determined directly by reference to observable asking prices and recent realised arm's length transactions.

Evergreen, Sofia

The Income Approach (Extraction Method) and Market Comparison Approach has been used to value the development land in the Malinova District of Sofia as the land has been granted construction permits.

Available for sale assets - *Obzor*

The Income Approach has been used to value the Company's interest in the apartments in Obzor on the basis of the special contractual relationship with Black Sea Investment Trust AD (owner of the property).

The agreement governs the flow of revenues expected from the sales of 86 apartment units. It is expected that the Company's interest in the apartments represents 70% of the net sales proceeds, if cumulative sales income is less than Euro 4,000,000 and 80% thereafter.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Consolidated Financial Statements (continued)

3. Management Fees

The contracted management fee to Development Capital Management (Jersey) Limited (the "Manager") was 2% per annum of the amount subscribed at IPO plus any gains retained by the Company for reinvestment.

There are no management fees in 2010 (2009: £136,212) since the management agreement was terminated on 5 March 2009. The Company is now managed by its board of directors with advice from its property adviser in Bulgaria.

4. Other operating expenses

	2010	Restated 2009
	£	£
Legal and professional fees	291,342	416,132
Directors' remuneration	177,625	160,373
Marketing costs	132,376	66,166
Auditors' remuneration		
- Parent company audit	28,500	24,041
- Subsidiary audit	-	44,996
Other auditors' fees	53,222	-
Staff costs		
- Wages and salaries	94,891	69,893
- NI and social security	11,339	11,333
Administration fees	79,745	117,361
Rates and local authority charges	71,137	99,335
Bad debt expense	36,936	-
Travel and subsistence	12,077	20,246
Depreciation charge	11,414	10,047
Other operating expenses	49,793	53,053
	<u>1,050,397</u>	<u>1,092,976</u>

The comparatives for 2009 have been restated as the £99,335 in relation to rates and local authority charges was previously reported as withholding tax (see note 5) and £5,662 of other operating expenses were written-back (previously presented as investment income).

In 2010, in addition to the 6 (2009: 7) directors there were 6 (2009: 6) employees in Bulgaria. Key management personnel is the Board of Directors. Their compensation comprised salary payments only during the year, the amount of which is summarised within the Director's report.

Other operating expenses include £25,001 in relation to the rental of office premises in Sofia, Bulgaria. The lease contract does not have a minimum term and can be terminated by either party upon three months' notice. The total future value of minimum lease periods at any given time is therefore £6,250.

5. Interest receivable

	2010	Restated 2009
	£	£
Notional Interest on available for sale assets	290,064	158,632
Bank interest receivable	64,077	49,516
	<u>354,141</u>	<u>208,148</u>

Notional interest has been applied on the available for sale assets at 10% - representing a commercial rate between operator and developer adjusted upwards to reflect the directors' judgement of a higher risk profile of the current property market in Bulgaria. The 2009 comparatives have been restated accordingly (note 1(q)).

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements (continued)

6. Taxation

Jersey

There is no taxation payable on the Company or Jersey subsidiary results as they are based in Jersey where the Corporate Income Tax rate for Jersey resident companies is zero percent. Additionally, Jersey does not levy tax on capital gains.

Shareholders resident outside Jersey will not suffer any income tax in Jersey on any distributions made to them.

Bulgaria

Subsidiaries of the Company incorporated in Bulgaria are taxed in accordance with the applicable tax laws of Bulgaria. The Bulgarian corporate tax rate for the year was 10% (2009: 10%).

Current withholding tax represents irrecoverable tax withheld on the interest receivable on loans to subsidiaries and is levied on a distribution basis rather than on profitability. The applicable rate in the year was 10% (2009: 10%). As withholding tax cannot be utilised by the Company it has been charged to the profit and loss account. In 2009, the reported figure for withholding tax included £99,335 in relation to rates and local authority charges which has now been reclassified within other operating expenses.

No deferred tax assets are recognised on trading losses in the subsidiary companies as there is significant uncertainty as to whether sufficient future profits will be available in order to utilize these losses.

	2010	Restated 2009
Current tax expense:		
- Bulgarian corporation tax on profits for the year	-	-
- Withholding tax	<u>220,198</u>	<u>204,280</u>
Total income tax expense	<u>220,198</u>	<u>204,280</u>

The tax assessed for the year is higher than the standard rate of corporate income tax for Jersey of Nil% (2009: Nil%). The differences are explained below.

	2010	Restated 2009
Loss before tax	(683,865)	(8,418,769)
Loss on ordinary activities multiplied by the standard rate in Jersey of Nil% (2009: Nil%)	-	-
Bulgarian tax at 10% (2009: 10%)		
- Net trading loss in Bulgarian subsidiaries at 10%	(535,871)	(1,286,966)
- Tax losses created in the year	535,871	1,286,966
- Withholding tax	<u>220,198</u>	<u>204,280</u>
Current charge for the year	<u>220,198</u>	<u>204,280</u>

The group had unrecognised deferred tax assets of £572,000 (2009: £1,107,000) relating to trading losses brought-forward. These have not been recognised as there remains significant uncertainty as to whether sufficient future profits will be available in order to utilise these losses.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements (continued)

7. Investing activities

The Group's investments relate to freehold land at Borovets Lakes, Byala, Pamporova and Evergreen (Sofia) and freehold holiday home apartments at Nikea Park and Obzor.

(a) Investment property and plant and equipment

	Investment Property £	Plant and Equipment £	Total £
Cost or valuation			
At 1 January 2010	10,970,886	136,305	11,107,191
Additions	221,681	734	222,415
Transfer from loans and receivables	1,431,238	-	1,431,238
Disposals	(100,444)	-	(100,444)
Revaluation	(1,485,099)	-	(1,485,099)
Currency translation differences	(374,596)	-	(374,596)
At 31 December 2010	<u>10,663,666</u>	<u>137,039</u>	<u>10,800,705</u>
Depreciation			
At 1 January 2010	-	17,783	17,783
Charge for the year	-	11,414	11,414
At 31 December 2010	<u>-</u>	<u>29,197</u>	<u>29,197</u>
NBV at 31 December 2010	<u>10,663,666</u>	<u>107,842</u>	<u>10,771,508</u>
Cost or valuation			
At 1 January 2009	11,095,046	124,918	11,219,964
Additions	5,136,521	11,387	5,147,908
Revaluation	(5,349,595)	-	(5,349,595)
Currency translation differences	88,914	-	88,914
At 31 December 2009	<u>10,970,886</u>	<u>136,305</u>	<u>11,107,191</u>
Depreciation			
At 1 January 2009	-	7,736	7,736
Charge for the year	-	10,047	10,047
At 31 December 2009	<u>-</u>	<u>17,783</u>	<u>17,783</u>
NBV at 31 December 2009	<u>10,970,886</u>	<u>118,522</u>	<u>11,089,408</u>

The valuations of the individual investment properties, compared to total investment, are as follows.

	Valuation		Valuation		Total investment & capitalised costs	
	2010	2010	2009	2009	€	£
	€	£	€	£	€	£
Borovets Lakes	3,151,089	2,712,247	4,599,201	4,082,010	10,918,102	7,637,329
Byala	4,108,559	3,536,374	5,145,974	4,567,297	9,843,360	7,279,612
Evergreen	2,079,396	1,789,806	2,258,226	2,004,550	4,114,943	2,811,256
Nikea Park	3,050,003	2,625,239	357,197	317,029	4,489,607	3,534,532
Pamporova	-	-	-	-	6,936,096	5,456,739
	<u>12,389,047</u>	<u>10,663,666</u>	<u>12,360,598</u>	<u>10,970,886</u>	<u>36,302,108</u>	<u>26,719,468</u>

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements (continued)

7. Investing activities (continued)

(b) Loans and receivables

	2010	Restated 2009
	£	£
Bulmix 97 Group OOD (Nikea Park)		
- loan repayments in the year	(311,222)	-
- transferred to investment property	(1,431,238)	-
- reversal of previous impairment	1,742,460	-
	<hr/>	<hr/>
Black Sea Investment Trust EAD (Obzor)	-	-
- previous impairment recovered in the year	-	1,472,817
- transferred to available for sale (note 1(q))	-	(1,472,817)
	<hr/>	<hr/>
Magnolia Holidays EAD (Pamporova - Magnolia)	-	-
- additional amounts loaned in the year	-	297,466
- loan impairment in the year	-	(297,466)
	<hr/>	<hr/>
Bulgarian Property Investment Trust EAD (Byala)	-	-
- additional amounts loaned in the year	-	150,799
- loan impairment in the year	-	(150,799)
	<hr/>	<hr/>
At 31st December	<hr/> <hr/>	<hr/> <hr/>

The carrying amount of the loans and receivables is a reasonable approximation of their fair value. The 2009 accounts have been restated as the loan and receivable to Black Sea Investment Trust EAD has been accounted for as an available for sale asset.

	2010	Restated 2009
	£	£
Recovery of previously impaired loans	1,742,460	1,472,817
Impairment of loans	-	(448,265)
	<hr/>	<hr/>
	1,742,460	1,024,552
	<hr/> <hr/>	<hr/> <hr/>

Nikea Park

The original loan to Bulmix 97 Group OOD was for Euro 3,844,425 and was fully impaired in 2008.

The Company acquired a total of 106 apartment units when it called in security on the original loan agreement with the third party developer. In 2010, 22 of these 106 units were sold for a total consideration of Euro 531,298 (£456,252) and net gain of £44,586 to the Group.

Prior to conclusion of the legal proceedings an auction was held in November 2010 in order to sell 16 apartments. These 16 units were not held as legal property and the net proceeds of Euro 362,648 (£311,222) have therefore been presented as amounts recovered against the previously impaired loan. The remaining 90 units with a market value of Euro 1,667,736 (£1,435,476) became the property of the Group and have been recognised in investment property (Note 7(a)) and the impairment provision recognised in earlier periods has been reversed.

During 2010, a further 6 of the 106 units were sold for a total consideration of £145,030 and resulted in a net gain of £44,586 to the Group. No further sales have occurred in 2011 and the Company continues to own the remaining 84 units. In May 2011, a formal agreement was reached whereby the Group and developer released each other from any future claims.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements (continued)

7. Investing activities (continued)

(b) Loans and receivables (continued)

Magnolia, Pamporova

The impairment in 2009 related to loans from the Group to Magnolia Holidays EAD due to significant uncertainty over the outcome of the ongoing litigation.

The legal action between BSPF Magnolia EAD and BSPF (Property 3) Limited against the former shareholder of Magnolia Holidays EAD (owner of the real estate at Pamporova) is ongoing and there continues to be significant uncertainty over the eventual outcome.

The loan to Magnolia Holidays EAD was fully provided against as at 31 December 2009 and 31 December 2010 and no interest is being accrued as, in the opinion of the directors, there remain significant doubts concerning its recoverability.

(c) Available for sale financial assets

	2010	Restated 2009
	£	£
At 1 January	2,900,638	3,172,631
Cash receipts on sale of available for sale assets	(983,046)	(160,902)
Notional interest receivable	290,064	158,632
Movement in fair value on available for sale assets	(205,024)	(269,723)
	<u>2,002,632</u>	<u>2,900,638</u>

Obzor

The 2009 accounts have been restated as the loan and receivable to Black Sea Investment Trust EAD has been reclassified as an available for sale asset (see note 1(q)).

The original interest-free loan to Black Sea Investment Trust EAD (BSIT) was for Euro 5,079,726.

A revised agreement was signed in June 2009 and, at 31 December 2010, £555,866 remains outstanding on the revised non-interest bearing loan. The loan is secured by a third ranking mortgage. The Company and the developer have agreed to split the proceeds (less agreed costs) of future unit sales at the Obzor site 70:30 respectively and 80:20 once an aggregate total of Euro 4,000,000 in sales have been made.

Available for sale assets are denominated in Euros and notional interest has been charged in accordance with the requirements of IAS 39.

There are currently 41 unsold units and Company is expected to receive a share of the sale of each of them, and the Company's share of the property portfolio was valued at Euro 2,326,658 (£2,002,632) at 31 December 2010, compared with 59 apartments held at the end of 2009 and valued at Euro 3,264,668 (£2,900,638).

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements (continued)

8. Investments held at fair value through profit or loss

	2010	2009
	£	£
Accumulation money market funds		
Opening book cost	-	7,540,741
Movements in year:		
Sales - proceeds	-	(10,995,134)
- realised (loss)/gain on sales	-	(758,937)
- reversal of unrealised fair value and foreign exchange gains	-	4,213,330
Closing book cost	-	-
Closing fair value adjustment on money market funds	-	-
Closing unrealised exchange gain	-	-
Closing fair value	-	-

9. Details of Group Undertakings

The Group holds 20% or more of the nominal value of any class of share capital in the following investments:

	Share- holding	Proportion of voting rights	Nature of Business	Country of incorporation
<i>Held directly:</i>				
BSPF (Property) Limited	1	100%	Property investment	Jersey
BSPF (Property 2) Limited	1	100%	Property investment	Jersey
BSPF (Property 3) Limited	1	100%	Property investment	Jersey
BSPF (Property 4) Limited	1	100%	Property investment	Jersey
BSPF (Property 5) Limited	1	100%	Property investment	Jersey
BSPF (Property 6) Limited	1	100%	Property investment	Jersey
BSPF Project 1 EAD	17,252	100%	Property investment	Bulgaria
BSPF Project 4 EAD	17,552	100%	Property investment	Bulgaria
BSPF Bulgaria EAD	23,952	100%	Investment property adviser	Bulgaria
<i>Held indirectly:</i>				
BSPF Magnolia EAD	17,194	100%	Property investment	Bulgaria
BSPF Tchernomore EAD	19,585	100%	Property investment	Bulgaria
BSPF Super Borovetz EAD	17,522	100%	Property investment	Bulgaria

BSPF (Property 3) Limited and BSPF (Property 6) Limited are both dormant companies.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements (continued)

10. Other receivables

	2010	2009
	£	£
Bank and deposit interest receivable	112	115
Prepayments and accrued income	46,884	57,538
Other debtors	<u>280,001</u>	<u>1,908,114</u>
	<u>326,997</u>	<u>1,965,767</u>

Other debtors at 31 December 2010 represent the balance of recoverable VAT. Included within other debtors in 2009 was recoverable VAT of £1,776,909 (Euro 2,002,043) in Bulgaria, which was recovered by the Group on 6 April 2010.

All amounts are due within one year.

11. Other payables

	2010	2009
	£	£
Trade creditors	116,910	65,892
Accruals	<u>82,906</u>	<u>127,016</u>
	<u>199,816</u>	<u>192,908</u>

None of the amounts are past due or impaired.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements (continued)

12. Issued share capital

	2010	2009
	Number	Number
Authorised:		
Founder shares of no par value	10	10
Ordinary shares of no par value	Unlimited	Unlimited
Issued and fully paid:	£	£
2 founder shares of no par value	-	-
213,112,896 (2009: 213,112,896) ordinary shares of no par value	<u>46,478,064</u>	<u>46,478,064</u>
	<u>46,478,064</u>	<u>46,478,064</u>

There was no movement in stated capital during the year.

Founder shares are not eligible for participation in Group investments and carry no voting rights at general meetings of the Company.

Capital management

The primary objective of the Group's capital management is to provide shareholders with a high level of long-term capital appreciation through acquiring marketable investment properties which offer the prospect of sustainable capital growth. Investments in property are made by reference to specific criteria, which include: location, type of property, development standards and timing. All investment property purchases made by the Group are funded by loans from the parent company (and thus from equity), rather than funding from banks or other third parties. No changes were made in the objectives, policies or processes during the years ending 31 December 2009 or 31 December 2010.

Proceeds realised from the property portfolio are available for reinvestment into further investment property (net of any performance fees due). The proceeds of sale of the property portfolio will be returned to shareholders as determined by the Board.

If the ordinary shares are trading at a discount to net asset value, the Company may purchase ordinary shares for cancellation. The purchase of ordinary shares on this basis may address the imbalance between supply and demand indicated by the presence of a discount, and would be beneficial to the net asset value of the remaining ordinary shares.

Distributions may be made by way of a dividend or a redemption or repurchase of ordinary shares, at the directors' discretion.

THE BLACK SEA PROPERTY FUND LIMITED

Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements (continued)

13. Earnings and Net Asset Value per share

The loss per ordinary share of 0.42 pence (2009: 4.05 pence) is based on the loss for the year of £904,063 (2009 loss restated: £8,623,049) and on the weighted average number of ordinary shares in issue of 213,122,896 (2009: 213,122,896).

There is no difference between diluted and undiluted earnings per share as there are no share options.

The net asset value per ordinary share of 8.7 pence (2009: 12.5 pence) is based on the net assets attributable to ordinary shareholders, divided by 213,112,896 (2009: 213,112,896) being the number of outstanding ordinary shares in issue at the period end.

14. Segmental analysis

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Other than the previous investments in money market funds in the UK, the Group is organised into one main operating and reporting segment focusing on investment in the Bulgarian property market (see note 7).

No additional disclosure is included in relation to segmental reporting as the Group's activities are limited to one operating and reporting segment.

15. Contingencies and Commitments

Magnolia, Pamporova

The legal action between BSPF Magnolia EAD and BSPF (Property 3) Limited against the former shareholder of Magnolia Holidays EAD is ongoing and there continues to be uncertainty over the eventual outcome.

The loan to Magnolia Holidays EAD was fully provided against as at 31 December 2009 and as at 31 December 2010 and no interest is being accrued as, in the opinion of the directors, there remain significant doubts concerning its recoverability.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements (continued)

16. Financial risk management objectives and policies

The Group's financial instruments, comprise cash and cash equivalents, receivables and payables that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, and receivables for accrued income. The main risks the Group faces from its financial instruments are (i) market price risk (comprising currency risk, interest rate risk and other price risk), (ii) liquidity risk and (iii) credit risk.

The Board regularly reviews considers risks applicable to the portfolio. The numerical disclosures exclude short-term receivables and payables.

i. Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Group's operations. It represents the potential loss the Group might suffer through holding market positions as a consequence of price movements and movements in exchange rates. The Board meets regularly in order to review investment strategy.

Market price sensitivity

The table below details the Group's sensitivity to a 5% decrease in the value of investment property. With all other variables held constant, net assets attributable to shareholders and the change in net assets attributable to shareholders per the consolidated statement of comprehensive income would have decreased by the amounts shown below. The analysis is performed on the same basis for 2009.

	2010	2009
	£	£
Borovets Lakes	135,612	204,101
Byala	176,819	228,365
Evergreen	89,490	100,228
Nikea Park	131,262	15,851
	533,183	548,545

Similarly, the table below details the Group's sensitivity to a 5% decrease in the value of financial instruments available for sale. The analysis is performed on the same basis for the restated figures for 2009.

	2010	2009
	£	£
Obzor	100,132	145,032
	100,132	145,032

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements (continued)

16. Financial risk management objectives and policies (continued)

ii. Currency risk

The presentational currency of the Group is pounds sterling. Loans and other investments are denominated in Euro and the Group is therefore exposed to movements in the exchange rate between the Euro and the pound sterling. The Group does not hedge this risk.

An analysis of the Group's currency exposure is detailed below:

	Sterling GBP	Euro	Bulgarian LEV	Total
	£	£	£	£
As at 31 December 2010				
Financial Instruments				
Available for sale	-	555,866	-	555,866
Other receivables	21,680	-	305,317	326,997
Cash and cash equivalents	13,491	5,181,361	723,979	5,918,831
Other payables	(143,080)	-	(56,736)	(199,816)
Tax payable	-	(218,871)	-	(218,871)
Net exposure	<u>(107,909)</u>	<u>5,518,356</u>	<u>972,560</u>	<u>6,383,007</u>
As at 31 December 2009				
Financial Instruments				
Available for sale	-	1,538,912	-	1,538,912
Other receivables	16,960	-	1,948,807	1,965,767
Cash and cash equivalents	1,491	11,064,541	61,804	11,127,836
Other payables	(138,646)	-	(54,262)	(192,908)
Tax payable	-	(205,424)	-	(205,424)
Net exposure	<u>(120,195)</u>	<u>12,398,029</u>	<u>1,956,349</u>	<u>14,234,183</u>

Foreign currency sensitivity

The table below details the Group's sensitivity to a 5% increase in the value of sterling against the relevant currency. With all other variables held constant, net assets attributable to shareholders and the change in net assets attributable to shareholders per the consolidated statement of comprehensive income would have decreased by the amounts shown below. The analysis is performed on the same basis for 2009.

	2010		2009	
	Euro £	Bulgarian LEV £	Euro £	Bulgarian LEV £
Financial Instruments	<u>284,244</u>	<u>36,199</u>	<u>714,629</u>	<u>3,090</u>
Effect on comprehensive income	<u>(284,244)</u>	<u>(36,199)</u>	<u>(714,629)</u>	<u>(3,090)</u>

A 5% weakening of sterling against the relevant currency would have resulted in an equal and opposite effect on the above financial statement amounts to the amounts shown above, on the basis that all other variables remain constant.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements (continued)

16. Financial risk management objectives and policies (continued)

iii. Interest rate risk

Interest rate movements may affect: (i) the fair value of the investments in fixed interest rate securities and (ii) the level of income receivable on cash deposits. There are no fixed interest rate securities as at 31 December 2010. The interest rate profile of the Group's financial instruments excluding other receivables was as follows:

	Variable rate £	Non-interest bearing £
As at 31 December 2010		
Available for sale assets	-	555,866
Other payables	-	(199,816)
Euro cash deposit	5,181,361	-
Bulgarian Lev cash deposit	723,979	-
Sterling GBP cash deposit	13,491	-
	<u>5,918,831</u>	<u>356,050</u>
As at 31 December 2009		
Available for sale assets	-	1,538,912
Other payables	-	(192,908)
Euro cash deposit	11,064,541	-
Bulgarian Lev cash deposit	61,804	-
Sterling GBP cash deposit	1,491	-
	<u>11,127,836</u>	<u>1,346,004</u>

Interest rate sensitivity

An increase of 100 basis points in interest rates during the year would have increased the net assets attributable to shareholders and changes in net assets attributable to shareholders by £59,190 (2009: £111,278). A decrease of 100 basis points would have had an equal but opposite effect.

vi. Liquidity risk

The liquidity risk to the Group is the risk of not being able to meet the Group's funding commitments. A significant portion of the Group's assets comprises of cash balances. As at 31 December 2010, the Group does not have any significant liabilities due and therefore the liquidity risk is deemed insignificant.

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to liquidity risk:

	On demand £	< 1 year £	Total £
As at 31 December 2010			
Cash and cash equivalents	-	5,918,831	5,918,831
Available for sale assets	555,866	-	555,866
Other payables	-	(199,816)	(199,816)
	<u>555,866</u>	<u>5,719,015</u>	<u>6,274,881</u>
As at 31 December 2009			
Cash and cash equivalents	-	11,127,836	11,127,836
Available for sale assets	1,538,912	-	1,538,912
Other payables	-	(192,908)	(192,908)
	<u>1,538,912</u>	<u>10,934,928</u>	<u>12,473,840</u>

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements (continued)

16. Financial risk management objectives and policies (continued)

vii. Credit risk

The Group places funds with third parties and is therefore potentially at risk from the failure of any such third party of which it is a creditor. The Group expects to place any such funds on a short-term basis only and spread these over several investments.

The Group's principal financial assets are loans and receivables, available for sale assets, other receivables, investments, cash and cash equivalents. The maximum exposure of the Group to the credit risk is the carrying amount of each class of financial assets.

No significant credit risk is recognised in respect of other receivables represented mainly by prepayments and other receivables, and cash and cash equivalents. Credit risk on cash and cash equivalents is minimised as the Group primarily banks with institutions with a credit rating in excess of B as follows:

	2010	2009
	£	£
Amounts held with a credit rating of A or above	4,954,736	10,841,106
Amounts held with a credit rating of B or above	964,095	286,730
Amounts held with a credit rating less than B	-	-
Cash and cash equivalents as at 31 December	<u>5,918,831</u>	<u>11,127,836</u>

The Group's credit risk is primarily attributable to loans and receivables from third parties. The Board monitors each loan according to the individual characteristics of each project, if necessary reporting by an outsourced real estate consultant to evaluate whether there is any impairment. There is currently no credit risk on investment loans which have been provided for in full and receivables are due within one year and no amounts are overdue.

vi. Credit risk exposure

In summary, compared to the amounts in the Consolidated Statement of Financial Position, the maximum exposure to credit risk at 31 December 2010 was as follows:

	2010		2009	
	Statement of financial position	Maximum exposure	Statement of financial position	Maximum exposure
	£	£	£	£
Non-current assets				
Cash	5,918,831	5,918,831	11,127,836	11,127,836
Available for sale assets	<u>2,002,632</u>	<u>555,866</u>	<u>2,900,638</u>	<u>1,538,912</u>
	<u>7,921,463</u>	<u>6,474,697</u>	<u>14,028,474</u>	<u>12,666,748</u>

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Notes to the Condensed Consolidated Financial Statements (continued)

17. Events after the reporting period

There have been no significant events since 31 December 2010 which impact the financial position or performance as disclosed in these financial statements.

18. Special dividend

On 23 June 2010, the Company paid a special dividend to Ordinary Shareholders of £5,999,128 in accordance with Article 115 of Companies (Jersey) Law 1991.

19. Related Party Transaction

The management fees paid are disclosed in note 3. As at 31 December 2010 there were no unpaid amounts.

20. Directors' Interests

Total compensation paid to the Directors during the period was £177,768 (2009: £160,373).

Mr Angelo Moskov was a partner of QVT Financial LP at year end. QVT Financial LP owns or has a beneficial interest in 63,126,806 ordinary shares in the Company.

21. Ultimate controlling party

The Directors consider that there is no controlling or ultimate controlling party of the Company.

22. Company Domicile

The Black Sea Property Fund Limited is a company domiciled in Jersey, Channel Islands.

THE BLACK SEA PROPERTY FUND LIMITED
Annual report and consolidated financial statements for the year ended 31 December 2010

Registered office

22-24 Seale Street
St. Helier
Jersey
Channel Islands
JE2 3QG

Registrar

Capita Registrars (Jersey) Limited
12 Castle Street
St. Helier
Jersey, CI
JE2 3RT

Administrator & Secretary

Saltgate Limited
22-24 Seale St
St. Helier
Jersey, CI
JE2 3QG

Property Investment Advisor

BSPF Bulgaria EAD
World Trade Centre Intreped
36 Dragan Tzankov Blvd
1040 Sofia
Bulgaria

Nominated Advisor & Broker

Singer Capital Markets Limited
One Hanover Street
London
W1S 1YZ
United Kingdom

Auditors of the Company & Group

BDO LLP
55 Baker Street
London
W1U 7EU
United Kingdom

Legal Adviser (UK)

Travers Smith LLP
10 Snow Hill
London
EC1A 2AL
United Kingdom

Legal Adviser (Jersey)

Mourant Ozannes
22 Grenville Street
St Helier
Jersey, CI
JE4 8PX

Strategic Adviser

Colliers International
Business Park Sofia
Mladost 4
Build 13B
1715 Sofia
Bulgaria