

Black Sea Property AS

Org. No. 914 892 902



Aheloy Resort - Project Update

October 2016

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The Development



Following the major management decisions **construction works at “Aheloy Resort” are resumed.**

BSP's best intention is **to partially open the resort to tourists for summer season 2017.**

BSP has outlined realistic forward action plan leading the resort to operational and income generating state.

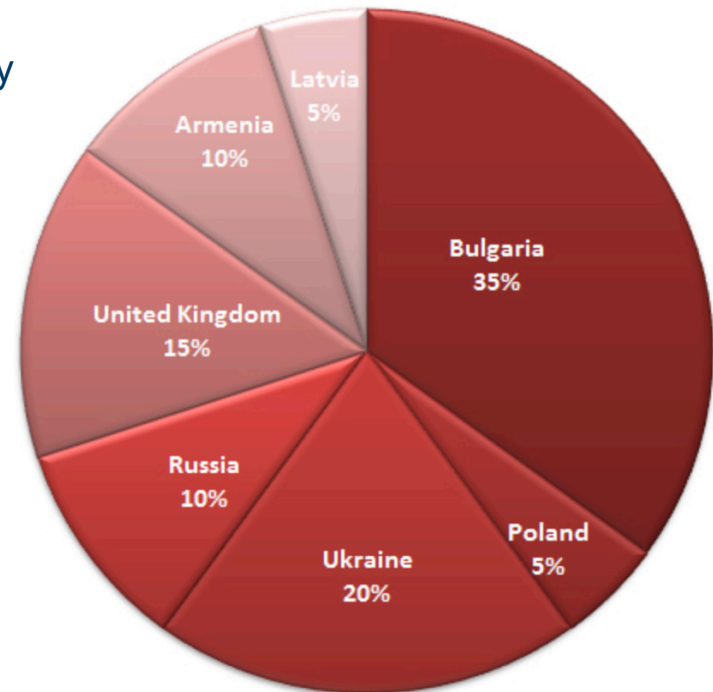


Black Sea Tourism & Property Highlights

- The vast and unspoiled Black Sea Coast remains very popular. Beach resorts such as Sunny Beach are always full of foreign tourists.
- Bulgaria has finally emerged as a top overseas property destination in Europe.
- The 2016 decline of Russian interest in Bulgaria has reached a new phase, new prices and novel trends for Bulgaria's holiday property market. Unlike in Sofia and key urban districts, the disproportionate volume of foreign owners in the coastal and ski resorts has prevented the currently favorable domestic forces from driving prices upward.
- The property market is suddenly disconnected from bricks and plaster, rental returns, infrastructure improvements, European growth prospect and is now merely a physical manifestation of the currency markets, Russia's ongoing recession and the low price of oil.
- Currency exchange is the worst enemy of the Irish right now, followed shortly by those needing to sell in British Pounds. The Russian Ruble is trending at half its value from 4-5 years ago, meaning that Russian investments in Euros has effectively doubled in value providing those vendors with massive leeway in their asking prices. Secondary sales of Irish and British owned properties priced in Pounds and Euros are already at half of what they paid now need to compete against stiffer offers priced in Rubles, all of whom can afford to discount their price by as much as 50% before they begin to make a loss.
- For the first time in Bulgaria's history we do not have a single nationality dominating buyers. Certainly from 2000 - 2008 this was the British followed by the Irish, then from 2010 - 2015 it was the Russians. Now, from the start of 2016 the single largest group buying holiday property is actually Bulgarians (35%), an unexpected fact that few foresaw. Perhaps because prices are so much lower than they were, perhaps because of healthy rental returns for those who can self manage holiday lets.

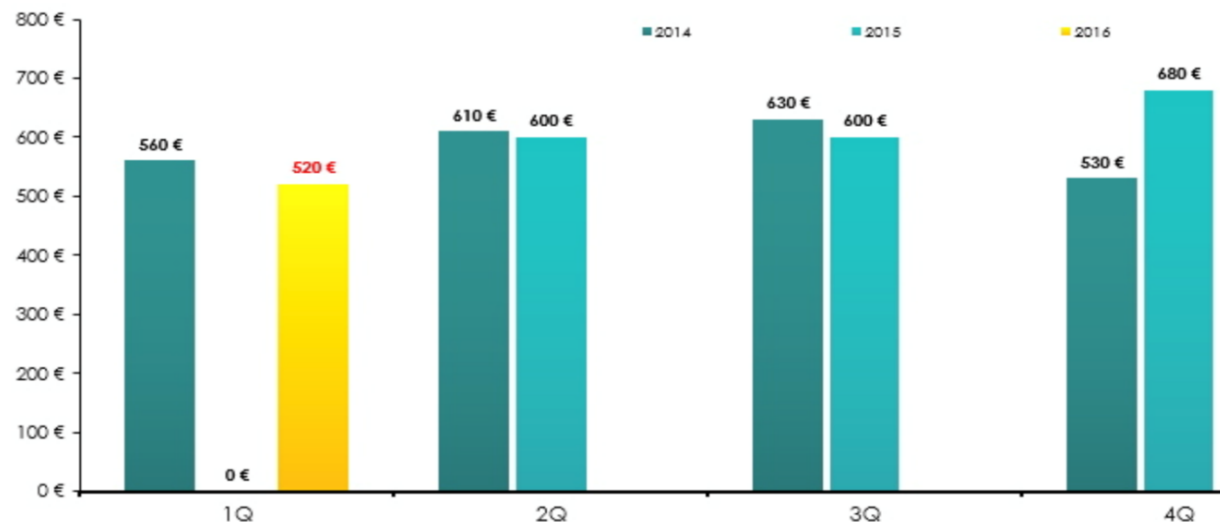
Black Sea Tourism & Property Highlights

- Sunny Beach remains the most dominant region for holiday sales with approximately 30% of all transactions, 50% if considering neighboring St Vias, Nessebar and Ravda too.
- Currency shifts have enabled Russian sellers, who remain the majority owners of available stock, to sell at slashed Euro prices and still take home a profit in Rubles. The clear result is lower prices across the region. We can speculate as to why so many are selling now, but with recession in Russia showing no sign of ending and with profitable liquid investments available in Bulgaria, it is easy to see why owners are offloading. Complexes that are on the outskirts of Sunny Beach, beyond the main road or towards Kosharitsa, have suffered the greatest drop in demand. Once the only sources of 1 bedroom furnished properties for EUR 25'000 were 700m from the beach (2010 - 2015), today this budget will buy you options on the first and second line in Sunny Beach 50 - 100m from the beach, and much higher rental income.
- The contraction in prices has drawn buyer's attention away from the outskirts and has been refocused towards the coastal centers along the bay. Peripheral complexes have suffered notable with severe decline in buyer interest. Complexes further out and clearly disconnected are less directly impacted as buyers for such properties had already clearly sought isolation, so whilst prices have dropped there too the demand has remained similar.



Black Sea Tourism & Property Highlights

- As far as the Sea holiday homes were concerned, transactions for prime properties on the beachfront were in the range of EUR 800 – 1000 per sq. m with high quality finishing works and furniture. Average quality properties in the first and second rows from the sea were in the range EUR 650 – 800 per sq. m. While properties in secondary locations were around EUR 500 per sq. m. Prices greatly depended on the type of property and available facilities.
- Except for their own use, buyers are increasingly interested in investment and income from renting. One of the preferred places for such an investment is quarter of Sarafovo right next to Burgas Airport. In 2016 there started the construction of "Residence Park" - a closed type of a residential complex just few meters from the sea, which will be located among impressive parks and gardens. Property prices there start at 474 EUR per sq. m, more than attractive for a property at 300 meters from the shore. BSB sees the above mentioned development as very much relevant comparison to Aheloy Resort.
- The average price (includes both seaside apartments and apartments a distance from the sea) at which deals were concluded in Sunny Beach during the first months of the year was EUR 520 per sq .m. - a decrease from levels around EUR 600 per sq .m. The total purchase price of apartments in Sunny Beach in recent months is around EUR 27'700 - and here noticeable shrinking budgets from levels around EUR 35'000.

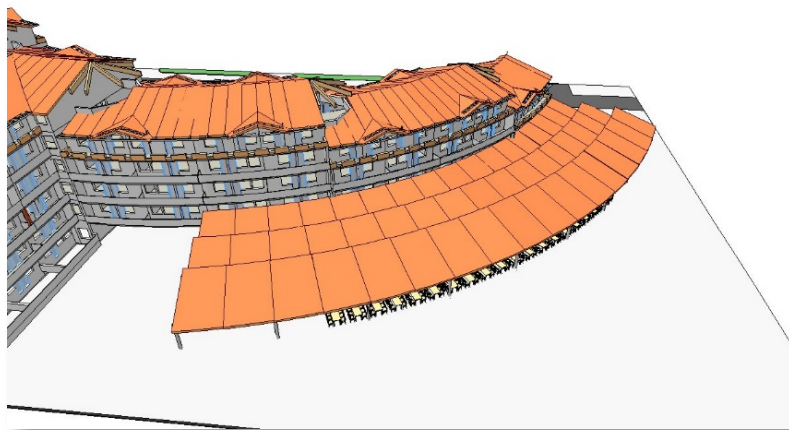


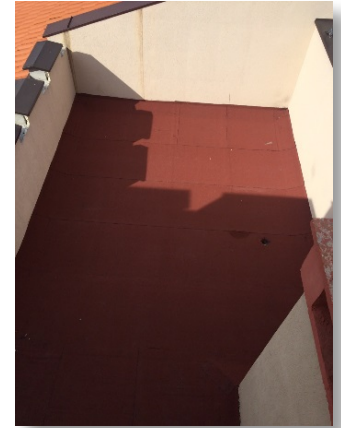
Black Sea Tourism & Property Highlights

- The average yield of investment in holiday property, bought for rental is between 6% and 7%.
- Bulgaria today stands proudly on the tourist market and interestingly ranks first in the EU with the impressive growth of the number of overnight stays of tourists this year. According to Eurostat data for H1 2016, the total number of nights spent in the country (by foreigners and Bulgarians) was over 8 million., As compared to growth in 2015 was above 18%. The increased number of tourists increased considerably and revenues in tourism - the first seven months of 2016 they increased by almost half a billion BGN or 15% up compared to the same period of 2015. The first seven months of this year, total revenues from international tourism in the current account balance, over BGN 3.4 billion.
- After closely following and observing the property market development over the past 12 months BSP is very positive what is happening in the rental market. On the other side, obviously, the currency weaknesses that happens both in Russia and UK/Ireland influence negatively at least on short term property sales. Normally, on long term, the correlation between property prices and rental income will overcome the unproportioned figures observed today.
- Due to the local political stability and favorable economic factors, other potential markets are opening. During the course of this year much more Turkish nationals are considering and actively exploring investment and lifestyle opportunities at the Bulgarian Black Sea coast. Israel, Romania and the central European countries like Poland, Czech Republic, Slovakia and others consider property purchases in Bulgaria.

Proposal for Revised Development Planning









Forward Actions Timeline

PROJECT TIMELINE		2016				2017					2018										
		SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Q1	Q2	Q3	Q4
1	Planning, changes /fire alarm, architecture, etc./	x																			
2	UniCredit loan maturity negotiations		x																		
3	Purchase of the Land and building "K"			M																	
4	Preparation for sales operations, sales contracts		x	x																	
5	Start sales operations to Turkish and Romanian				x	x	x														
6	Sales client trips						x	x	x												
7	Result of sales /30 preference units/						M														
8	Sales to shareholders				x	x	x														
9	Deciding alternative financing options depending on results						M														
10	Construction works building "N"	x	x	x	x	x															
11	Interior design, offers, acceptance, advance payment						x														
12	Furniture building "N"							x	x	x											
13	Landscape planning		x	x																	
14	Landscape construction						x	x	x	x											
15	Fence construction								x	x											
16	Contacting owners in building "P" to finance their apartments			x	x																
17	Securing financing for building "P"					M															
18	Construction works building "P"						x	x	x	x											
19	Furniture building "P"								x	x											
20	VAT return					M															
21	Construction and Equipment Commercials and restaurants						x	x	x	x											
22	Construction kids area									x											
23	Planning utility connections		x																		
24	W&S construction						M	x	x	x											
25	EVN electrical construction					x	M	x													
26	Construction works building "M"													x	x	x	x				
27	Furniture building "M"																x	x			
28	Planning Phase II												M								
29	Loan from tour operators												M								
30	Construction works building "L"													x	x	x	x				
31	Construction works building "K"													x	x	x	x				
32	Construction of additional pools and sports facilities													x	x	x	x				
33	Management company			x																	
34	Operations for running the resort							M													

Financing Plan 2016 - 2018

Financing need Phase I

FINANCIAL EXPENSE

Remaining construction Building N & Landscape	801,423
Sewage and EVN electrical connection	465,000
Total organizational expenses	155,000
Furnishing "N" units (175)	525,000
Restaurants and commercial areas	650,000
Building "P" to be tourist operational	1,425,000
Resort fence and additional landscape facilities	100,000
Building "M" to be tourist operational	1,731,000

TOTAL	5,852,423
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FINANCIAL INCOME

Available for CIW to date	1,400,000
VAT Return "Aheloy Residence"	600,000
Preliminary sales 30 units in "N" (1800 sq.m)	832,500
Possible loan from Tour Operator (430 units) N&P	3,440,000
Income owners with title deeds in "P"	891,800

TOTAL	7,164,300
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Difference /positive/	1,311,877
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* Amounts are in Euro

- ❑ Even though we overall estimates to have sufficient cash there are risks in connection to timing of income in connection to timing of financial expenses, see also comments next page

Key Aspects Going Forward

❑ The tasks that will occupy BSP's focus going forward are

- Overseeing the execution of the building works.
- Continue the process of securing the outside utility connection permits (W&S and electrical), vital for operating the resort Summer 2017. This process BSP has been working on since January 2016.
- Deciding and building the commercial areas and restaurants.
- Constructing the outside utility connections.
- Securing long term bank financing and working capital.
- Sale of apartments.
- Organizing for opening the resort and its hotel operations.
- Financing and liquidity (reference to previous page).
 - Water/Sewage must be in place before we can receive loan from tour operators
 - Preliminary sale must be conducted early 2017 to receive money early enough for financial expenses
 - VAT and payment for "P" owners must be approached proactively

Thank you for you attention.

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