

Black Sea Property AS

Org. No. 914 892 902



Aheloy Resort - Project Update

March 2017

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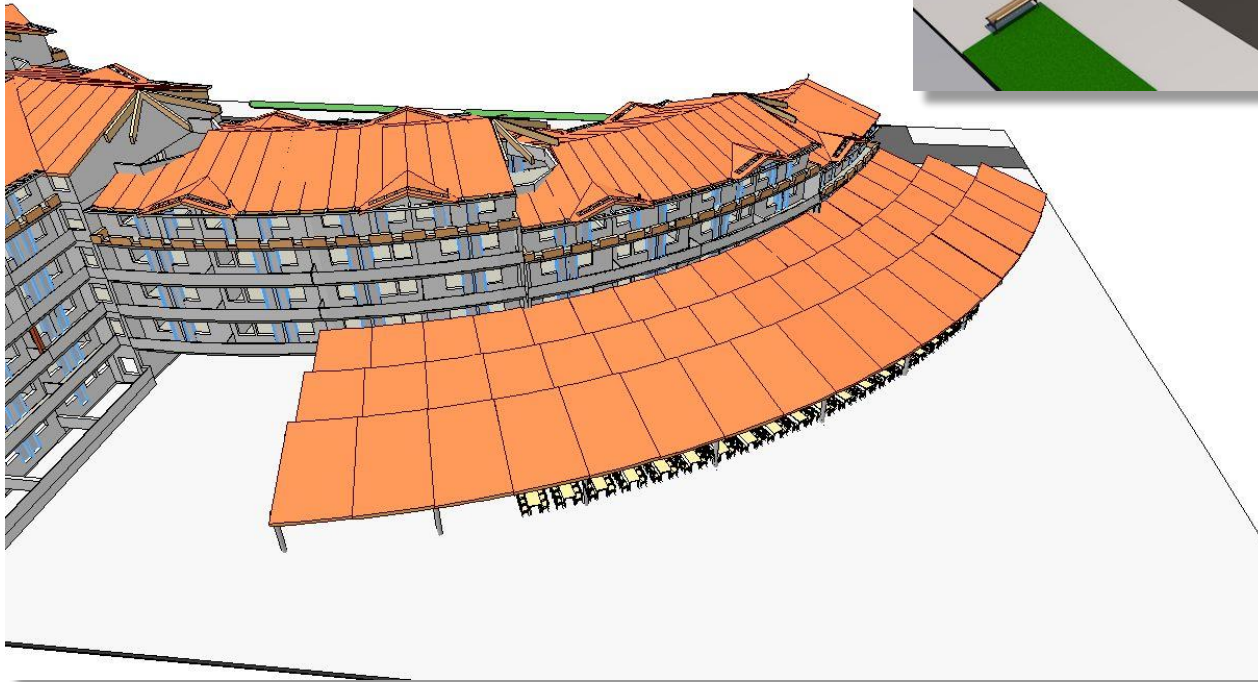
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The Development – Resort Facilities Improvement



ВАРИАНТ 1А
М 1:500

The Development



The Development



Recent Pictures



The Development

Building	Number of Units	Resort square meters	Average unit size	Other owners	Doba 1 units	EPOA owned units	Aheloy Residence receivable	EPOA sq. m estimate
N	175	13,237	75.64			175		13,237
M	183	12,834	70.13			183		12,834
P	244	16,553	67.84	109	50		85	5,766
L	298	18,800	63.09			251	47	18,800
K*	100	6,300	63.00				100	6,300
Total	1,000	67,724		109	50	609	232	56,937
* Reduction according to new plans projected				159		841		
				1,000				

* Reduction according to new plans projected

** Acquisition to take place H1 2017

- Reduced number of apartments in building “K” from 300 to 100 apartments
 - ❑ Resort’s total number of apartments reduced from 1200 to 1000 apartments
 - ❑ Improved quality of resort and facilities
 - ❑ Reduced financial risk
- EPO Aheloy plans to acquire all assets including land from Aheloy Residence in Q1 / early Q2
 - ❑ Change in legislation much simplifies the process

Progress made as of March 2017

REDUCED FINANCIAL RISK

- From short to long term loan financing with UniCredit Bulbank
 - ❑ Loan principal reduced last year to EUR 7.5m from the initial EUR 10m
 - ❑ Full repayment maturity in 2018 extended with 7 years
 - ✓ EUR 500'000 principal repayment at the end of 2017 followed by 7 even annual repayments of EUR 1m each
- Reduced necessity for short term sale of apartments
 - ❑ Share Issue supported with more than 50% already committed by large shareholders
- Reduced number of apartments in building “K”
 - ❑ Increased quality of resort and reduced financing needs
- Decision to complete “M” building before “P”
 - ❑ External owners to be asked to support in finishing works for “P” building
- Building “N” finished in time and on budget
 - Completed negotiations for “M” building, construction contract to be signed in March

Progress made as of March 2017

- Building works well underway at “Aheloy Resort”
- The resort is planned to be fully operational for summer 2018 with total 602 apartments, commercial areas and landscape
- Possibility to open partly for summer 2017 season, depending on
 - ☐ W&S solution
 - ☐ Evaluation of cost/benefit taking into account start up cost, rental income and reputation
- BSP has began initial investigation works on setting up a management company and establishing connections with tour operators
 - ☐ Period May - September crucial to prepare agreements with tour operators the upcoming holiday season
 - ☐ Potential for high yearly profit when operated as hotel, table below shows possibilities for 2018 season with P, N and M operational
 - ✓ Supported by the recent conclusion the the C&W valuation report dated March ‘17

Hotel operating earnings 2018 / EBIT operating profit /			euro	2,544,835
Open days	days	132	per key	4,227
Available rooms	rooms	602	79,464	
At 75% occupancy nights sold	nights	59,598		
Average Daily Rate	euro	60	3,575,880	
Room costs including Food & Beverage	%	46.5	2,038,252	
Supplementary services profit	euro	595,980		

The fully operational resort with 1'000 units, can result in profit increase to EUR 4 to 5 million annually. The figures are supported in the C&W March 2017 valuation report.

Progress made as of March 2017

- Established plan to acquire all assets from Aheloy Residence
 - ❑ Use change in legislation to complete acquisition process soon

- Focused on finding solution for W&S utility connection
 - ❑ Approval of W&S plans is now pending by the regional administration and municipality. W&S plans and financial project calculations were prepared and submitted for EU / regional administration for financing.
 - ❑ Remaining risk connected to cost and timing

- Electrical Connections
 - Based on solution with acquiring all assets including land, we believe this will be implemented as a consequence

Financing Plan PHASE 1

FINANCIAL EXPENSES TO COMPLETE PHASE 1

Remaining construction Building N & Landscape	163,699
Sewage and EVN electrical connection	600,000
Total organizational expenses	185,000
Furnishing "N" units (175)	175,000
Restaurants and commercial areas	650,000
Building "P" to be tourist operational	1,190,000
Resort fence and additional landscape facilities	100,000
Bank loan 2017 principal and interest	741,350
Building "M" to be tourist operational	1,248,000

TOTAL	5,053,049
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FINANCIAL INCOME

Avaiable CIW to date	540,940
Share issue BSP and local partner	3,000,000
Possible loan from Tour Operator (358 units) N&M	1,500,000
Income owners with title deeds in "P"	574,661

TOTAL	5,615,601
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Financing Plan PHASE 2

FINANCIAL EXPENSES TO COMPLETE PHASE 2

Remaining construction building K & L	4,820,000
Phase 2 landscape and restaurants	2,000,000
Furniture K & L	995,000

TOTAL	7,815,000
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- BPS forward plans to finance the phase 2 construction are connected to the following factors:
 - ☐ Continuity in the great demand for hotel accommodation and willingness by tour operators to provide financing.
 - ☐ Sale of apartments in an operational resort
 - ☐ Operational profit
- BSP may consider finishing buildings “K” and “L” on the outside for summer season 2018 along with their respective commercial space and landscape

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

- Overseeing the execution of the building works.
- Securing the outside utility connection permits (W&S and electrical), vital for operating the resort Summer 2017, including construction
- Implement solution acquiring remaining assets in Aheloy Residence
- Evaluate risk and find proper solution for commercial assets in Aheloy Commercial
 - Historical court-cases and risk for new court cases
- Constructing the commercial areas, restaurants and new reception.
- Manage share issue
- Organizing for opening the resort and its hotel operations
- Sale of apartments.

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. Last year, Sunny Beach was ranked the friendliest for your wallet out of 84 destinations. Sunny Beach remains the best bet for bargain holiday hunters with all costs measured by the index total a mere EUR 43.21 per person for one night's stay (including meals, drink and entertainment).
- Bulgaria has finally emerged as a top overseas property destination in Europe, following the difficult situation in Turkey and North Africa, and by being able to offer price value packages at much competitive prices from its direct competitor Greece.
- For the first time in Bulgaria's history we do not have a single nationality dominating buyers. Now, from the start of 2016 the single largest group buying holiday property is actually Bulgarians (35%). Perhaps because prices are so much lower than they were, perhaps because of healthy rental returns for those who can self manage holiday lets.
- 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 vendors, who remain the majority owners of available secondary 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.



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.
- The average price 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.
- 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 last year. The total number of nights spent in the country (by foreigners and Bulgarians) was over 8 million for summer season 2016, 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 last 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 influence negatively at least short term property sales. Normally, on long term, the correlation between property prices and rental income will overcome the unproportioned figures observed today.
- During the course of 2016 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 as Poland, Czech Republic, Slovakia and others consider property purchases in Bulgaria.

Thank you for you attention.

