

ADVANCE TERRAFUND REIT

**ANNUAL REPORT OF THE ACTIVITY,
INDEPENDENT AUDITOR'S REPORT AND
ANNUAL FINANCIAL STATEMENTS**

December 31, 2008

(Unofficial translation of the original in Bulgarian)

**ANNUAL REPORT
ON THE ACTIVITIES FOR 2008**

Translation from Bulgarian

ADVANCE TERRAFUND REAL ESTATE INVESTMENT TRUST

ANNUAL REPORT ON THE
ACTIVITY

2008

ADVANCE TERRAFUND REIT

Advance TerraFund REIT (the Company) is a public joint-stock company established at Constituent Meeting held on 12 April 2005, having initial capital amounting to BGN 500 000 divided into 500 000 shares, at par value of BGN 1. The Company has been re-entered into the Commercial Register of the Registry Agency under UIC 131418187. The seat and management address of the Company are in Sofia, 57 Hristo Botev Blvd.

The Company's scope of activity includes investment of funds raised through public offering of equity in real estate (securitization of real estate) through purchase of rights of ownership and other property rights on real estates and real estate construction and improvements with the purpose of providing them for management, renting, leasing out and/or selling.

The special legislation concerning the activity of the Company is contained in and derives mainly from the Law on Special Investment Purpose Companies and the Law on Public Offering of Securities. Pursuant to these, the Company is subject to regulation by the Financial Supervision Commission. The Company holds License № 10-ДСИЦ/08.12.2005 issued pursuant to Decision № 452-ДСИЦ dated 14 July 2005 of the Financial Supervision Commission.

The Company is established for an unlimited period of time.

The Company has one-tier management system. The Board of Directors of the Company is in composition as follows: Radoslav Iliev Manolov – Executive Director, Borislav Vitanov Petkov – Chairman of the Board of Directors and Nencho Ivanov Penev – Member of the Board of Directors.

Karoll Finance EOOD, a shareholder owing 20.01% of the capital of Advance TerraFund REIT as of December 31, 2008, provides consultancy and other services such as administrative, accounting and recruitment services.

After the incorporation of the Company in 2005, the Company has performed four consequent capital increases and its capital as of December 31, 2008 amounts to BGN 85,110,091.

Investment strategy, purposes and limitations of the Company

Advance TerraFund REIT is a joint-stock special investment purpose company for securitization of real estate. The Company has the right to acquire property rights only on agricultural, urban and forest real estates located on the territory of the Republic of Bulgaria. As per the Statutes of Advance TerraFund REIT adopted at the Constituent Meeting of the Company held on 12 April 2005, its investment purposes are:

- To afford its shareholders the opportunity to invest in a diversified portfolio of real estates, following the principle of risk distribution;
- To ensure for its shareholders preservation and increase of the values of their investments through realization of steady revenues with a balanced risk distribution.

The strategy of the Company envisages investment in real estate meeting the requirements of Article 9 of the Statutes of Advance TerraFund REIT with the purpose of receiving current revenues from rental, leasing and conceded right of use agreements as well as through the sale of these real estates with a view of forming steady revenues. In order to achieve its main purpose, the Company may apply suitable strategies for protection from market and currency risks.

Financial objectives:

- Providing steadily increasing current revenues for the shareholders in the form of cash dividends through renting out the land owned by the Company;
- Maximizing the value of the shareholders' investments through constant active management of the assets of the Company and acquisition/sale of agricultural property;
- Diversification of the portfolio of agricultural property through investment in various types of agricultural property (arable land, land with perennial plants, vineyards, etc.) located in different regions of the Republic of Bulgaria with a view of reducing the non-systematic risks of the investment portfolio;
- Securing liquidity for the shareholders of the Company through listing the shares of Advance TerraFund REIT for trade at Bulgarian Stock Exchange - Sofia;
- Performing the necessary capital increases with the purpose of structuring a balanced portfolio of real estates.

The investment policy of the Company envisages investment of its raised capital in real estate determined according to their main and specific designations as per the development designs and the detailed development plan as follows:

- Landed property in urbanized territories /settlements and villages/ designated for residential, public, production, warehousing, resort, recreational and sports functions;
- Landed property in agricultural territories – arable land /fields, orchards and vineyards, meadows, etc./ and non-arable land;
- Landed property in forest territories – forests and forest land.

According to the investment policy of the Company, the investments in landed property represent up to 90% of the carrying amount of the assets of the Company for the respective year as per its annual financial statements.

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

- Securities issued or guaranteed by the Bulgarian state and bank deposits – without limitations;
- Mortgage bonds issued according to the procedures and under the provisions of the Law on Mortgage Bonds – up to 10% of the assets of the Company.

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

1. Information presented in values or quantities about the main categories of goods, products and/or rendered services, indicating their shares in the sales revenues of the Issuer as a whole and the changes during the reporting financial year.

The investment properties as of December 31, 2008, having total value of BGN 112,512 thousand, include agricultural land of approximately 262,612 decares amounting to BGN 89,741 thousand, properties in process of regulation of approximately 128 decares amounting to BGN 19,022 thousand and regulated real estate of approximately 11 decares

amounting to BGN 3,749 thousand, including revaluation up to fair value of BGN 33,535 thousand.

The investment properties as of December 31, 2007, having total value of BGN 91,929 thousand, include agricultural land of approximately 216,514 decare amounting to BGN 69,271 thousand, properties in process of regulation of approximately 121 decares amounting to BGN 19,159 thousand and regulated real estate of approximately 11 decares amounting to BGN 3,499 thousand, including revaluation up to fair value of BGN 33,282 thousand.

The total value of the investment properties, amounting to BGN 112,512 thousand as of December 31, 2008 includes revaluation increases amounting to BGN 2,253 thousand in 2008 and BGN 24,090 thousand in 2007, respectively. These revaluation increases are based on reports of an independent appraiser, licensed by the Ministry of Agriculture, hired by the Company to perform the annual revaluation of the investment properties according to Article 20, Paragraphs 1 and 2 of the Law on Special Investment Purpose Companies dated 23 March 2009 and 10 March 2008, respectively, for the revaluation increases in 2008 and 2007.

The Company has signed rental agreements for agricultural land of approximately 151,186 decares and 69,469 decares in 2008 and 2007 respectively. The revenues from rents realized in 2008 and 2007, amounting to BGN 2,495 thousand and BGN 886 thousand respectively, are reported in the income statement.

In 2008, four of the lawsuits against the Company, partially or fully concerning the right of ownership of agricultural land of 261 decares /six properties/ located in three regions in Silistra District, were finalized. The purchase of four properties was announced void and the related notary deeds were cancelled. The Company lost 100% of the right of ownership of four properties of total area of 216 decares, therefore they have been written off at carrying amount /BGN 84 thousand/ from the properties owned as at the end of the year. As to the other two lawsuits, the Company partially lost the right of ownership of land of 45 decares /4/5 shares/.

The total fair value of the properties, as to which lawsuits are initiated against the Company, concerning the right of ownership partially or fully, as at 31 December 2008 is BGN 1,559 thousand.

Two preliminary agreements for sale of agricultural land of 337 decares at the price of BGN 550 per decare were signed and performed through finalized transactions as of the preparation date of these financial statements.

2. Information about the revenues divided into separate categories of activities, domestic and foreign markets and information about the sources for supply of materials necessary for the production of goods or rendering of services, indicating the level of dependency for each separate seller or buyer/consumer, and in case the relative share of any of them exceeds 10 percent of the costs or sales revenues, information is provided on each person separately, its share in the sales or purchases and its relations with the issuer.

	Year ended 31.12. 2008	Year ended 31.12. 2007
Revenue from interests	1,016	296
Revenue from sales and exchanges of investment properties	-	266
Revenue from rents and leases of investment properties	2,495	886
Revenue from revaluation of investment properties, net	2,253	24,090
Other revenue	65	-
OPERATING REVENUE	5,829	25,538

ADVANCE TERRAFUND REIT is a joint-stock special investment purpose company for securitization of real estate. The Company functions as a collective scheme for investment in real estates. Securitization of real estates means that the Company purchases real estates with funds raised through the issue of securities /shares, bonds /.

Pursuant to the provisions of the Law on Special Investment Purpose Companies, the Company has the right to invest its raised funds only on the territory of the Republic of Bulgaria, which excludes foreign markets.

Sources for financing of the activity in 2008 are the funds raised through the capital increase realized in October.

The Company is not dependent on any buyers or sellers with shares of over 10% of the expenses or revenues of the Company.

3. Information about concluded major transactions or such of material importance for the activity of the Issuer.

In 2008, the Company has not concluded any major transactions or transactions of material importance.

4. Information about transactions concluded between the Issuer and related parties during the reporting period, proposals for conclusion of such transactions and transactions, which are outside its usual activity or deviate significantly from the market conditions, to which the Issuer or any of its subsidiaries is a party, indicating transaction values, relationship types and any information necessary for evaluation of the impact on the financial position of the Issuer.

During the reporting period, Advance TerraFund REIT does not have any related party transactions or proposals for conclusion of such transactions, as well as transactions that are outside its usual activity or deviate significantly from the market conditions. The Company has no subsidiaries and has no rights to establish such.

5. Information about events and indicators of nature unusual for the Issuer, having material impact on its activity and the realized revenues or incurred expenses and evaluation on their impact on the results for the current year.

There were no events or indicators of nature unusual for the Company in 2008.

6. Information about off-balance sheet transactions – nature and business purpose, indicating the financial impact of the transactions on the activity if the risks and benefits related to such transactions are material for the Issuer and if the disclose of this information is material for the evaluation of the financial position of the Issuer.

The Company does not have any off-balance sheet transactions.

7. Information about shareholdings of the Issuer, its main investments in the country and abroad (in securities, financial instruments, intangible assets and real estates) and investments in share securities outside its economic group and sources/means of financing.

The Company does not have any shareholding or investment in share securities.

7.1. Sources of funding of Advance TerraFund REIT

- Share capital

The share capital of Advance TerraFund REIT amounts to BGN 85,110,091 divided into 85,110,091 ordinary registered dematerialized shares, at par value of BGN 1.

By the end of the reporting period, the Company successfully performed five increases in the capital, which is fully paid in the form of contributions in cash. The fifth increase was finalized in October 2008, resulting in the additional raise of 41,054,033 shares, at par value of BGN 1 and issue value of BGN 1.90. The charges, commissions and other direct costs related to the public offering of the new issue of shares at the total amount of BGN 812,128 have been reported as decrease in the issue premium reserves.

- Bank loans

The Company repaid all its bank loan liabilities by the end of the reporting period.

7.2. Investment properties of Advance TerraFund REIT

The investment properties as at 31 December 2008, having total value of BGN 112,512 thousand, include agricultural land of approximately 262,612 decares amounting to BGN 89,741 thousand, properties in process of regulation of approximately 128 decares amounting to BGN 19,022 thousand and regulated real estate of approximately 11 decares amounting to BGN 3,749 thousand, including revaluation up to fair value of BGN 33,535 thousand.

The investment properties as at 31 December 2007, having total value of BGN 91,929 thousand, include agricultural land of approximately 216,514 decares amounting to BGN 69,271 thousand, properties in process of regulation of approximately 121 decares amounting to BGN 19,159 thousand and regulated real estate of approximately 11 decares amounting to BGN 3,499 thousand, including revaluation up to fair value of BGN 33,282 thousand.

The total value of the investment properties amounting to BGN 112,512 thousand as of December 31, 2008 includes revaluation increases amounting to BGN 2,253 thousand in 2008 and BGN 24,090 thousand in 2007, respectively. These revaluation increases are based on reports of an independent appraiser, licensed by the Ministry of Agriculture, hired by the Company to perform the annual revaluation of the investment properties according to Article 20, Paragraphs 1 and 2 of the Law on Special Investment Purpose Companies dated 23 March 2009 and 10 March 2008 respectively for the revaluation increases in 2008 and 2007.

Land categorization:

The agricultural land in Bulgaria is assigned average agricultural rating aimed to evaluate the suitability of the land for growing of agricultural crops. According to suitability, it ranges from 1 to 10. Category 1 is the most suitable for agriculture and category 10 is the most unsuitable. Most of the agricultural land in Bulgaria falls within categories 3 to 6 and most of the land purchased by the Company is in these categories.

Table No 1: Allocation of the land purchased by ADVANCE TERRAFUND REIT by categories.

Land category	Area in decares	% of the total volume of purchased land
1	357	0.14 %
2	6 529	2.49 %
3	94 396	35.95 %
4	89 298	34.00 %
5	47 078	17.93 %
6	19 892	7.57 %
7	3 295	1.25 %
8	407	0.15 %
9	943	0.36 %
10	417	0.16 %
TOTAL	262 612	100 %

In the process of land selection, the Company has focused on investments in regions of the country characterized with well-developed rental relations, the allocation of which is given in Table No 2.

Table No 2: Allocation of the land purchased by ADVANCE TERRAFUND REIT by regions.

REGION	PURCHASED DECARES	% OF THE TOTAL VOLUME
Northwestern	35 504	13%
Central Northern	78 437	30%
Northeastern	119 865	46%
Southeastern	8 905	3%
Central Southern	19 901	8%

8. Information about transactions concluded by the Issuer, any of its subsidiaries or the parent company in the capacity of borrowers, loan agreements and their terms and conditions, including repayment deadlines and information about guarantees given and obligations undertaken.

As of December 31, 2008, Advance TerraFund REIT does not have any liabilities under loan agreements.

9. Information about agreements signed by the Issuer, by any of its subsidiaries or the parent company in their capacity of lenders, loan agreements, including provision of guarantees of any kind, including guarantees to related parties indicating the specific terms and conditions of such agreements, including repayment deadlines and loan purposes.

The Company has not signed any loan agreements in the capacity of lender and has not provided any guarantees to third parties.

10. Information about the utilization of the funds raised through a new issue of securities during the reporting period

In 2008, the Company successfully performed the fifth increase in its capital through the issue of 41,054,033 shares, at par value of BGN 1 and issue value of BGN 1.90. The funds raised through the increase will be invested in real estates in compliance with the investment policy of the Company, and namely:

- Landed property in urbanized territories /settlements and villages/ designated for residential, public, production, warehousing, resort, recreational and sports functions;
- Landed property in agricultural territories – arable land /fields, orchards and vegetable gardens, vineyards, meadows, etc./ and non-arable land;
- Landed property in forest territories – forests and forest land.

11. Analysis of the ratio between the achieved financial results reported in the financial statements for the financial year and projected results published earlier

The Company has not published any forecasts for the financial results reported in the financial statements for 2008.

12. Analysis and evaluation of the policy regarding the management of the financial resources, indicating the means for debt servicing, potential threats and measures undertaken or to be undertaken by the Issuer in view of their elimination

The Company uses debt financing after investment of the raised share capital. The policy of the Company is to sign short-term bridge credit agreements until the next capital increase. The gearing ratio /debt to equity/ at the end of the year is as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Debt	4 707	10 956
Cash in hand and cash equivalents	(49 839)	(514)
Net debt	(45 132)	10 442
Equity	160 508	82 579
Net debt/Equity ratio	N/A	13%

13. Evaluation of the potential for investment intentions realization, indicating available funds and possible changes in the funding structure for this activity

The internal sources of liquidity as at the end of 2008 are sufficient to provide for the investment process, therefore the Company does not need any external financing.

The ability of the Company to cover its current expenses and to realize its investment intentions can be expressed through the 2008 liquidity ratios.

General liquidity ratio

	2008	2007	2006
Current assets	BGN 52,703 thousand	BGN 1,606 thousand	BGN 7,822 thousand
Current liabilities	BGN 4,707 thousand	BGN 10,956 thousand	BGN 12,239 thousand
General liquidity ratio	11.20	0.15	0.64

Due to the nature of the capital increases of the Company, upon each future increase of the capital there will be a temporary increase of the liquidity of the Company at the time of utilization of the capital until its full investment or reduction of the liquidity at the time of the increase procedure.

	2008	2007	2006
Total current assets	BGN 52,703 thousand	BGN 1,606 thousand	BGN 7,822 thousand
Total current liabilities	BGN 4,707 thousand	BGN 10,956 thousand	BGN 12,239 thousand
Net working capital	BGN 47,996 thousand	BGN (9,350) thousand	BGN (4,417) thousand

The considerably increased liquidity as at 31 December 2008 compared to prior-year liquidity is the result of the realized increase in the capital of the Company.

14. Information about changes in the key management principles of the Issuer and its economic group during the reporting period

During the reporting period, no changes in the key management principles of the Issuer and its economic group occurred.

15. Information about the main characteristics of the internal control system and risk management system applied by the Issuer in the process of preparation of the financial statements

The Company prepares and presents its financial statements in compliance with the International Financial Reporting Standards issued by the International Accounting Standards Board and the Interpretations on their application issued by the International Financial Reporting Interpretations Committee, adopted by the Commission of the European Union and applicable in the Republic of Bulgaria.

The internal control and risk management system applied in the process of preparation of the financial statements is related to the providing of reliable and free-of-misstatement information about the results of the Company. For the purpose of this dynamic process, the management has created a suitable organization and ensured the necessary personnel. The system prevents errors or violations and allows for their identification within reasonable intervals of time.

The internal control ensures the storage and protection of the assets, the proper reporting and accounting of the transactions and the effective and efficient achievement of the purposes of the Company, meeting the requirements of the legislation and the management policy.

The internal control system has the following components:

- Control environment;
- Risk assessment;
- Controlling operations;
- Information and communication system;
- Monitoring and corrective measures.

16. Information about changes in the management and supervisory bodies during the reporting financial year

During the reporting period, no changes in the management and supervisory bodies occurred.

17. Information about the remunerations, awards and/or benefits of each member of the management and supervisory bodies for the reporting financial year paid by the Issuer and its subsidiaries no matter whether they are included in the expenses of the Issuer or originate from profit distribution, including:

a) Received amounts and non-monetary remunerations;

As per the Statutes of the Company, each of the members of its Board of Directors receives a monthly remuneration of an amount determined by the General Meeting, which cannot exceed 10 /ten/ times the amount of the minimal salary determined for the country.

Borislav Vitanov Petkov	BGN 19 200
Radoslav Iliev Manolov	BGN 30 000
Nencho Ivanov Penev	BGN 19 200

The Company does not apply any policy for allocation of non-monetary remunerations.

b) Conditional or deferred remunerations arising during the year, even if they are due later;

The Company has not allocated any conditional or deferred remuneration.

c) Amounts payable by the Issuer or its subsidiaries for pensions, retirement benefits or other similar compensations;

The Company does not owe any amounts for pensions, retirement benefits or other similar compensations.

18. Information about shares of the Issuer held by members of the management and supervisory bodies, procurators and chief executives, including the shares held by each of them separately and as percentage of the shares of each class and options on the securities of Issuer provided by the latter – type and amount of the securities on which options have been set up, price of options exercising, purchase price, if any, and options terms

Person	Radoslav Iliev Manolov	
Position	Executive Director	
Number of voting shares in the capital as at 31 December 2008		91 001
Percentage of the capital as at 31 December 2008		0.11%

Person	Borislav Vitanov Petkov	
Position	President of the Board of Directors	
Number of voting shares in the capital as at 31 December 2008		15 001
Percentage of the capital as at 31 December 2008		0.02%

The Company has not provided any options on its securities.

19. Information about arrangements (including after the closure of the financial year) that may result in future changes in the relative share of shares or bonds owned by present shareholders or bondholders, of which the Company is aware

The Company is not aware of any arrangements as at 31 December 2008 or the date of this Annual Management Report that may result in future changes in the relative share of shares or bonds owned by present shareholders or bondholders.

20. Information about pending lawsuits, administrative or arbitration procedures concerning liabilities or receivables of the Issuer totalling at least 10% of its equity, including individual information about each procedure if the total liabilities or receivables of the Issuer related to all procedures exceed 10% of its equity

The Company is not involved in any pending lawsuits, administrative or arbitration procedures concerning liabilities or receivables totalling at least 10% of its equity.

21. Data about the Investor Relations Director, including telephone number and correspondence address

Pursuant to the provisions of Article 116 of the Law on Public Offering of Securities and the Statutes of the Company, the Investor Relations Director employed under a labour agreement is Atanas Todorov Dimitrov.

Correspondence address and telephone:

1 Zlatovrah Street, 1164 Sofia

Telephone: +3592 4008 332, e-mail: adimitrov@karol.bg /net/

22. Changes in the prices of the Company's shares during the period 1 January 2008 – 31 December 2008

Аванс Терафонд



23. Analysis and explanation of the information in Appendix No 11

23.1. Structure of the capital of the Company, including securities not admitted to trading on a regulated market in the Republic of Bulgaria or another member state, indicating the different classes of shares, the rights and obligations for each class of shares and the share of each separate class of the total capital

The structure of the capital of Advance TerraFund REIT as at 31 December 2008 is as follows:

- Capital of Advance TerraFund REIT: BGN 85 110 091 divided into 85 110 091 ordinary registered dematerialized shares, each having nominal value of BGN 1;
- Shares acquired by legal entities – 113 legal entities holding a total of 75 432 231 shares of the capital of Advance TerraFund REIT;
- Shares acquired by individuals – 777 individuals holding a total of 9 677 860 shares of the capital of Advance TerraFund REIT.

23.2. Restrictions applicable to securities transfer – restrictions on securities holding or a requirement for approval by the Company or another shareholder

The Statutes of Advance TerraFund REIT do not provide for any restrictions on securities holding or a requirement for approval of Company's shares transfer by the Company or another shareholder.

23.3. Information about direct or indirect ownership of 5% or more of the voting rights in the General Meeting of the Company, including data about the shareholders, the amount of their shareholdings and the manner of shares holding

The shareholders of Advance TerraFund REIT – individuals holding directly or indirectly 5% or more of the voting shares of the Company as at 31 December 2008 are:

Name	Stanimir Marinov Karolev	
Manner of shares holding		Indirectly
Number of voting shares in the capital as at 31 December 2008		17 854 808
Percentage of the capital and the votes in the General Meeting		20.98%

The shareholders of Advance TerraFund REIT – legal entities holding directly or indirectly 5% or more of the voting shares of the Company as at 31 December 2008 are:

Name	Karoll Finance EOOD	
Seat and address:	57 Hristo Botev Boulevard, Sofia	
BULSTAT	131421411	
Number of voting shares in the capital as at 31 December 2008		17 026 276
Percentage of the capital and the votes in the General Meeting		20.01%

Name	INTERNATIONAL FINANCE CORPORATION	
Seat and address:	2121 PENNSYLVANIA AVE, NW STREET, WASHINGTON DC, USA 20433	
BULSTAT	0019930728	
Number of voting shares in the capital as at 31 December 2008	15 068 523	
Percentage of the capital and the votes in the General Meeting	17.70%	

23.4. Data about shareholders with special control rights and description of such rights

Advance TerraFund REIT does not have any shareholders with special control rights.

23.5. System for control in exercising voting rights when employees of the Company are also its shareholders and when control is not exercised directly by them

Pursuant to the provision of Article 21, Paragraph 1 of the Statutes of Advance TerraFund REIT: *"Each share shall give its holder the right to one vote, the right to dividend and the right to liquidation quota unless otherwise provided for in the decision of the Company's body on a the particular issue of shares. A Company's body shall not provide more than 1 /one/ vote per share."*

Pursuant to Article 22 of the Statutes of Advance TerraFund REIT: *"Each share shall give its holder the right to one vote in the General Meeting of Shareholders unless issued as a non-voting share. Voting rights shall be exercised by the persons entered in the registers of the Central Depository as shareholders 14 days prior to the date of the particular session of the General Meeting."*

23.6. Restrictions on the voting rights such as restrictions on the voting rights of shareholders holding a certain percentage or number of votes, deadline for voting rights exercising or systems where the financial rights related to the shares are independent from the shares holding with the cooperation of the Company

The Statutes of Advance TerraFund REIT do not provide for any restrictions on the voting rights.

23.7. Agreements between shareholders that may result in restrictions on transfer of shares or voting rights, of which the Company is aware

Advance TerraFund REIT is not aware of any agreements between shareholders that may result in restrictions on transfer of shares or voting rights.

23.8. Provisions regarding the employment and release of the members of the management bodies of the Company and amendments and supplements to the Statutes

The Company is managed and represented by Board of Directors consisting of 3 active individuals and/or legal entities elected by the General Meeting of Shareholders.

The Board of Directors is elected for a mandate of 5 /five/ years and the members of the first Board of Directors are elected for a mandate of 3 /three/ years. The members of the Board of Directors can be re-elected without restriction. After the expiry of the mandate of the members of the Board of Directors, they continue to exercise their duties until the election of new Board of Directors by the General Meeting of Shareholders.

The Company's operations are managed by Executive Director elected by the Board of Directors with a majority of 2/3 of the votes. The mandate of the Executive Director is the same as the mandate of the Board of Directors but the same continues to perform his/her duties until the election of new Executive Director. The management powers of the Executive Director are determined with the decision of the Board of Directors on his/her election and the management agreement. The powers assigned to the Executive Director may be withdrawn at any time with a decision of the Board of Directors made with the majority necessary for his/her election. For his/her overall activity, the Executive Director is responsible to the Board of Directors. At each regular meeting of the Board of Directors, the Executive Director reports on his/her current activities. In the absence of the Executive Director, his/her functions related to the management of the Company are exercised temporarily by the President of the Board of Directors.

The Statutes of Advance TerraFund REIT may be amended and supplemented by the General Meeting of Shareholders only.

23.9. Powers of the management bodies of the Company, including the right to make decisions on issue and back purchase of shares of the Company

The members of the Board of Directors have equal rights and obligations regardless of the internal allocation of their functions and the granting of management and representation rights to some of them. The Board of Directors makes decisions on the activity of the Company insofar as such decisions are not within the exclusive competence of the General Meeting pursuant to the effective legislation and the Statutes.

Within 5 /five/ years as of the date of incorporation of the Company, the Board of Directors may increase the capital of the Company through the issue of new shares. The total amount, with which the capital of the Company may be increased according to the previous sentence, cannot exceed BGN 150 000 000 /one hundred and fifty million Bulgarian leva/. The Board of Directors has not any right to make decisions on back purchase of shares of the Company.

23.10. Major agreements of the Company, which require actions or undergo amendment or termination due to changes in the control of the Company in case of mandatory tender offering and related consequences unless the disclosure of such information may result in material damage to the Company, such exception being inapplicable if the Company is obliged to disclose the information by law

Advance TerraFund REIT is not a party to any agreements, which require actions or undergo amendment or termination due to changes in the control of the Company in case of mandatory tender offering.

23.11. Agreements between the Company and its management bodies or employees for payment of compensation upon leaving or dismissal without legal grounds or upon termination of the labour relations for reasons related to tender offering

There are not any agreements between Advance TerraFund REIT and its management bodies or employees for payment of compensation upon leaving or dismissal without legal grounds or upon termination of the labour relations for reasons related to tender offering.

24. Other information disclosed at the discretion of the Company

The Company continues to invest in agricultural land and landed property in urbanized territories. The trend for 2009 is fall in the prices of the two main types of land purchased by the Company, which is quite favourable for the Company. The Company has entered into negotiations for the sale of some of its properties in urbanized regions.

The management expects renting out of agricultural land of over 200 000 decares in 2009. 175 000 decares were rented out by the date of this Annual Management Report. All receivables for the 2008-2009 financial year are insured by BAEZ, which mitigates the risk of bad receivables of the Company.

On the initiative of Advance TerraFund REIT, Local Committee of Agricultural Land Owners was established in 2008 in Katounets Village, Ougarchin Municipality, to implement the first land consolidation project in the country. In January 2009, the Minister of the Ministry of Agriculture and Food signed Order for preparation of a plan for agricultural land consolidation. Project consultants are DLG, the Dutch Water and Land Management Service and the Bulgarian Ministry of Agriculture and Food.

Radoslav Manolov
Executive Director

A handwritten signature in blue ink, which is a stylized, flowing line, is positioned above a circular blue stamp. The stamp contains the text "ADVANCE TERRAFUND REIT" around the perimeter and a central emblem featuring a stylized landscape with a sun or moon and a tree.

7 April 2009

**INDEPENDENT AUDITOR'S REPORT AND
ANNUAL FINANCIAL STATEMENTS
DECEMBER 31, 2008**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008, of its financial performance and its cash flows for the year then ended, in accordance with the IFRS, as adopted by the European Union Commission.

Emphasis of matter

Without qualifying our opinion, we draw attention to the following:

As disclosed in note 15 to the accompanying financial statements, at the end of 2008 and the beginning of 2009, as a result of the global economic crisis different industries and sectors in the Bulgarian economy have marked a decline which causes a material uncertainty and risk for their development in the foreseeable future. The declining rates of economic development increase the risks for the economic environment in which the Company operates. The crisis has a material effect on the global financial markets in particular on the markets in which the Company invests, namely the markets of agricultural land and regulated properties which marked a decline. The negative trends in the development of the financial crisis cause material uncertainty regarding the accounting estimates and future losses. The recoverability of the investments and maintaining of the Company's liquidity ratios depend on the development of the global crisis and particularly on the specifics of the Bulgarian real estate markets.

Other Reports on regulatory requirements - Annual report on the activities of the Company, prepared by management, according to article 13 of the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4 we have read the accompanying Annual report on the activities of the Company, prepared by management. The Annual report on the activities of the Company, prepared by management, is not a part of the financial statements. The historical financial information presented in the Annual report on the activities of the Company, prepared by management, is consistent, in all material respects, with the annual financial information disclosed in the financial statements of the Company as of December 31, 2008, prepared in accordance with the IFRS, as adopted by the European Union Commission. Management is responsible for the preparation of the Annual report on the activities of the Company, dated April 7, 2009.

Deloitte Audit

Deloitte Audit OOD

S. Peneva

Sylvia Peneva
Managing Director
Registered Auditor



April 7, 2009
Sofia

ADVANCE TERRAFUND REIT

BALANCE SHEET

As of December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

	Note	As of 31.12.2008	As of 31.12.2007 - revised
ASSETS			
Investment properties	4	112,512	91,929
Rest and other receivables	5	2,864	1,092
Cash and cash equivalents	6	49,839	514
TOTAL ASSETS		165,215	93,535
LIABILITIES			
Bank loans		-	8,000
Current liabilities	7	4,707	2,956
TOTAL LIABILITIES		4,707	10,956
NET ASSETS		160,508	82,579
EQUITY			
Share capital	8	85,110	44,056
Share issue premium		43,411	7,274
Retained earnings		31,249	7,778
Net profit for the current period		738	23,471
TOTAL EQUITY		160,508	82,579

These financial statements are approved by the Board of Directors and signed on behalf of Advance TerraFund ADSIC on April 7, 2009 by:


Radoslav Manolov
Executive Director




Yana Georgieva
Chief Accountant

The accompanying notes form an integral part of these financial statements.

ADVANCE TERRAFUND REIT

INCOME STATEMENT

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

	Note	Year ended 31.12.2008	Year ended 31.12.2007 - revised
Interest income		1,016	296
Income from sale and exchange of investment properties	4	2	692
Carrying amount of properties sold		(2)	(426)
		-	266
Income from rent of investment properties	4	2,495	886
Gain on revaluation of investment properties, net	4	2,253	24,090
Other income		65	-
OPERATING INCOME		5,829	25,538
Hired services	9	(3,183)	(1,744)
Employee benefits expense		(115)	(67)
Finance costs	10	(1,007)	(231)
Impairment losses on receivables		(47)	-
Other expenses	11	(739)	(23)
OPERATING EXPENSES		(5,091)	(2,067)
NET PROFIT		738	23,471
Earnings per share (BGN)	14	0.01	0.55

These financial statements are approved by the Board of Directors and signed on behalf of Advance TerraFund ADSK on April 7, 2009 by:


Radoslav Manolov
Executive Director




Yana Georgieva
Chief Accountant

The accompanying notes form an integral part of these financial statements.

ADVANCE TERRAFUND REIT

CASH FLOW STATEMENT

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

	Year ended 31.12.2008	Year ended 31.12.2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and contractors	(646)	(871)
Proceeds from rentals and sales	3,592	2,196
Payments to employees	(173)	(124)
Taxes paid (exc), corporate income tax	(60)	-
Other cash flows used in operating activities	(3,496)	(1,560)
Purchase of investment properties	(19,562)	(20,727)
NET CASH FLOW USED IN OPERATING ACTIVITIES	(20,345)	(31,086)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of share capital	78,003	21,243
Proceeds from bank loans	26,108	8,000
Payments on bank loans	(34,110)	(5,000)
Other cash flows from financing activities	(331)	125
NET CASH FLOW PROVIDED BY FINANCING ACTIVITIES	69,670	24,370
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	49,325	(6,716)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	514	7,230
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	49,839	514

These financial statements are approved by the Board of Directors and signed on behalf of Advance TerraFund ADSIC on April 7, 2009 by:


Radoslav Manolov
Executive Director




Yonka Georgieva
Chief Accountant

The accompanying notes form an integral part of these financial statements.

ADVANCE TERRAFUND RIIT

STATEMENT OF SHAREHOLDERS' EQUITY

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

	Share capital	Share issue premiums	Retained earnings	Total
BALANCE AS OF DECEMBER 31, 2006	22,087	2,209	7,778	32,074
Increase of share capital in 2007 - restated	21,969	5,065	-	27,034
Net profit for 2007 - restated	-	-	23,471	23,471
BALANCE AS OF DECEMBER 31, 2007 (RESTATED)	44,056	7,274	31,249	82,579
Increase of share capital in 2008	41,054	36,137	-	77,191
Net profit for 2008	-	-	738	738
BALANCE AS OF DECEMBER 31, 2008	85,110	43,411	31,987	160,508

These financial statements are approved by the Board of Directors and signed on behalf of Advance TerraFund ADSIC on April 7, 2009 by:


Radoslav Manolov
Executive Director




Yana Georgieva
Chief Accountant

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

I. GENERAL INFORMATION

Advance TerraFund REIT

Advance TerraFund REIT ("the Company", "the Fund") is a public joint stock company set up at a Constituent meeting on April 12, 2005. Its initial registered capital amounts to BGN 500,000, divided into 500,000 shares with par value of BGN 1 per share. The Company is registered again into the Trade Register at the Registry Agency under UIC 131418187. Its registered seat and address of operation is 57 Hristo Botev Blvd., Sofia.

The Company's scope of activity comprises investment of funds raised through public offering of the company's equity securities; investment in real estate (securitization of real estate) through purchase of ownership and other property right on real estate; development and improvement of real estate for the purpose of the real estate being used, rented, leased, and/or sold.

The Company's activity is regulated by specific legislation, mainly consisting of the Special Investment Purpose Companies Act (SIPCA) and the Public Offering of Securities Act (POSA). According to these laws, the Company is subject to supervision by the Financial Supervision Commission (FSC). The Company obtained license № 10, dated December 8, 2005 for its activities, under Decision № 452 issued by the FSC on 14 July 1, 2005.

The Company is incorporated for an indefinite period.

The Company has one-tier management structure. The members of the Company's Board of Directors (BoD) are as follows: Radostav Iliev Manolov –Executive Director, Borislav Vitanov Petkov – Chairman of the BoD and Nencho Ivanov Penov – Member of the BoD.

Karol Finance EOOD is a service company of Advance TerraFund REIT, as of December 31, 2008 which owns 20.01% of the share capital of the Company; provides consulting and other services such as administrative, accounting and recruitment services to the Company.

Since the Company's incorporation in 2005, there have been five successive capital increases and the Company's share capital as of December 31, 2008 amounts to BGN 85,110,091.

Investment strategy, objectives and restrictions of the Company

Advance TerraFund REIT is an investment company with special investment purpose: securitization of real estate. The Company can acquire property rights on agricultural, urban, suburban and forest land, located on the territory of the Republic of Bulgaria. Pursuant to the Company's Articles of Association, approved at the Constituent meeting on April 12, 2005, the Company's investment objectives are as follows:

- Provide its shareholders with the opportunity to invest in a diversified real estate portfolio, based on the risk diversification principle;
- Ensure the preservation and the increase in value of shareholders' investments by means of generation of stable income at a balanced risk diversification.

The Company's strategy prescribes investments in real estate pursuant to Article 9 of the Articles of Association of Advance TerraFund REIT with the purpose of generating current income from rentals, lease, coded right of use, as well as by means of sale of real estate in order to generate stable income. In order to achieve its main goal the Company is free to apply proper strategies for market and currency risk management.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

1. GENERAL INFORMATION (CONTINUED)

Investment strategy, objectives and restrictions of the Company (continued)

The Company's financial goals are:

- Ensure stable income growth for the shareholders in the form of cash dividend, by renting out the owned real estate property;
- Maximize the value of the shareholders' investments, through continuous active management of the Company's assets and acquisition/sale of agricultural land;
- Diversification of the agricultural land portfolio through investing in various types of agricultural land (arable land, perennial plant land, vineyards, etc.), situated in different regions of Bulgaria, with the purpose of minimizing the non-systematic risk of the whole investment portfolio;
- Ensure liquidity for the shareholders by registering the shares of Advance Terrafund REIT for trading at the Bulgarian Stock Exchange - Sofia;
- Conduct the necessary increase in share capital in order to create a structured balanced portfolio of investment property.

According to its investment policy, the Company should invest the accumulated capital in real estate with clear main and specific purposes, according to the organizational schemes and plans and the detailed organizational plan. The real estate investment portfolio includes the following:

- Land in urbanized territories /urbanized areas and towns and villages/ – fit for residential, public, industrial, storage, resort, sports and entertainment functions;
- Land in agricultural territories – arable land /fields, fruit and vegetable gardens, vineyards, meadows and others/ and uncultivated land;
- Land in forest territories – forests and forest land.

It is the Company's investment policy to maintain its real estate investment portfolio equivalent to 90% of the net book value of the Company's total assets as reported in its annual financial statements.

The Company may also invest the available financial resources of the Company in the following:

- Securities, issued and guaranteed by the Bulgarian State and bank deposits – without limits;
- Mortgage obligations, issued in accordance with the Mortgage Obligations Act – up to 10% of Company's assets.

The Special Investment Purpose Companies Act permits investment up to 10% of Company's capital in one or more servicing companies.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Company prepares and presents its financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Union Commission (the Commission) and applicable in the Republic of Bulgaria. IFRS as adopted by the Commission do not differ from IFRS, issued by the IASB, and are effective for reporting periods ended as of December 31, 2008, except for certain requirements for hedge reporting in accordance with the IAS 39 Financial Instruments: Recognition and Measurement, which has not been adopted by the Commission. The management believes that if the hedge requirements have been approved by the Commission it would have no influence on these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

SIPCA requires the investment property to be valued at the end of each financial year. At the end of each financial year, the investment property is valued by a licensed independent appraiser accredited by the Ministry of Agriculture in compliance with Article 20, para 1 and 2 of SIPCA. In valuating the Company's investment property as of December 31, 2007 and December 31, 2008, the independent appraiser used the model "fair market value" (see note 3).

During 2008 the Company has adopted all new and revised IFRS by IASB, as approved by the Commission, effective for 2008, which refer to the Company's business, such as amendments of IAS 39 Financial Instruments: Recognition and Measurement (effective July 1, 2008).

The application of these amendments and interpretations has not resulted in changes of the accounting policy to the Company.

Changes in IFRS

The following IFRS, amendments to IFRS and interpretations are adopted by IASB and IFRIC as of the date of issue of these financial statements, but are effective for annual periods after July 1, 2008, as stated below:

- Amendments to IFRS 1 First-time Adoption of IFRS and related amendments to IAS 27 (effective for annual periods beginning on or after January 1, 2009) - approved by the Commission;
- IFRS 1 (Revised) First-time Adoption of IFRS (effective for annual periods beginning on or after July 1, 2009);
- Amendments to IFRS 2 Share-based Payment (effective for annual periods beginning on or after January 1, 2009) – approved by the Commission;
- IFRS 3 (Revised) Business Combinations and related amendments in IAS 27, IAS 28 and IAS 31 (effective for annual periods beginning on or after July 1, 2009);
- Amendments to IFRS 7 Financial Instruments: Disclosure (effective for annual periods beginning on or after January 1, 2009);
- IFRS 8 Operating Segments (effective for annual periods beginning on or after January 1, 2009) – approved by the Commission;
- IAS 1 (Revised), Presentation of Financial Statements (effective for annual periods beginning on or after January 1, 2009) – approved by the Commission;
- IAS 23 (revised) Borrowing Costs (effective for annual periods beginning on or after January 1, 2009) – approved by the Commission;
- Amendments to IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 1, 2009);
- Amendments to IAS 32 Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009) – approved by the Commission;
- Amendment to IAS 39, Financial Instruments: Recognition and Measurement regarding reclassification of financial assets (effective for annual periods beginning on or after 1 July 2008);
- Amendments to IAS 39, Financial Instruments: Recognition and Measurement regarding hedging instruments (effective for annual periods beginning on or after July 1, 2009);
- Improvements to IFRS 2008 - approved by the Commission (effective for annual periods beginning on or after January 1, 2009), regarding the presentation, recognition and measurement principles set in IFRS 5, IFRS 7, IAS 1, IAS 7, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

Changes in IFRS (continued)

- IFRIC 11, IFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2008) – approved by the Commission;
- IFRIC 12 Service Concessions Arrangements (effective for annual periods beginning on or after January 1, 2008);
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after January 1, 2009) – approved by the Commission;
- IFRIC 14, IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after January 1, 2009) – approved by the Commission;
- IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after January 1, 2009);
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after October 1, 2008);
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 1, 2009);
- IFRIC 18 Transfer of Assets from Customers (effective on or after July 1, 2009).

Most of the IFRS and IFRIC stated above are not applicable to the Company's activity and will have no material effect on the financial statements.

The following amendments to the standards and interpretations might have material effect on the financial statements:

- The Revised IAS 1 Presentation of Financial Statements, which requires information in the financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income.
- The amendment to IAS 40 Investment property, which requires the classification of property under construction for investment purposes as investment property under IAS 40.

These financial statements have been prepared under the historical cost convention except for the investment properties recognised at fair value. Other financial and non-financial assets and liabilities are reported at amortized or historical cost.

Accounting assumptions and accounting estimates

The preparation and presentation of the financial statements in compliance with IFRS requires management to apply some accounting assumptions and estimates which affect the reported assets and liabilities, income and expenses, contingent assets and liabilities. Although these assumptions and estimates are based on the best management's expectations and the available information as of the date of the financial statements, the actual results may differ from expected ones.

The Company's major uncertainty regarding accounting assumptions and accounting estimates relates to the measurement of the fair value of investment properties (see note 3).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

Functional and presentation currency

The Company keeps its records and prepares its financial statements in the national currency of the Republic of Bulgaria - the Bulgarian Lev, which is the functional currency of the Company. Effective January 1, 1999, the Bulgarian Lev is pegged to the EUR at the rate of BGN 1.95583 = EUR 1.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment property

The properties in which the Company is interested to invest are lands held for generating of rental income or with the purpose for share capital increase.

Investment property is initially valued at cost, including the acquisition price, as well as all expenses incidental to or related to the acquisition of the investment property. Subsequent expenses, related to the investment property are added to the carrying amount of the investment property, when a probability exists that there would be future economic benefits, exceeding the initial expectations for the performance of the investment property.

Subsequent valuation of the investment property is carried out by applying the fair value model, which is used for valuation of investment property after its initial valuation at acquisition cost. By applying the fair value model, changes in fair values are recognized in the income statement.

At the end of each financial year, the investment property is valued by a licensed independent appraiser accredited by the Ministry of Agriculture in compliance with Article 20, items 1 and 2 of SIFCA. In valuating the Company's investment property as of December 31, 2007 and December 31, 2008, the independent appraiser used the "fair market value" model. The fair market value (FMV) means the most probable value, at which a specific asset could be traded on a competitive market, keeping all conditions for a fair sale, namely: the buyer and the seller are aware of their actions, well informed about the respective asset and are guided by their own interests, both are acting of their own free will, taking into consideration the fact that the term of execution of the comparable transactions should not be reasonably long.

The following methods for valuation of agricultural land are applied:

- current market prices method;
- comparative sales method (market analogues);
- liquidation value method.

Current market prices method, according to Regulation for the conditions and the order for establishing current market prices for agricultural land, takes into consideration the particular characteristics of the property (qualitative, quantitative, location, condition, etc.). Market value of land is determined by applying differentiated administrative coefficients, based on the characteristics of the agricultural land to be valued. This market value could be used in various transactions between the State and individuals and/or corporate bodies such as purchase, substitution, etc. By using this valuation method the value of the property is the multiple of three quantities: the initial price of the land, the sum of the correctional coefficients plus 1 and the respective area of the property.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment property (continued)

Comparative sales method (market analogs) – by applying this method the value of the land is determined by comparison with sales of land with the same or similar characteristics, and where information about the sale (including prices) is available and reliable. The closer the valuation date is to the time of transactions, the more reliable is the resulting market price of the land subject to revaluation.

Liquidation value method – the liquidation value is considered as the lowest limit possible for the valuation of an asset. This is the value, which could be gained in the medium-run sale of the property. The independent appraiser considers the liquidation value to be 80% of the current market price value.

The Company has entered into leasehold agreements on its investment properties and retains all significant risks and rewards of ownership on these properties.

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, current accounts with banks and short-term deposits with banks with maturity up to twelve months.

Financial instruments

All financial assets and liabilities are initially measured at fair value, which is usually the value of the consideration given (in respect of a financial asset) or received (in respect of a financial liability). Financial assets include financial assets held for trading, loans and receivables, held to maturity and financial assets available for sale. Financial assets held for trading and available for sale are subsequently valued at fair values where changes in fair values are recognized as income or loss in the income statement (in case of assets held for trading) or recorded in equity (in case of available for sale financial assets). Loans and receivables and held to maturity financial assets, which are subsequently valued at amortized cost using the effective interest rate method.

Debt and equity instruments are classified in accordance with the contract as financial liabilities or equity, respectively. An equity instrument is any contract that provides residual value in the assets of the entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of any issue costs. Financial liabilities are classified as either financial liabilities at fair value through profit and loss (FVTPL) or other financial liabilities. Financial liabilities at FVTPL are stated at fair value, with any resulting gain or loss recognized in profit and loss. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

As of the balance sheet date financial assets are reviewed for any indication for impairment or revaluation. If such indications exist, the asset's recoverable value is determined.

Transactions in foreign currency

Transactions, denominated in foreign currency, are reported in BGN, at the exchange rate of the Bulgarian National Bank (BNB) as of the date of the respective transaction. Assets and liabilities, denominated in foreign currency, are reported as of the date of balance sheet preparation, at the closing exchange rate of BNB.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transactions in foreign currency (continued)

Foreign exchange rate gains and losses are reported in the Income statement in the period in which they arise.

Since January 1, 1999 the Bulgarian Lev is fixed to the currency of the European Union at a rate of EUR 1 = BGN 1.95583. The fluctuations of all other foreign currencies against the BGN reflect their exchange rate movements against the Euro on the foreign markets.

The Company does not perform significant transactions denominated in currencies other than BGN and EUR, and accordingly, is not exposed to currency risk.

Current receivables and liabilities

Current receivables are measured at their expected realizable value.

Current liabilities are valued at the amount, at which they arise under which they are expected to be settled in the future.

Rental income

Rental income from investment properties is recognized in the income statement on an accrual basis over the lease term.

Interest income

Interest income on deposits is recognized in the income statement on an ongoing basis, according the deposit agreement. Interest earned whilst holding trading securities is reported as interest income.

Income tax

In accordance with the Corporate Income Tax Act, effective as of December 31, 2008, the special investment purpose companies, licensed under SIPCA, are not subject to corporate income taxation. Thus, the Company is not liable and does not recognize current and deferred income taxes in these financial statements.

4. INVESTMENT PROPERTIES

As of December 31, 2008, the investment properties comprise of agricultural land of approximately 262,612 decares at the amount of BGN 89,741 thousand, approximately 128 decares of real estate property in process of local government regulation and development at the amount of BGN 19,022 thousand and 11 decares of already regulated property at the amount of BGN 3,749 thousand. The total value of the investment property amount to BGN 112,512 thousand, including fair value revaluation of BGN 35,535 thousand.

As of December 31, 2007, the investment properties comprise of agricultural land of approximately 216,514 decares at the amount of BGN 69,271 thousand, approximately 121 decares of real estate property in process of local government regulation and development at the amount of BGN 19,159 thousand and 11 decares of already regulated property at the amount of BGN 3,499 thousand. The total value of the investment property amount to BGN 91,929 thousand, including fair value revaluation of BGN 33,282 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

4. INVESTMENT PROPERTIES (CONTINUED)

As of December 31, 2008, the total value of the investment properties of BGN 112,512 thousand includes revaluation increase made in 2008 for BGN 2,253 thousand and BGN 24,090 thousand in 2007, respectively. These revaluation increases are based on appraisal reports dated March 23, 2009 and March 10, 2008 for the revaluation increases for 2008 and 2007, respectively, prepared and submitted by an independent appraiser, licensed by the Ministry of Agriculture and hired by the Company to perform the annual revaluation of the investment properties as required under Article 20, items 1 and 2 of the SIPCA.

The Company concluded leasehold agreements for approximately 151,186 decares and 69,469 decares in 2008 and 2007, respectively, of agricultural land. The related rental incomes for 2008 and 2007 in the amount to BGN 2,495 thousand and BGN 886 thousand for 2008 and 2007 respectively are presented in the Income statement.

In 2008 four of the lawsuits against the Company regarding the partially or entirely the ownership right on 261 decares agricultural land (six properties) in three territories in the Silistra region were concluded. The purchases of four properties were proclaimed void and together with this the notary deeds for the purchase were annulled. The Company has lost entirely ownership of four properties on total area of 216 decares and therefore they have been written off at carrying amount (BGN 84 thousand) from the owned by the end of the year properties. In the other two lawsuits the Company lost partially (4/5 ideal parts) ownership right on 45 decares land with fair value of BGN 10 thousand.

As of December 31, 2008 the fair value of properties, for which lawsuits, which partially or entirely concern ownership right, against the Company have been initiated is BGN 1,559 thousand.

There are court orders on first instance for some of the lawsuits concerning ownership rights on agricultural land, which are appealed, but management's expectations are these lawsuits to be lost by the Company in the major part.

The lawsuit concerning the ownership right on 4270/10650 ideal parts of Regulated Land in Stara Zagora as of the current moment is pending at first instance at Stara Zagora Regional Court. Management's expectations are the lawsuit to pass through the three admissible instances and to be won by the Company. Management believes that due to the initial stage of the lawsuit, the outcome cannot be reliably foreseen. As of December 31, 2008 the fair value of the property is BGN 1,503 thousand.

Two preliminary contracts have been concluded for sale of 337 decares agricultural land with a price of BGN 550 per decare, which as of the date of these financial statements have developed into realized transactions.

5. RENT AND OTHER RECEIVABLES

	As of 31.12.2008	As of 31.12.2007
Advances to suppliers, brokers and contractors	1,127	534
Receivables from lessees and suppliers	1,145	532
Receivables from interest on deposits in BGN and EUR	522	-
Other	72	26
Total	2,864	1,092

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

6. CASH AND CASH EQUIVALENTS

	As of 31.12.2008	As of 31.12.2007
Cash in hand	96	81
Cash at a current account, in BGN	172	433
Cash at deposits in BGN	14,366	-
Cash at deposits in EUR	35,205	-
Total	49,839	514

7. CURRENT LIABILITIES

	As of 31.12.2008	As of 31.12.2007
Payables to suppliers and brokers	214	731
Advances received	3,500	1,750
Payables to the service company (Note 12)	328	450
Payable for compensation	404	-
Provisions for liabilities	251	-
Others	10	25
Total	4,707	2,956

On July 20, 2007 the Company signed a contract for establishing construction rights on its own regulated land in Stara Zagora with the commercial company "Project Estate" EOOD, which will build a commercial center. By virtue of this contract on July 25, 2007 advance payment at the amount of BGN 1,750 was received, as well as additional payment at the amount of BGN 1,720 on March 17, 2008 was made.

In June 2008 a claim was filed against the Company regarding a partial right of ownership on the land and as of the present moment it is not possible to sign a Contract for the establishment of right of construction, which is certified by a notary.

Therefore, on February 25, 2009 a Contract for an agreement between the two companies was signed, which terminated the preliminary contract under the following terms:

- Recovering the sum paid in advance at the amount of BGN 3,470 thousand;
- Compensation at the amount of the legal interest on the paid BGN 3,470 thousand, as of April 1, 2008 till February 27, 2009;
- Penalty at the amount of EUR 100 thousand at the fixed exchange rate of the HNB for 1 EUR on the day of payment;
- Recovering the expenses incurred for the pre-project surveys and investment designing at the amount of BGN 10 thousand.

As a result as of December 31, 2008 expenses incurred are reported at the amount of the due penalty and payable for compensation at the amount of the legal interest as of the same date.

8. SHARE CAPITAL

	Number of shares	Par value of shares	Share capital, BGN '000
As of January 1, 2007	22,087	1	22,087
Shares issued in 2007	21,969	1	21,969
As of December 31, 2007	44,056	1	44,056
Shares issued in 2008	41,054	1	41,054
As of December 31, 2008	85,110	1	85,110

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

9. HIRED SERVICES

	Year ended 31.12.2008	Year ended 31.12.2007 - re-stated
Consulting fees (see note 9A)	2,333	1,412
Commissions	245	166
Expenses for insurance of receivables	38	8
Annual fees	8	10
Advertising	130	12
Local taxes and fees	78	79
Professional services	113	57
Other expenses and fees	46	-
Total	3,183	1,744

9A. EXPENSES FOR CONSULTING SERVICES

	Year ended 31.12.2008	Year ended 31.12.2007 - re-stated
Remuneration of servicing company	2,458	1,342
Audit services	99	32
Appraisal services	18	18
Total	2,535	1,412

9B. DISCLOSURE OF ACCOUNTING ERROR

In 2008 the Company found an accounting error related to the reporting and presentation of costs at the amount of BGN 427 thousand directly related to the emission of 21 969 329 shares in 2007. In 2007 the expenses are included erroneously in the income statement as hired services costs. The error was adjusted in 2008 and the effect is reported as a restatement of the financial result in 2007 and the premiums from the issue of shares as follows:

	Financial result for the current period
Balance as of December 31, 2007	23,044
Effect of accounting error regarding reporting of costs for share capital increase	427
Balance as of December 31, 2007 – restated	23,471
	Premiums from emissions
Balance as of December 31, 2007	7,701
Effect of accounting error regarding reporting of costs for share capital increase	(427)
Balance as of December 31, 2007 – restated	7,274

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

10. FINANCE COSTS

	Year ended 31.12.2008	Year ended 31.12.2007
Transaction costs and mortgage fees on the bank loan	147	53
Interest expense on bank loan	835	176
Other finance costs	5	2
Total	1,007	233

11. OTHER COSTS

	Year ended 31.12.2008	Year ended 31.12.2007
Penalties	196	-
Compensations	404	-
Expenses for written-off investment property	84	-
Other costs	35	23
Total	719	23

12. SERVICE AGREEMENT

The Company has a service agreement with Karoll Finance EOOD, which owns 20.01% of the share capital of the Company. Under the agreement, Karoll Finance EOOD provides consulting, administrative and recruitment services to the Company and in return, the Company pays to Karoll annual service fee.

For the period 01.01.2007 – 31.12.2007 and 01.01.2008 – 30.09.2008 the service fee is comprised as follows:

- 0.375% of the value of the assets of the company as of the moment of calculation payable on a quarterly basis;
- 10% of the receipts of the Company from rent calculated at the end of each quarter;
- 10% of the difference between the sale price and cost when selling property;
- 10% of the payment when establishing/sale/ right for construction, as well as when establishing real right of use and passing.

As of October 1, 2008 the service fee consists of:

- 0.375% of the value of the investment property of the Company as per the acquisition price payable on a quarterly basis;
- 1.5% of the difference between the revalued amount and the acquisition cost of the investment property, acquired until the end of the prior year and reported in the annual financial statements payable on a quarterly basis;
- 10% of the receipts of the Company from rent calculated at the end of each quarter;
- 10% of the difference between the sale price and acquisition cost when selling under the condition that the internal rate of return (IRR) amounts to a minimum of 15% calculated on an annual basis when performing the transaction.

The total amount of the fee under the contract for providing services is BGN 2,458 thousand and BGN 1,342 thousand for 2008 and 2007, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

13. REMUNERATION OF THE COMPANY'S BOARD OF DIRECTORS AND MANAGEMENT

The Company paid remuneration to the board of directors and the management in the amount of BGN 68 thousand and BGN 53 thousand in 2008 and 2007, respectively.

The Company has not established any defined pension plan and does not have share-based payments to its employees.

14. INCOME PER SHARE

	Year ended 31.12.2008	Year ended 31.12.2007 - revised
Net profit (BGN '000.)	738	23,471
Weighted average number of shares, on a day basis	53,478,295	42,671,689
Income per share (BGN)	0.01	0.55

The weighted average number of shares is estimated as a sum of the number of ordinary shares in turnover at the beginning of the period and the number of ordinary shares in turnover emitted during the period as each share number is initially multiplied by the average time factor.

15. FINANCIAL RISK MANAGEMENT

At the end of 2008 and the beginning of 2009, as a result of the global economic crisis different industries and sectors in the Bulgarian economy have marked a decline which causes a material uncertainty and risk for their development in the foreseeable future. The declining rates of economic development increase the risks for the economic environment in which the Company operates. The crisis has a material effect on the global financial markets in particular on the markets in which the Company invests, namely the markets of agricultural land and regulated properties which marked a decline. The negative trends in the development of the financial crisis cause material uncertainty regarding the accounting estimates and future losses. The recoverability of the investments and maintaining of the Company's liquidity ratios depend on the development of the global crisis and particularly on the specifics of the Bulgarian real estate markets. The Company applies the necessary procedures to manage these risks, as disclosed below.

Credit risk

The Company's credit management policies aim to attract clients with suitable credit reputation, for managing investment properties, appropriate credit history and financial abilities. The Company is not exposed to significant credit risks. Receivable balances are being monitored on a regular basis to ensure timely execution of necessary actions for their collection.

Liquidity risk

The Company monitors its cash flow position, and its debt maturity and overall liquidity position to assess its exposure to liquidity risk. The Company maintains sufficient level of cash and cash equivalents to finance its operations and to mitigate the effects of fluctuation in cash flows. The Company ensures the necessary funding through public offering of its shares and various credit facilities with financial institutions, using its investment properties as collaterals for loan agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

As of December 31, 2008

	Up to 1 month	1-3 months	3 months- 1 year
FINANCIAL ASSETS			
Cash and cash equivalents	14,634	-	33,205
Advances to brokers and suppliers	-	1,127	-
Receivables from rents and suppliers	525	60	430
Interest receivables on deposits	192	-	330
Total financial assets	15,351	1,187	36,165
FINANCIAL LIABILITIES			
Advances received	-	3,470	30
Payables to suppliers and brokers	214	-	-
Payables to related parties	328	-	-
Payables to the budget	8	-	-
Payables to employees	2	-	-
Payables for claims	-	404	-
Provisions	-	196	55
Total financial liabilities	552	4,070	85

As of December 31, 2007

	Up to 1 month	1-3 months	3 months-1 year
FINANCIAL ASSETS			
Cash and cash equivalents	514	-	-
Advances to brokers and suppliers	-	534	36
Receivables from rents and suppliers	-	281	251
Total financial assets	514	815	277
FINANCIAL LIABILITIES			
Payables to financial institutions, incl. banks	22	-	8,000
Advances received	-	-	1,750
Payables to suppliers and brokers	-	731	-
Payables to related parties	-	450	-
Payables to the budget	3	-	-
Total financial liabilities	25	1,181	9,750

Interest rate risk

The value of the Company's assets depends on the dynamics of the market interest rates. The Company's activity is exposed to risk of interest rates fluctuations, as the earnings from interest-bearing fixed rate assets change as a result of market interest rates fluctuations. With respect to floating interest rate assets the Company is exposed to risk, resulting from changes in the interest rate index, to which the respective financial instrument is linked.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

As of December 31, 2008	Up to 1 month	1-3 months	3 months-1 year	1-5 years	Non-interest bearing	Total
Assets						
Receivables from brokers	-	-	-	-	1,127	1,127
Other receivables and advances	-	-	-	-	1,215	1,215
Interest receivables on deposits	-	-	-	-	522	522
Cash in hand	-	-	-	-	96	96
Cash at banks	14,538	-	35,205	-	-	49,743
Total assets	14,538	-	35,205	-	2,960	52,703
Liabilities						
Payables to suppliers and brokers	-	-	-	-	214	214
Payables to related parties	-	-	-	-	328	328
Advances received	-	3,470	-	-	20	3,500
Payables for claims	-	-	-	-	404	404
Provisions	-	-	-	-	251	251
Other	-	-	-	-	10	10
Total liabilities	-	3,470	-	-	1,237	4,707
As of December 31, 2007	Up to 1 month	1-3 months	3 months-1 year	1-5 years	Non-interest bearing	Total
Assets						
Receivables from brokers	-	-	-	-	534	534
Other receivables and advances	-	-	-	-	558	558
Cash in hand	-	-	-	-	81	81
Cash at banks	431	-	-	-	-	433
Total assets	431	-	-	-	1,173	1,606
Liabilities						
Payables to financial institutions, incl. banks	22	-	8,000	-	-	8,022
Payables to brokers	-	-	-	-	676	676
Payables to suppliers	-	-	-	-	55	55
Payables to related parties	-	-	-	-	450	450
Advances received	-	-	-	-	1,750	1,750
Payables to the State budget	-	-	-	-	3	3
Total liabilities	22	-	8,000	-	2,934	10,956

Foreign currency risk

The Company is exposed to foreign currency risk when dealing with financial instruments, denominated in foreign currency. Foreign currency transactions result in exchange rate gains and losses. As of December 31, 2008, the financial asset and investments are denominated in local currency and EUR and since the Currency board implementation in the country, the exchange rate of the Bulgarian lev is fixed to the Euro and there is no foreign currency risk exposure in currency different from Bulgarian lev and Euro.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

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15. FINANCIAL RISK MANAGEMENT (CONTINUED)*Market risk*

Market risk is a systematic risk, with effect on the value of all assets. It arises from the characteristics of the macroeconomic environment and the condition of the capital market in the country. Market risk cannot be controlled by the Company and generally it cannot be diversified. Basic methods for reducing of the market risk and its components are collecting and processing of information on the macroeconomic environment, and to forecast and adjust the investment policy to the expected changes in the environment based on the collected information.

The Company invests at least 75% of its portfolio of agricultural land and up to 25% in land in urbanized regions. Agricultural land is slightly exposed to risk of changes in prices and rents. The possible decrease in prices of agricultural properties is favorable for the Company's investment policy and the fixed increase in the rent price with 20% compared to the previous year increase the earnings from the investments. The risk increase in the sector refers mainly to real estate for construction and results from the global financial crisis. This situation cannot have a serious adverse effect on the financial position and performance of the Company's activities although the Company has taken measures to decrease the share of properties in urbanized territories with the purpose of limiting price risk. Advance Terrafund REIT continues its policy of investing in properties with high quality which respond to the necessities for the development of modern agriculture and renting to first-rate lessees at favorable for the Company conditions.

The Company insures its receivables with the purpose of minimizing the risks of non-payments of rents.

	December 31, 2008		December 31, 2007	
	Fair value	% net assets, estimated by market value	Fair value	% net assets, estimated by market value
Agricultural land	89,741	79.76	69,271	73.35
Properties in urbanized territories	19,022	16.91	19,139	20.04
Properties in regulation	3,749	3.33	3,499	3.61
Total	112,512	100.00	91,909	100.00

Capital risk

The Company manages its equity to achieve maximum return for the shareholders by optimizing the capital structure. The Company's strategy remains the same as in 2007. The capital structure consists cash and cash equivalents and equity (see note 6 and note 8).

16. CONTINGENT LIABILITIES

According to information provided by the lawyers' team the lawsuits against the Company concerning entirely or partially the ownership rights of 375 decarees agricultural land will be lost and as a consequence the company has allocated provisions at the amount of BGN 55 thousand.

The lawsuit concerning the partial right of ownership on the regulated land in Stara Zagora as of the present moment is in its initial stage (see note 4) and no estimation for the possible result can be made. As of December 31, 2008 the fair value of the property is BGN 1,503 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2008

All amounts are in thousand Bulgarian Levs, except otherwise stated

17. POST BALANCE SHEET EVENTS

On February 27, 2009 the received advance from Project Estate EOOD together with the payment of payables incurred for compensation and penalty at the termination of the preliminary contract for establishing the right for construction (see note 7).

As of the date of the present financial statements a portion of the receivables under rent agreements at the amount of BGN 295 thousand has been paid.

Insurance claims at the amount of 85% (eighty-five percent) from the value of unpaid rents have been raised according to an agreed frame insurance policy with Bulgarian Export Insurance Agency EAD for the insurance of rent receivables during the past economic year.

The Company invests mainly in fertile agricultural land and land in urbanized territories as the tendency for 2009 is price of agricultural properties to decrease compared to prices in previous years. Management expects more than 200 thousand decars of agricultural land to be rented out in 2009 which will significantly increase income from activities. The campaign for renting out continues to the end of May which is the deadline for the agricultural producers to apply for subsidies under direct payment line for agricultural land.