

SPITFIRE BRITISH PROPERTY RECOVERY FUND

**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE PERIOD FROM 1
OCTOBER 2009 (DATE OF THE COMMENCEMENT OF OPERATIONS) TO 31 DECEMBER 2010**

SPITFIRE BRITISH PROPERTY RECOVERY FUND

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SPITFIRE BRITISH PROPERTY RECOVERY FUND

General Information

Fund Registered Office

20 Reid Street
3rd Floor, Williams House
P.O. Box 2460 HMJX
Hamilton HM11
Bermuda

Directors

Alan Tennant Johnson
Philip Peter Scales
Peter Hughes

Administrator

Apex Fund Services Ltd
20 Reid Street
3rd Floor, Williams House
P.O. Box 2460 HMJX
Hamilton HM11
Bermuda

Custodian

Kleinwort Benson Trustees (Isle of Man) Ltd
(Formerly Close Trustees (Isle of Man) Ltd)
St. George's Court
Upper Church Street
Douglas
Isle of Man IM1 1JE

Legal Advisors

Conyers Dill & Pearman
Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

Investment Manager

Spitfire Asset Managers (Bermuda) Ltd
Clarendon House
2 Church Street
Hamilton
HM 12
Bermuda

Listing and On-going Sponsor

Apex Fund Services Ltd
20 Reid Street
3rd Floor, Williams House
P.O. Box 2460 HMJX
Hamilton HM11
Bermuda

Auditor

Deloitte LLP
The Old Courthouse
Athol Street
Douglas
Isle of Man IM 99 1XJ

Currency Hedge / Investment Advisor

Canaccord Genuity Wealth (International) Ltd
(Formerly Collins Stewart Wealth Management Ltd)
(Formerly Corazon Capital Ltd)
PO Box 45,
The Grange, St. Peter Port,
Guernsey, GY1 4AX

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Directors' Report for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

The directors present herewith their report and audited financial statements for the period from 1 October 2009 to 31 December 2010.

Date of incorporation

Spitfire Funds (Bermuda) Ltd (the "Company"), a Bermuda Exempted Mutual Fund Segregated Account Fund number 42429, was incorporated in Bermuda on the 19 September 2008 under the Segregated Accounts Companies Act 2000.

The Spitfire British Property Recovery Fund (the "Fund") is a segregated account of the Company, under the Bermuda Companies Act 1981 which commenced operations on 1 October 2009.

Principal activity

The Company is an exempted company and was incorporated on 19 September 2008 as an open-ended investment Fund with limited liability in Bermuda and has been authorised as a standard Fund under the Investment Funds Act 2006 ("IFA") and, as such, has power to issue and redeem shares. The Fund invests in open ended property Funds, listed closed end property companies, global quoted property stocks, Real Estate Investments Trusts (REITS), and any other suitable British property related investments, including ETF's (Exchange Traded Funds). The actual allocations across these securities types are actively managed to exploit the opportunities available and may vary over time to seek higher returns. The non-voting redeemable shares "Spitfire British Property Recovery Fund Class A Shares" issued by the Fund were admitted on 8 December 2009 to the Official List of the Bermuda Stock Exchange ("BSX"). The Funds investment portfolio is in compliance with Section IV of the BSX listing rules. The Fund is classified as open marketing under Section IV of the BSX listing rules.

The Fund can issue Spitfire British Property Recovery Class A USD Shares, Spitfire British Property Recovery Class A Euro Shares and Spitfire British Property Recovery Class A Sterling Shares (collectively the "Shares"). Other classes of shares may be created and issued at the discretion of the directors of the Fund. See Note 6 of the financial statements for further disclosures regarding these share classes.

Investment policy

It should be noted that the investment policy of the Fund, which includes investment in underlying funds, will result in multiple layers of fees or a duplication of certain costs that will be charged to the underlying funds by their service providers, as well as to the Fund by the service providers of the Fund. Such costs will include, but are not limited to, formation expenses, custodian, domiciliary, management fees, audit expenses and other associated costs.

In investing in the Fund, which in turn may invest through underlying funds, a shareholder, in effect, incurs the cost of the management fee, performance fees and any commissions paid to the Investment Managers as well as the advisory fees, incentive fees and other fees paid to the investment advisors of an underlying fund.

By investing in an underlying fund, the Fund incurs its proportionate share of the operating costs and expenses of the underlying fund, including, but not limited to, custody and brokerage commissions, interest charges, legal and accounting fees and disbursements, in addition to the operating costs and expenses detailed in the relevant offering Memorandum. As a result, the operating expenses of the Fund may constitute a higher percentage of the Net Asset Value of the Fund than would be found in other investment schemes. Also, the purchase of an investment in an underlying fund may involve payment by the Fund of substantial subscription fees or premiums.

Accounting Standards

The directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The significant accounting policies adopted have been mentioned in Note 2 of the financial statements.

Result for the period

The profit for the period is set out in the profit and loss account on page 10 of the financial statements.

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Directors' Report for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010 (continued)

Going concern

The directors have a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future despite the current uncertain economic outlook. The fund supplement to the memorandum of the Company allows for a maximum of 5% of the redeemable shares in issue to be accepted for redemption in any one redemption period. As such, this will allow the Fund to satisfy shareholder redemptions without significantly impacting the going concern considerations of the Fund. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Dividend

No dividend was proposed or paid during the period.

Directors

The directors of the Company holding office during the period and through to the date of this report are:

Alan Tennant Johnson appointed on 28 October 2008.

Philip Peter Scales appointed on 28 October 2008.

Peter Hughes appointed on 28 October 2008.

Directors' Interests

The directors receive fees from the Fund which are set out in the Profit and Loss account of the financial statements. Related party transactions where directors are involved are detailed in Note 11 of the financial statements. None of the directors own shares in the Fund.

Secretary

The secretary of the Company holding office during the period and through to the date of this report was Sharon Ward who was appointed on 28 October 2008.

Auditor

Deloitte LLP were appointed as independent auditor to the Fund on 9 November 2009 and, being eligible, have indicated their willingness to continue in office in accordance with Section 89(1) of the Companies Act 1981.

Subsidiaries

The Fund has no subsidiaries.

Ownership of shares

The directors, the investment manager and the investment advisors do not own participating shares and have no right to receive distributions from the Fund. The investment manager owns the management share and is entitled to exercise voting rights in connection with this share as disclosed in Note 6 of the financial statements. The participating shares have no voting rights and are redeemable.

List of Investments

As of 31 December 2010, the Fund held the following property investments:

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Directors' Report for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010 (continued)

List of Investments (continued)

Security	CCY	Quantity	Book Cost	Market Value	Percentage of Total Portfolio
			USD	USD	
Development Securities Ord	GBP	820,000	3,232,319	2,878,016	7.19%
ISHARES FTSE EPRA/NAR UK PRP ETF	GBP	1,348,300	7,504,115	8,173,086	20.41%
St. Modwen Properties Ord	GBP	1,075,000	2,898,665	2,766,873	6.91%
Invista Property Portfolio Fund D	EUR	5,334,835	2,666,350	3,489,704	8.71%
Blackrock UK Property Fund	GBP	47,653	2,283,220	2,527,294	6.31%
Invista Real Estate Prop Port B	GBP	4,130,405	3,230,884	4,073,921	10.17%
M&G Institutional Property Fund 'B'	GBP	326,982	3,392,298	3,459,227	8.64%
Thames River Property G&I Fund 'Acc'	GBP	245,520	4,838,103	5,419,256	13.53%
UBS Triton Property (Jersey) Fund	GBP	2,322,342	2,774,102	3,018,368	7.54%
Other Investments	GBP	2,263,704	4,094,055	4,247,357	10.60%
As at 31 December 2010			36,914,111	40,053,102	100.00%

No provision for diminution in value of investments was taken; financial assets are held at fair value through profit and loss.

Fees

The Fund incurred charges of USD 803,619 and USD 357,367 respectively for investment management fees and performance fees in favor of the investment manager for the period from 1 October 2009 to December 2010. The director fees amounted to USD 11,159 for the same period.

None of the directors or service providers' fees have been waived during the period.

Net Asset Value as per the Financial Statements and the Published Net Asset Value

The net asset value ("NAV") as per the financial statements differed from the published NAV for the following reason:

- The NAV published is calculated based on the Fund supplement. As per the supplement, the organizational cost and the deferred sales charges are amortized over a period of 5 years. In the financial statements, these expenses were fully expensed in the first accounting period in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice. The net difference in the financial statements is a loss of USD (929,166) and a reduction in Net Asset Value of the same amount.
- The published NAV per share and the NAV per share per the financial statements are as follows:

Share Class	Published NAV per Share		NAV per Share per the Financial Statements	
	FCY	USD	FCY	USD
EUR Class	103.78	138.83	102.87	137.61
GBP Class	102.94	160.58	100.66	157.01

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Directors' Report for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010 (continued)

Results and assets and liabilities of the Fund

	2010 USD
Assets	
Financial assets at fair value through profit or loss	40,053,102
Dividends receivable	60,033
Debtors	17,441
Cash and cash equivalents	4,086,932
Total assets	<u>44,217,508</u>
Creditors: amounts falling due within one year	<u>417,621</u>
Total liabilities: (excluding net assets attributable to holders of redeemable shares)	<u>417,621</u>
Net assets attributable to holders of redeemable shares	<u><u>43,799,887</u></u>
Profit/(Loss) for the period	<u><u>1,171,905</u></u>

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Directors' responsibilities statement

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


The Companies Act 1981 requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Fund law the directors must not approve the financial statements unless they are satisfied that they present fairly, in all material aspects, the state of affairs of the Fund and of the profit or loss of the Fund for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in business.

The directors are responsible for keeping proper records of account that are sufficient to show and explain the Fund's transactions and disclose with reasonable accuracy at any time the financial position of the Fund and enable them to ensure that the financial statements comply with the Companies Act 1981. They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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



30/12 2013

Independent Auditor's Report to the Members of Spitfire British Property Recovery Fund

We have audited the financial statements of Spitfire British Property Recovery Fund ("the Fund") for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010 which comprise the Profit and loss account, the Balance sheet, the Cash flow statement with related notes a) and b) and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Fund's members, as a body, in accordance with Section 90(2) of the Companies Act 1981. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they present fairly, in all material aspects, the state of affairs of the Fund and of the profit or loss of the Fund for that period. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- Present fairly, in all material aspects, the state of the Fund's affairs as at 31 December 2010 and of its profit for the period then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Deloitte LLP

Deloitte LLP
Chartered Accountants
Isle of Man

31st December 2013

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Profit and loss account for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

	Note	<u>From the date of commencement of operations 1 October 2009 to 31 December 2010</u> <u>USD</u>
Income from continuing operations		
Dividend income		717,511
Other income		636
Total income		718,147
Expenses		
Administrator's fees	12	41,603
Audit fees		18,502
Bank and broker charges		58,892
Custodian fees	12	17,330
Directors' fees		11,159
Investment advisory fees	12	133,374
Management fees	12	803,619
Performance fees	12	357,367
Deferred sales charges	12	1,302,968
Sundry expenses		112,367
Total expenses		2,857,181
Net loss before investment gains/(losses)		(2,139,034)
Net realised loss on financial assets and liabilities held at fair value through profit or loss	3	(887,275)
Net change in unrealised gains on financial assets and liabilities held at fair value through profit or loss	3	3,138,992
Net gains on foreign exchange forwards		30,051
Net gains on exchange differences	13	1,029,171
Profit for the period before and after taxation attributable to holders of redeemable shares		1,171,905

The Fund has no recognised gains or losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

All transactions are derived from continuing operations.

The notes on pages 13 to 25 form an integral part of these audited financial statements

SPITFIRE BRITISH PROPERTY RECOVERY FUND

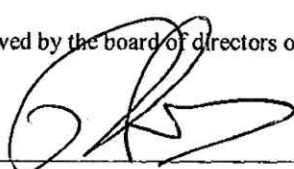
Balance Sheet as at 31 December 2010

	Note	2010 USD
Assets		
Financial assets at fair value through profit or loss	3	40,053,102
Dividends receivable		60,033
Debtors	4	17,441
Cash and cash equivalents		4,086,932
Total assets		44,217,508
Liabilities		
Creditors: amounts falling due within one year	5	417,621
Total Liabilities: (excluding net assets attributable to holders of redeemable shares)		417,621
Net assets attributable to holders of redeemable shares	8	43,799,887

The financial statements on page 10 to 25 were approved by the board of directors on 30/12/13 and signed on its behalf by:



 Director



 Director

The notes on pages 13 to 25 form an integral part of these audited financial statements.

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Cash flow statement for the period from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

	Note	<u>From the date of commencement of operations 1 October 2009 to 31 December 2010</u> USD
Net cash outflow from operating activities	(b)	(1,410,202)
Return on investment and servicing of finance		
Interest received		449
Dividend received		657,478
Financial investments		
Purchase of investments	14	(36,748,929)
Sale of investments		14,989,256
Forward currency contracts settlement		12,610
Financing		
Issue of redeemable shares	14	26,586,270
Redemption of redeemable shares		-
Increase in cash	(a)	4,086,932

Notes to the cash flow statement

(a) Analysis of changes in cash during the period

	<u>2010</u> USD
Balance at the beginning of period	-
Net cash inflow	4,086,932
Balance at the end of period	4,086,932

(b) Reconciliation of operating profit to net cash outflow from operating activities

	Note	<u>From the date of commencement of operations 1 October 2009 to 31 December 2010</u> USD
Operating profit		1,171,905
Increase in creditors		417,621
Net unrealised gains on investments	3	(3,138,992)
Net realised losses on investments	3	887,275
Net gains on forward currency contracts		(30,051)
Dividend income		(717,511)
Interest income		(449)
Net cash outflow from operating activities		(1,410,202)

The notes on pages 13 to 25 form an integral part of these audited financial statements.

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

1. Organization

The Spitfire British Property Recovery Fund (the "Fund") is a segregated account of the Spitfire Funds (Bermuda) Ltd (the "Company"), a company incorporated under the laws of Bermuda as a segregated accounts Fund. The Fund commenced operations on 1 October 2009.

The investment objective of the Fund is to seek initially to exploit recovery themes and select a range of property related investment opportunities offering the potential for investment returns derived from the British property market.

The base currency of the Fund is US Dollars. The Shares are offered in US dollars in respect of Class A USD Shares, in Euros in respect of Class A Euro Shares and Sterling in respect of Class A Sterling Shares.

2. Significant Accounting Policies

The financial statements are prepared in accordance with applicable law and United Kingdom Accounting Standards using the historical cost convention modified by the revaluation of investments and derivatives. The significant accounting policies adopted by the Fund are as follows:

Going concern

The directors have a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future despite the current uncertain economic outlook. The fund supplement to the memorandum of the Company allows for a maximum of 5% of the redeemable shares in issue to be accepted for redemption in any one redemption period. As such, this will allow the Fund to satisfy shareholder redemptions without significantly impacting the going concern considerations of the Fund. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Financials assets at fair value through profit or loss

Investments are stated at the bid price or Net Asset Value ("NAV") on 31 December 2010 with the price provided by the relevant Investment Managers or Administrators for the securities. Appreciation or depreciation thus arising is recorded in the profit and loss account.

The NAVs reported by the Investment Manager or Administrator of the funds and used by the directors as at 31 December 2010 may not be audited and may differ from the amounts that would have been realised from a redemption of the investments in the relevant underlying fund as at 31 December 2010. The directors have no reason to believe the valuations are unreasonable.

Redeemable shares

In accordance with Financial Reporting Standard 25, Financial Instruments: Disclosure and presentation, non management share classes and accordingly the total value of shareholders' Funds, are deemed to be in the nature of non-equity interests and are therefore classified as financial liabilities.

Notes 6 and 7 disclose the amount of share capital and share premium arising in relation to the redeemable shares. As the shares are financial liabilities rather than equity, these balances are revalued at the period end exchange rate with exchange gains/losses arising.

Classification

The Fund designates its financial assets and liabilities into the categories below in accordance with Financial Reporting Standard 26 Financial instruments: Recognition and measurement.

Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

2. Significant Accounting Policies (continued)

Classification (continued)

(i) Financial assets and liabilities at fair value through profit or loss

The Fund holds positions in other investment Funds which are financial assets designated at fair value through profit or loss upon initial recognition. These financial instruments are designated on the basis that their fair value can be reliably measured and their performance has been evaluated on a fair value basis in accordance with the risk management and/or investment strategy as set out in the Fund's offering document.

(ii) Initial Measurement

Purchases and sales of financial instruments are accounted for at trade date.

Financial instruments categorised at fair value through profit or loss, are measured initially at fair value, with transaction costs for such instruments being recognised directly in the profit and loss account.

(iii) Subsequent measurement

After initial measurement, the Fund measures financial instruments, which are classified as at fair value, through profit or loss at their fair values. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Investments in other investment Funds are subsequently re-measured at market value, which is the price notified by the administrator of each respective underlying fund. In the opinion of the directors this represents the fair value of each investment. Subsequent changes in the fair value of financial instruments are recognised in the profit and loss account.

Functional currency

The functional currency of the Fund i.e. the currency of the primary economic environment in which the entity operates is US Dollars (USD). The presentation currency of the Fund is the US Dollars.

Foreign currency translation

Transactions denominated in other currencies which occurred during the period have been translated at the rate of exchange prevailing at the date of the transaction. Assets and liabilities in other currencies are translated to US Dollars at the rates of exchange prevailing at the balance sheet date. The resulting profits or losses are reflected in "Net change in unrealised and realised gains on foreign currency" under profit and loss account.

Forward foreign currency exchange contracts

The Fund may enter into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. Risks may arise upon entering these contracts from the potential inability of counterparties to meet the terms of the contracts and from unanticipated movements in the value of the underlying assets. The Fund may enter into such contracts for hedging purposes as well as speculative purposes. The values of the contracts are adjusted daily in accordance with movements in the value of each underlying asset or liability and any appreciation or depreciation is recorded periodically for financial statement purposes as unrealised until the contract settlement date. Realised and unrealised gains and losses are included in the profit and loss account.

Income

Bank interest income is recognised on a time-proportionate basis using the effective interest method. Dividend income is recognised on an accruals basis.

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months.

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

2. Significant Accounting Policies (continued)

Loans and Receivables

Interest bearing loans, overdrafts and receivables are initially measured at fair value (which is equal to net proceeds at inception), and are subsequently measured at amortised cost, using the effective interest rate method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired are recognised on an effective interest basis in the profit and loss account.

3. Financial assets at fair value through profit or loss

Financial assets are analysed as follows:

Security	CCY	2010	2010	2010	2010
		Quantity	Book Cost	Market Value	Percentage of Total Portfolio
			USD	USD	
Big Yellow Group Plc	GBP	91,000	480,910	497,395	1.24%
Development Securities Ord	GBP	820,000	3,232,319	2,878,016	7.19%
ING UK Real Estate Income Trust	GBP	1,725,000	1,258,836	1,439,593	3.59%
ISHARES FTSE EPRA/NAR UK PRP ETF	GBP	1,348,300	7,504,115	8,173,086	20.40%
Land Securities Plc	GBP	74,000	805,460	778,016	1.94%
SEGRO PLC	GBP	230,000	1,138,448	1,027,537	2.57%
St. Modwen Properties Ord	GBP	1,075,000	2,898,665	2,766,873	6.91%
Invista Property Portfolio Fund D	EUR	5,334,835	2,666,350	3,489,704	8.71%
Blackrock UK Property Fund	GBP	47,653	2,283,220	2,527,294	6.31%
Castellain Cavendish Limited Participating shares	GBP	143,704	410,400	504,816	1.26%
Invista Real Estate Prop Port B	GBP	4,130,405	3,230,884	4,073,921	10.17%
M&G Institutional Property Fund 'B'	GBP	326,982	3,392,298	3,459,227	8.64%
Thames River Property G&I Fund 'Acc'	GBP	245,520	4,838,103	5,419,256	13.53%
UBS Triton Property (Jersey) Fund	GBP	2,322,342	2,774,102	3,018,368	7.54%
At 31 December 2010			36,914,110	40,053,102	100.00%

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which fair value is observable as at 31 December 2010.

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;*
- Level 2 Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;*
- Level 3 Prices or valuations that require input that is both significant to the fair value measurement and unobservable.*

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

3. Financial assets at fair value through profit or loss (continued)

Fair value hierarchy table

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Investments				
Investments in Property Funds	17,560,516	22,492,586	-	40,053,102
Open Forward Contracts	-	17,441	-	17,441
Total Investments	17,560,516	22,510,027	-	40,070,543

No financial instruments were classified as level 3 at 31 December 2010.

Net gains and losses on financial assets at fair value through profit or loss were:

	2010 USD
Net realised loss on financial assets at fair value through profit or loss	
- designated as fair value through profit or loss	<u>(887,275)</u>
Net change in unrealised gains on financial assets at fair value through profit or loss	
- designated as fair value through profit or loss	<u>3,138,992</u>

4. Debtors: amounts receivable within one year

	Note	2010 USD
Unrealised forward currency contracts	9	<u>17,441</u>

5. Creditors: amounts falling due within one year

	2010 USD
Management fees	216,753
Performance fees	82,042
Administration fees	18,533
Custodian fees	748
Audit fees	18,502
Investment advisory fees	70,030
Other creditors & accruals	11,013
	<u>417,621</u>

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

6. Share Capital

The Spitfire Funds (Bermuda) Ltd (“the Company”) has been authorized to issue 1 manager share of par value US\$1.00 and up to 11,999,000 redeemable shares of par value US\$0.001 each. The Fund can issue Spitfire British Property Recovery Class A USD Shares, Spitfire British Property Recovery Class A Euro Shares and Spitfire British Property Recovery Class A Sterling Shares (collectively the “Shares”). Other classes of shares may be created and issued at the discretion of the directors of the Company. The Manager shareholder shall be entitled to vote and is not entitled to any dividends. The Class A shares are non-voting redeemable shares, and are redeemable at the option of the holder of the shares.

Class Funds

Each share class in the Fund has a Class Fund established in accordance with the offering memorandum. The Fund currently has Class Funds established as follows:

- Class A Euro redeemable shares
- Class A Sterling redeemable shares
- There were no Class A USD redeemable shares issued during the period.
- The proceeds from the allotment and issue of each class of shares are applied to the relevant share class. Investment gains and losses on assets allocated to each Class Fund are applied to the relevant class. In the case of any asset, liability, income or expense which the directors do not consider attributable to a particular Class Fund, the directors have the discretion to determine the basis on which the asset, liability income or expense is allocated between the Class Funds. The directors have based such allocations on the proportion of the Net Asset Value of the Fund each Class Fund comprises.
- Investors in the EUR and GBP share classes are exposed to currency risk through the denomination of the share classes in a currency other than the reporting currency of the Fund. In accordance with the offering memorandum the directors have appointed an investment advisor to neutralise, to the extent possible, the impact of currency fluctuations for investors in the EUR and GBP share classes by taking out monthly forward foreign currency contracts which mirror the value of the non-base currency assets thus mitigating the risk from currency movements. The costs of hedging currency fluctuations in this manner, including gains and losses on forward foreign currency contracts, are allocated to the relevant Class Fund.

Issued and fully paid:	2010	
	<u>No. of Shares</u>	<u>USD</u>
Participating shares of EUR0.001 each		
At the beginning of period	-	-
Issued during the period	34,325	44
Redeemed during the period	-	-
Exchange gain during the period	-	-
At the end of period	34,325	44
Participating shares of GBP0.001 each		
At the beginning of period	-	-
Issued during the period	248,874	384
Redeemed during the period	-	-
Exchange gain during the period	-	-
At the end of period	248,874	384

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

7. Share Premium Account

	2010
	USD
Participating shares of EUR0.001 each	
At the beginning of period	-
Issued during the period	4,375,116
Redeemed during the period	-
Exchange gain during the period	173,018
At the end of period	4,548,134
Participating shares of GBP0.001 each	
At the beginning of period	-
Issued during the period	38,252,438
Redeemed during the period	-
Exchange gain during the period	373,286
At the end of period	38,625,724

8. Net assets attributable to holders of participating redeemable shares

	Share Capital	Share Premium	Retained Earnings	Total
	USD	USD	USD	USD
Balance at 1 October 2009	-	-	-	-
Profit on ordinary activities	-	-	1,171,905	1,171,905
Issue of EUR0.001 shares	44	4,375,116	-	4,375,160
Redemption of EUR0.001 shares	-	-	-	-
Exchange gain/(loss) on EUR0.001 shares	-	173,018	(173,018)	-
Issue of GBP0.001 shares	384	38,252,438	-	38,252,822
Redemption of GBP0.001 shares	-	-	-	-
Exchange gain/(loss) on GBP0.001 shares	-	373,286	(373,286)	-
Balance at 31 December 2010	428	43,173,858	625,601	43,799,887

Net assets by each share class

Share Class	2010			
	FCY		USD	
	NAV/Share	NAV	NAV/Share	NAV
EUR Class	102.87	3,531,004	137.61	4,723,424
GBP Class	100.66	25,050,620	157.01	39,076,462
				43,799,886

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

9. Forward currency contracts

The amount of the contracts represents the extent of the Fund's participation in these financial instruments. Market risks associated with forward contracts arise due to the possible movements in foreign exchange rates underlying these instruments.

At 31 December 2010, the Fund held open forward contracts as set out below:

Buy	Amount	Sell	Amount	Contract Rate	Date	FX Rate - 31 December 2010	Unrealised Gain - USD
EUR	3,638,200	GBP	3,108,775	1.1703	30-Jan-11	1.3377	17,441
Total							17,441

10. Taxation

The Fund is incorporated in Bermuda, a jurisdiction with no corporate taxes. Accordingly, no provision for liability to income tax has been included in these financial statements. The Fund may be subject to foreign withholding taxes on certain interest, dividends and capital gains.

11. Related party transactions

Alan Tennant Johnson is the Chairman of The Spitfire Funds (Bermuda) Ltd.

Alan Tennant Johnson, Philip Peter Scales and Peter Hughes are the directors of The Spitfire Funds (Bermuda) Ltd, the Fund, and are the directors of The Frontier Commercial Property Fund Plc and the Frontier Global Real Estate Fund Plc which have subscribed to the Fund.

Peter Hughes is a director and principal owner of the Administrator. Details of the fees payable to the Administrator are shown in note 12.

During the period, the Fund carried out various transactions with the Frontier Global Real Estate Fund Plc and The Frontier Commercial Property Fund Plc at the prevailing market prices as follows:

2010					
The Frontier Global Real Estate Fund Plc					
Date	Trade	Security	CCY	No of shares	Price
01/10/2009	Subscription	Spitfire British Property Recovery Fund	EUR	8,000	100.00
15/06/2010	Subscription	Spitfire British Property Recovery Fund	EUR	23,318	98.63
01/08/2010	Subscription	Spitfire British Property Recovery Fund	EUR	3,007	99.78
The Frontier Commercial Property Fund Plc					
Date	Trade	Security	CCY	No of shares	Price
01/10/2009	Subscription	Spitfire British Property Recovery Fund	GBP	100,619	100.00
01/10/2009	Subscription	Spitfire British Property Recovery Fund	GBP	50,000	100.00
01/06/2010	Subscription	Spitfire British Property Recovery Fund	GBP	49,766	98.46
01/06/2010	Subscription	Spitfire British Property Recovery Fund	GBP	28,438	98.46
01/08/2010	Subscription	Spitfire British Property Recovery Fund	GBP	10,176	98.27
01/09/2010	Subscription	Spitfire British Property Recovery Fund	GBP	9,876	101.26

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

11. Related party transactions (continued)

The Spitfire Asset Managers (Bermuda) Ltd is the Fund's Investment Manager where Alan Tennant Johnson is a director. For the period 1 October 2009 to 31 December 2010, the fees charged by the Investment Manager were:

	2010 USD
Investment management fees	803,619
Performance fees	357,367
Deferred sales charge	1,302,968
	2,463,954

Details of the fees incurred are also included in note 12.

On 1 October 2009 Frontier Global Real Estate Fund Plc invested in kind in the Fund by transferring the following assets at their market prices as at 30 September 2009.

Investment	Currency	No of shares	Price as at 30th Sept 2009	Asset value in respective currency	Asset value in USD
UBS Triton Property (Jersey) Fund	GBP	2,276,609	.7643	1,740,012	2,774,102
ISHARES FTSE EPRA/NAR UK PRP ETF	GBP	400,000	3.755	1,502,000	2,394,639
Thames River Property G&I Fund 'Acc'	GBP	439,449	12.36	5,431,590	8,659,584
Black Rock European Property Fund of Funds	GBP	47,653	29.1338	1,388,313	2,213,387
Total					16,041,711

No director of the Fund held a beneficial interest in any of the participating shares of the Fund during the period.

The Spitfire Asset Managers (Bermuda) Ltd is the owner of the manager share in the Company.

12. Fees and expenses

Basis of calculating fees

All agreements with service providers/related and third parties are kept in the records of the Fund.

Administrator

The administrator charges a fee of 0.1% of the monthly Net Asset Value, which accrues monthly and is payable quarterly in arrears. The administrator charges USD 15 per shareholder transaction and an additional corporate secretarial service at USD 5,000 per annum (pro-rated amongst segregated accounts of the Fund).

During the period a charge of USD 41,603 was incurred in relation with the administration fees and USD 1,042 for the corporate secretarial fees. USD 18,533 and USD 347 for administration services and corporate secretarial services respectively were payable as at 31 December 2010.

Custodian fees

The Custodian is paid a fee not exceeding 0.05% of the Net Asset Value subject to a minimum annual fee of GBP 6,000 which accrues monthly and is payable monthly in arrears on the last Business Day of each month. Additionally, the Custodian is paid a transaction fee of GBP 100 per trade plus full recovery of all counter-party charges and reimbursement of all out of pocket expenses. During the period a charge of USD 17,330 was incurred to the Custodian and USD 748 was payable as at 31 December 2010.

Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

12. Fees and expenses (continued)

Investment management fees

The Investment Manager is paid a minimum fee equal to the aggregate of 1.95% per annum of the Net Asset Value which is paid monthly in arrears on the last Business Day of each month. During the period USD 803,619 management fees were incurred and USD 216,753 was payable as at 31 December 2010.

Performance fees

The Investment Manager is paid a performance fee equal to 20% per annum of the appreciation in the net asset value per share, above the appreciation had the assets been invested in the market at the 3-month LIBOR rate as quoted on the first day of each calendar quarter, in the net asset value per share above the base net asset value per share. The base net asset value per share represents the highest net asset value per share achieved. The performance fee is paid quarterly in arrears on the last Business Day of each calendar quarter. The performance fee is paid quarterly in arrears on the last Business Day of each calendar quarter.

During the period USD 357,367 were incurred as performance fee and USD 82,042 was payable as at 31 December 2010 to the Investment Manager.

Deferred sales charges

The Fund reserves the right to pay an initial fee to introducers by way of commission. Such costs of acquiring and procuring subscriptions are limited to a maximum of 5% of the amount subscribed and these costs are expensed as they are incurred. During the period USD 1,302,968 was paid as a deferred sales charge and nil was payable as at 31 December 2010.

Early redemption fees

Redemptions are subject to an early redemption fee of a percentage of the value of the redemption proceeds between 5% and nil, calculated on a pro rata basis over a period of 50 months from the date of subscription subject to the Directors discretion. In the period, no redemption fees were charged to investors and no income recognised.

Investment advisor fees

The Investment Advisor is paid a fee equal to 0.324% of the Net Asset Value up to USD 200 million, 0.20% for the next USD 200 million and 0.1% thereafter. Fees are based on the monthly NAVs and are calculated monthly and payable quarterly. During the period USD 133,374 was charged by the Investment Advisor and USD 70,030 was payable to the Investment Advisor as at 31 December 2010.

All fees and charges are consistent with the articles of the Company and offering memorandum of the Company and Fund.

13. Risk associated with financial instruments

The Fund is exposed to capital risk management, market risk, interest rate risk, credit risk and liquidity risk arising from the financial instruments it holds. The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed by the Fund to manage these risks are discussed below.

Capital risk management

Capital is represented by the net assets attributable to the holders of redeemable shares.

Capital is managed in line with the investment parameters of the Fund seeking to generate returns for shareholders whilst seeking to minimize risk.

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

13. Risk associated with financial instruments (continued)

Capital risk management (continued)

The Fund was incorporated as an open-ended Investment Fund in Bermuda to seek opportunities for capital growth resulting from investing in the Commercial Property Market and the listed shares of property related companies, by investing in a range of underlying Funds.

Strategy in using financial instruments

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance.

Market price risk

Market price risk is the potential for losses to be made due to investment in financial assets which suffer a diminution in value over the period that they are invested in.

Market price risk is dependant on the underlying investments of the Fund which are shown in note 3.

All security investments present a risk of loss of capital. The directors' policy to minimise price risk is to maintain a diverse portfolio of investments in accordance with the respective investment objectives, which is managed by a professional investment advisor. The Fund's overall market positions are monitored daily by the investment advisor.

The investment advisor uses their discretion to select investments that aim to deliver the investment objective. Considerations are given to the macro economic environment, relative valuation levels, the political environment, liquidity and technical analysis. Depending on the differing economic and market conditions the overall asset allocation will shift in time.

Due to the volatile market conditions currently experienced globally, the directors have assessed market risk sensitivity relating to all Fund investments at a potential loss of 10% and gain of 5%.

The following table illustrates the sensitivity of the profit or loss for the period and the net asset value of the Fund to a 5% increase or 10% decrease in the market value of financial assets, assuming all other factors remain the same.

	<u>Increase in Market value (5%)</u>	<u>Decrease in Market value (10%)</u>
	<u>USD</u>	<u>USD</u>
At 31 December 2010		
Net profit	2,002,655	(4,005,310)
Net asset value	4.57%	(9.14)%

Interest rate risk

The majority of the Fund's financial assets are non interest bearing. As a result, the Fund is not subject to significant risk due to fluctuations in the prevailing levels of market interest rates. As such a sensitivity analysis of the effect has not been prepared.

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

13. Risk associated with financial instruments (continued)

Interest rate risk (continued)

The underlying investment assets of the Fund may be exposed to interest rate risk; however it is not possible to quantify this indirect interest rate risk of the Fund.

The table below summarises the Fund's exposure to interest rate risk.

At 31 December 2010	Fixed	Less than one month	Non-interest bearing	Total USD
Assets				
Financial assets at fair value through profit or loss	-	-	40,053,102	40,053,102
Dividends receivable	-	-	60,033	60,033
Debtors	-	-	17,441	17,441
Cash and cash equivalents	-	4,086,932	-	4,086,932
Total assets	-	4,086,932	40,130,576	44,217,508
Liabilities				
Creditors	-	-	417,621	417,621
Net assets attributable to holders of redeemable participating preference shares	-	-	43,799,887	43,799,887
Total liabilities	-	-	44,217,508	44,217,508

Credit risk

The Fund takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It is the Fund's policy only to enter into financial instruments with reputable counterparties. Therefore, the Fund does not expect to incur material credit losses on its financial instruments.

The Fund is also exposed to risk from default by brokers who carry out trading in financial assets. The Fund mitigates this risk by employing reputable custodians and trading in low to medium risk markets and countries.

As at 31 December 2010, the value of assets subject to credit risk was as follows:

	USD
Cash and cash equivalents	4,086,932

Liquidity risk

It is the Fund's policy to invest into an investment portfolio of regulated schemes which deal on a regular basis and are considered generally readily realisable. The Fund's liquidity risk is managed through diversification of the investment portfolios and by maintaining a portion of its assets as cash.

The Fund can also invest in hedge Funds or listed closed end property companies that are more illiquid and require the directors to instruct redemption to raise cash between one and three months in advance of cash being received. As at 31 December 2010, the Fund's portfolio of financial assets includes assets with daily and monthly liquidity.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's liquidity position on a daily basis, and the Board of Directors reviews it on a regular basis.

All amounts included in creditors at the balance sheet date are payable within three months.

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

13. Risk associated with financial instruments (continued)

Liquidity risk (continued)

As described in Note 6 to the financial statements, the Fund's redeemable shares are redeemable at the shareholder's option for cash equal to a proportionate share of the Fund's net asset value. The Fund is therefore potentially exposed to monthly redemptions by its shareholders.

The number of shares of the Fund which can be redeemed in any month is limited to 5% of the total net asset value of the Fund.

Currency risk

The Fund is exposed to currency risk through allowing investment via currency classes which are not denominated in the base currency of the operating account. The Fund is also permitted to invest in underlying assets which may be denominated in currencies which are different from the base currency of the Fund.

The underlying investment assets of the Fund may be exposed to currency risk, however it is not possible to quantify this indirect currency risk exposure of the Fund.

In order to mitigate currency risk the directors have appointed the investment advisor who ensures that the currency classes and any non-base currency assets are fully hedged on a monthly basis. This is achieved by the taking out of monthly forward foreign currency contracts which mirror the value of the non-base currency assets thus mitigating the risk from currency movements.

Open forward currency contracts in place at the balance sheet date are shown in note 9.

The currency exposure of the Fund in respect of the Fund's foreign currency denominated assets and liabilities at the reporting date was as follows:

	Currency	2010	
		in foreign currency	in USD
Financial assets			
Cash and cash equivalents	GBP	2,619,996	4,086,932
Financial assets at fair value through profit or loss	GBP	23,439,579	36,563,399
Financial assets at fair value through profit or loss	EUR	2,608,734	3,489,704
Dividends receivable	EUR	11,892	15,908
Dividends receivable	GBP	28,286	44,124
			44,200,067
Financial liabilities			
Creditors	EUR	6,878	9,201
Creditors	GBP	46,696	72,842
			82,043

The following table illustrates the sensitivity of the profit or loss for the period and the net asset value of the Fund to a 5% increase in exchange rates between foreign currencies (GBP and EUR) and USD, assuming all other factors remain the same.

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Notes to the Financial Statements from 1 October 2009 (Date of the commencement of operations) to 31 December 2010

13. Risk associated with financial instruments (continued)

Currency risk (continued)

2010						
Impact of 5% Increase in FX Rate						
Currency	Financial Assets	Cash and Cash Equivalents	Other Assets and Liabilities	Effect on Profit	% Change in NAV	
GBP	1,828,170	204,347	(1,436)	2,031,081	4.64%	
EUR	174,485	-	335	174,821	0.40%	
Total	2,002,655	204,347	(1,101)	2,205,902	5.04%	

The foreign exchange gain on revaluation of assets and liabilities (other than investments at fair value through profit or loss) during the period is USD 1,029,171.

14. Non cash transactions

In addition to the financial investments and financing activities presented in the cash flow statement on page 11 of the financial statements, the Fund issued USD 16,041,711 of redeemable shares. These shares were financed by a contribution in kind as disclosed in Note 11.

15. Subsequent Events

There were no significant events after the reporting period which affect the financial statements as at 31 December 2010.

The published Net Asset Value per share as of 30 September 2013 is as follows:

Share Class	30 September 2013	
	FCY	USD
EUR Class	110.83	149.92
GBP Class	110.25	178.46