

SPITFIRE BRITISH PROPERTY RECOVERY FUND
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2013

SPITFIRE BRITISH PROPERTY RECOVERY FUND

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SPITFIRE BRITISH PROPERTY RECOVERY FUND

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

Directors

Alan Tennant Johnson
Philip Peter Scales
Peter Hughes
Paul Meader (appointed 31 December 2013)

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

Spitfire Asset Managers (Bermuda) Ltd
Clarendon House
2 Church Street
Hamilton
HM 12
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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)
PO Box 45,
The Grange, St. Peter Port,
Guernsey, GY1 4AX

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Directors' Report for the year ended 31 December 2013

The directors present herewith their report and audited financial statements for the year ended 31 December 2013. The comparative information presented covers the year ended 31 December 2012.

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.

Under the Segregated Accounts Companies Act 2000, the assets and liabilities of the Fund are segregated from other segregated accounts of the company.

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 Fund's 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 Manager 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.

On 30 April 2013, the mandate of the Fund was broadened to include investments from geographical regions other than just the Americas and now includes Europe, Asia, and Australasia as well as the Americas.

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Directors' Report for the year ended 31 December 2013 (continued)

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 year

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

Going concern

The directors have a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future. 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 year (2012: USD nil).

Directors

The directors of the Company holding office during the year 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.

Paul Meader appointed on 31 December 2013.

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 year 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 at 31 December 2013, the Fund held the following property investments with a value greater than five percent (5%) of the Fund's investment portfolio:

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Directors' Report for the year ended 31 December 2013 (continued)

List of Investments (continued)

Security	CCY	2013	2013	2013	2013
		Quantity	Book Cost	Market Value	Percentage of Total Portfolio
			USD	USD	
Development Securities Ord	GBP	920,000	3,567,202	4,063,008	10.36%
Land Securities Plc	GBP	200,000	2,474,722	3,190,341	8.14%
Segro Plc	GBP	440,000	1,866,685	2,433,070	6.21%
St Modwen Properties Ord	GBP	400,000	1,078,573	2,432,408	6.20%
TR Property Investment Trust Plc	GBP	1,425,000	3,571,522	5,343,656	13.63%
BlackRock UK Property Fund	GBP	40,877	2,062,886	2,375,738	6.06%
Fidelity Funds- INTL Real Estate Fund Acc Upfront	GBP	783	3,883,000	4,248,076	10.84%
Henderson UK Property Fund	GBP	1,327	2,959,059	3,396,928	8.67%
Other Investments	GBP	4,210,809	8,653,593	11,720,043	29.89%
At 31 December 2013			30,117,242	39,203,268	100.00%

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

Fees

The Fund incurred charges of USD 752,138 and USD nil (2012: USD 739,064 and USD nil) respectively for investment management fees and performance fees in favour of the investment manager for the year. The director fees amounted to USD 21,727 (2012: USD 13,196) for the year.

None of the directors or service providers' fees have been waived during the year, with the exception of performance fees which have been waived by the Investment Manager as disclosed in note 12.

Gate Provision on Redemptions

The Fund has received aggregate redemptions exceeding 5% of the Fund's net asset value for redemption dates commencing 01 March 2014 onwards. In accordance with the Fund's supplement, the number of shares of the Fund redeemed on any Redemption Day is limited to five percent (5%) of the total net asset value of the Fund ("the Gate"). The Gate applies on a "first come/first served basis" with regards to the number of redemption requests received in relation to a particular Redemption Day and unsatisfied requests are carried forward for redemption to the next dealing date until the original request has been satisfied in full. As at the date of these financial statements the Gate remains in operation.

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 organisational cost and the deferred sale charges are amortised 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 profit gain of USD 282,480 (2012: USD 307,651) and a reduction in Net Asset Value of USD (4,197) (2012: USD (286,675)).

SPITFIRE BRITISH PROPERTY RECOVERY FUND

Directors' Report for the year ended 31 December 2013 (continued)

- The published NAV per share and the NAV per share per the financial statements are as follows:

Share Class	2013				2012			
	Published NAV per Shares		NAV per Share per the Financial Statements		Published NAV per Shares		NAV per Share per the Financial Statements	
	FCY	USD	FCY	USD	FCY	USD	FCY	USD
EUR Class	119.88	164.76	119.92	164.81	100.14	132.11	99.17	130.82
GBP Class	119.19	197.33	119.18	197.31	99.60	161.83	98.83	160.59

The following table provides a summary of the results and of the assets and liabilities of the Fund since inception. Note that the comparative for 2010 covers the period from the commencement of operations on 1 October 2009 to 31 December 2010.

Results and assets and liabilities of the Fund

	2013	2012	2011	2010
	USD	USD	USD	USD
Assets				
Financial assets at fair value through profit or loss	39,203,268	27,591,648	24,281,256	40,053,102
Dividends receivable	155,212	115,947	57,701	60,033
Due from related party	46,139	-	-	-
Debtors	1,134,798	8,845	2,750	17,441
Cash and cash equivalents	4,448,258	9,268,356	12,021,203	4,086,932
Total assets	44,987,675	36,984,796	36,362,910	44,217,508
Liabilities				
Creditors amounts falling due within one year	341,183	199,540	386,019	417,621
Total liabilities: (excluding net assets attributable to holders of redeemable shares)	341,183	199,540	386,019	417,621
Net assets attributable to holders of redeemable shares	44,646,492	36,785,256	35,976,891	43,799,887
Profit/(loss) for the year	8,336,814	5,628,586	(5,155,237)	1,171,905

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 Company 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 the system of internal control, 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.



11 July 2014

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

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

We have audited the financial statements of Spitfire International Property Recovery Fund (formerly Spitfire Americas Property Recovery Fund) (the "Fund") for the year ended 31 December 2013 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 and to identify any information that is apparently materially inconsistent based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 and of its profit for the year 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

[Date] 17th July 2014

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Profit and loss account for the year ended 31 December 2013

	Note	31 December 2013 USD	31 December 2012 USD
Income from continuing operations			
Bank interest		5,189	3,143
Dividend income		538,749	129,434
		543,938	132,577
Expenses			
Administrator's fees	12	23,976	13,613
Audit fees		20,221	14,335
Bank and broker fees		2,025	2,471
Custodian fees	12	13,727	7,254
Directors' fees		21,727	13,196
Investment advisory fees	12	78,190	42,595
Management participation fees	12	471,353	265,427
Statutory expenses		3,539	3,372
Sundry expenses		206,017	37,969
Total expenses		840,775	400,232
Net loss before investment gains		(296,837)	(267,655)
Net realised gains on financials assets and liabilities held at fair value through profit or loss	3	124,819	211,723
Net change in unrealised gains on financials assets and liabilities held at fair value through profit or loss	3	1,266,658	994,070
Net gains on foreign exchange forwards		817,577	230,279
Net losses on exchange differences	13	(18,223)	(5,698)
Profit for the year before and after taxation attributable to holders of redeemable shares		1,893,994	1,162,719

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 30 form an integral part of these audited financial statements

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

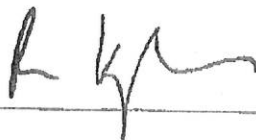
Balance Sheet as at 31 December 2013

	Note	2013 USD	2012 USD
Assets			
Financial assets at fair value through profit or loss	3	25,522,810	9,890,764
Dividends receivable		149,587	7,404
Due from related party	11	1,124,696	-
Debtors	4	328,431	183,416
Cash and cash equivalents		1,864,667	8,221,068
Total assets		28,990,191	18,302,652
Liabilities			
Creditors: amounts falling due within one year	5	265,309	112,693
Total Liabilities: (excluding net assets attributable to holders of redeemable shares)		265,309	112,693
Net assets attributable to holders of redeemable shares		28,724,882	18,189,959

The financial statements on page 10 to 30 were approved by the board of directors on 11 July 2014 and signed on its behalf by:



Director



Director

The notes on pages 13 to 30 form an integral part of these audited financial statements.

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Cash flow statement for the year ended 31 December 2013

	Note	<u>2013</u> <u>USD</u>	<u>2012</u> <u>USD</u>
Net cash outflow from operating activities	(b)	(1,829,833)	(420,059)
Return on investment and servicing of finance			
Interest received		5,064	3,081
Dividend received		396,566	129,284
Financial investments			
Purchase of investments	15	(8,275,262)	(6,076,735)
Sale of investments		2,495,890	608,820
Forward currency contracts settlement		671,443	(329,183)
Financing			
Issue of redeemable shares	15	1,124,696	6,253,400
Redemption of redeemable shares		(944,965)	(740,110)
Decrease in cash	(a)	(6,356,401)	(571,502)

Notes to the cash flow statement

(a) Analysis of changes in cash during the year

	<u>2013</u> <u>USD</u>	<u>2012</u> <u>USD</u>
Balance prior year	8,221,068	8,792,570
Net cash outflow	(6,356,401)	(571,502)
Balance at 31 December	1,864,667	8,221,068

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

	Note	<u>2013</u> <u>USD</u>	<u>2012</u> <u>USD</u>
Operating profit		1,893,994	1,162,719
Increase in due from related party		(1,124,696)	-
Increase in debtors		1,245	(6,380)
Increase/(decrease) in creditors		152,616	(7,749)
Net unrealised gain on investments	3	(1,266,658)	(994,070)
Net realised gains on investments	3	(124,819)	(211,723)
Net Unrealised gain on Forwards		(817,577)	(230,279)
Interest income		(5,189)	(3,143)
Dividend income		(538,749)	(129,434)
Net cash outflow from operating activities		(1,829,833)	(420,059)

The notes on pages 13 to 30 form an integral part of these audited financial statements.

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

1. Organization

The Spitfire International Property Recovery Fund, formerly The Spitfire Americas 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 on 19 September 2008 as a Segregated Accounts Company. The Fund commenced operations on 1 October 2009.

The investment objective of the Fund is to seek to exploit recovery themes and select a range of property related investment opportunities offering the potential for investment returns derived from the International (previously Americas) 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.

Financial assets

All financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned. They are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through the profit and loss account, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity’ investments, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Fund currently holds only financial assets classified as at FVTPL and as loans and receivables.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

Financial assets (continued)

Financial assets at FVTPL (continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's documented risk management or investment strategy, and information about the Fund is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and FRS 26 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

The Fund holds positions in companies which are listed or quoted on a recognised market and other investment Funds, both of 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.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the profit and loss account. Fair value is determined in the manner described below.

Fair Value

Investments of the Fund that are listed or quoted on a recognised market are valued at bid market price in the relevant market at the Balance Sheet date. The valuations of all investments in investment funds are based upon the latest information available to the Fund provided by the underlying investment funds in which the Fund has invested, except for listed investments where information was taken from business and financial market news sites. The valuation date of such funds may not always be coterminous with the valuation date of the Fund and in such cases the valuation of the fund as at the last valuation date is used. The Net Asset Value ("NAV") reported by the fund manager or administrator may be unaudited and in some cases, the notified NAV is based upon estimates. Whilst the Fund has no reason to suppose that any such valuations are unreasonable, the amounts realised from the ultimate redemption or sale of these funds may materially differ from these values.

Gains and losses arising from changes in the fair value of financial assets are shown as net gains or losses on financial assets through profit or loss in Note 3 and recognised in the Profit and Loss account in the period in which they arise.

Derecognition of financial instruments

A financial asset is derecognised when: (a) the rights to receive cash flows from the financial asset have expired, (b) the Fund retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through arrangement"; or (c) the Fund has transferred substantially all the risks and rewards of the financial asset, or has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

A financial liability is derecognised when the contractual obligation under the liability is discharged, cancelled or expired.

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

2. Significant Accounting Policies (continued)

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 year end exchange rate with exchange gains/losses arising.

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 also US Dollars.

Foreign currency translation

Transactions denominated in other currencies which occurred during the year 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 the 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 when the right to received dividends is established.

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.

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.

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

3. Financial assets at fair value through profit or loss

Financial assets are analysed as follows:

Security	2013	2013	2013	2013
	Quantity	Book Cost	Market Value	Percentage of Total Portfolio
		USD	USD	
Ishares Ftse Epra Nareit Asia Pro	26,526	765,293	640,302	2.51%
DDR CORP COM NPV	54,590	518,132	839,048	3.29%
SL Green Realty Corporation	12,200	558,031	1,127,036	4.42%
Aviva Investors Encore + Class A Eur Dis	1,008,403	985,477	1,050,903	4.12%
Schroder RE Continental European Fund I Shs C	235	201,744	196,978	0.77%
Schroder RE Continental European Fund II Shs C	523	499,262	507,970	1.99%
Apn Funds Mgt Ara Asian Assets Income Fund Class A	12,831	712,365	516,277	2.02%
Blackrock Granite Property Fund Class A	41	3,009,542	3,088,801	12.10%
Blackrock Granite Property Fund Class B	-	16,701	16,967	0.07%
Cbre Global Investors Asia Value Fund	1,207	1,151,992	1,318,882	5.17%
Ishares US Property Yield UCITS ETF	225,000	4,999,500	5,046,750	19.77%
M&G Asia Property Fund Class D	207,519	1,909,611	1,810,500	7.09%
Prologis Targeted US Logistics REIT Inc	4,424	3,203,817	3,929,071	15.39%
UBS (US) Trumbull Property Growth & Inc FD LP UPFR	364	4,189,386	5,433,325	21.29%
At 31 December 2013		22,720,853	25,522,810	100.00%

Security	2012	2012	2012	2012
	Quantity	Book Cost	Market Value	Percentage of Total Portfolio
		USD	USD	
DDR CORP COM NPV	54,590	518,132	854,879	8.64%
SL GREEN REALTY CORP	12,200	558,031	935,130	9.45%
UBS (US) Trumbull Property Growth & Inc FD LP UPFR	367	4,218,367	4,754,455	48.07%
Prologis Targeted US Logistics REIT Inc	4,251	3,060,934	3,346,300	33.83%
At 31 December 2012		8,355,465	9,890,764	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 2013 and 2012.

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

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

- 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.*

Fair value hierarchy table

2013	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Investments in Funds				
Investments in Property Funds	2,606,386	21,597,542	1,318,882	25,522,810
Open Forward contracts	-	320,359	-	320,359
Total Investments	2,606,386	21,917,901	1,318,882	25,843,169
2012	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Investments in Funds				
Investments in Property Funds	1,790,010	8,100,755	-	9,890,765
Open Forward contracts	-	174,224	-	174,224
Total Investments	1,790,010	8,274,979	-	10,064,989

The Fund holds shares in CBRE Global Investors Asia Value Fund which have been assessed by the directors to be illiquid following review of information received from CBRE Global Investors Asia Value Fund. Post year-end, the Board has approved the prorated in-specie distribution of these shares as a component of monthly redemptions which took effect starting in 3 February 2014 whereby upon redemption, holders of redeemable shares received proceeds partly settled in cash and partly in kind by way of shares in CBRE Global Investors Asia Value Fund.

Reconciliation of Level 3 fair value measurements of financial assets

	FTVPL Investments in property funds 2013 USD	Total 2013 USD
Balance at 1 January 2013		
Purchases	-	-
Sales	-	-
Transfers out of Level 3	-	-
Transfers into Level 3	1,318,882	1,318,882
Total gain or losses		
- in profit or loss	-	-
- in the Statement of Total Recognized Gains and Losses	-	-
Balance at 31 December 2013	1,318,882	1,318,882

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

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

The table above only includes financial assets. There were no financial liabilities subsequently measured at fair value on Level 3 fair value measurement bases. As at December 31 2013, the investment in one illiquid fund (as detailed above) has been reclassified as Level 3 following an assessment of the investment.

No financial instruments were classified as level 3 at 31 December 2012.

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

	2013 USD	2012 USD
Net realised gain on financial assets at fair value through profit or loss		
- designated as fair value through profit or loss	124,819	211,723
Net change in unrealised gains on financial assets at fair value through profit or loss		
- designated as fair value through profit or loss	1,266,658	994,070

4. Debtors: amounts falling receivable within one year

	Note	2013 USD	2012 USD
Unrealised gains on forward currency contracts	9	320,359	174,224
Bond & deposit interest		187	62
Other debtors & prepayments		7,885	9,131
		328,431	183,417

5. Creditors: amounts falling due within one year

	2013 USD	2012 USD
Investments management Fees	137,952	59,623
Administration fees	7,011	5,616
Audit Fees	16,556	22,206
Custodian fees	5,327	1,537
Investment advisory fees	22,884	14,872
Other payables	75,579	8,839
	265,309	112,693

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

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 International Property Recovery Class A USD Shares, Spitfire International Property Recovery Class A Euro Shares and Spitfire International 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 year.
- 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.

The assets and liabilities of each class fund are not legally segregated and separate.

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

6. Share Capital (Continued)

	<u>2013</u>		<u>2012</u>	
	<u>No. of shares</u>	<u>USD</u>	<u>No. of shares</u>	<u>USD</u>
Participating shares of EUR0.01 each				
At beginning of the year	77,096	101	57,719	74
Exchange gain during the year		6	-	2
Issued during the year	37,673	49	21,008	27
Redeemed during the year	(5,662)	(7)	(1,631)	(2)
At end of the year	109,107	149	77,096	101
Participating shares of GBP0.01 each				
At beginning of the year	27,765	45	15,383	24
Exchange gain during the year	-	1	-	1
Issued during the year	16,958	26	14,882	24
Redeemed during the year	-	-	(2,500)	(4)
At end of the year	44,723	72	27,765	45

7. Share Premium Account

	<u>2013</u>	<u>2012</u>
	<u>USD</u>	<u>USD</u>
Participating shares of EUR0.01 each		
At beginning of the year	11,720,822	8,403,671
Exchange gain during the year	729,129	233,557
Issued during the year	6,303,704	3,343,312
Redeemed during the year	(944,958)	(259,718)
At end of the year	17,808,697	11,720,822
Participating shares of GBP0.01 each		
At beginning of the year	4,549,400	2,021,346
Exchange gain during the year	302,626	98,404
Issued during the year	3,282,115	2,910,036
Redeemed during the year	-	(480,386)
At end of the year	8,134,141	4,549,400

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

8. Net assets attributable to holders of participating redeemable shares

	Share Capital USD	Share Premium USD	Retained Earnings USD	Total USD
2013				
Balance at 1 January 2013	146	16,270,222	1,919,591	18,189,959
Gain on ordinary activities	-	-	1,893,994	1,893,994
Issue of EUR0.001 shares	49	6,303,704	-	6,303,753
Redemption of EUR0.001 shares	(7)	(944,958)	-	(944,965)
Exchange Gain/(Loss) on Eur 0.001 shares	6	729,129	(729,135)	-
Issue of GBP0.001 shares	26	3,282,115	-	3,282,141
Redemption of GBP0.001 shares	-	-	-	-
Exchange Gain/(Loss) on GBP 0.001 shares	1	302,626	-302,627	-
Balance at 31 December 2013	221	25,942,838	2,781,823	28,724,882

	Share Capital USD	Share Premium USD	Retained Earnings USD	Total USD
2012				
Balance at 1 January 2012	98	10,425,017	1,088,836	11,513,951
Gain on ordinary activities	-	-	1,162,719	1,162,719
Issue of EUR0.001 shares	27	3,343,312	-	3,343,339
Redemption of EUR0.001 shares	(2)	(259,718)	-	(259,720)
Exchange Gain/(Loss) on Eur 0.001 shares	2	233,557	(233,559)	-
Issue of GBP0.001 shares	24	291,003	-	2,910,060
Redemption of GBP0.001 shares	(4)	(480,386)	-	(480,390)
Exchange Gain/(Loss) on GBP 0.001 shares	1	98,404	(98,405)	-
Balance at 31 December 2012	146	16,270,222	1,919,591	18,189,959

Net assets by each share class

Share Class	2013				2012			
	FCY		USD		FCY		USD	
	NAV/Shares	NAV	NAV/Shares	NAV	NAV/Shares	NAV	NAV/Shares	NAV
EUR Class	128.98	14,072,753	177.26	19,340,184	125.05	9,641,098	164.97	12,718,536
GBP Class	126.75	5,668,457	209.84	9,384,698	121.28	3,367,444	197.06	5,471,423
				28,724,882				18,189,959

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

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 year end, the Fund held open forward contracts as set out below:

31 December 2013

Buy	Amount	Sell	Amount	Contract Rate	Date	FX Rate - 31 December 2013	Unrealised Gain - USD
EUR	13,872,300	USD	18,808,064	1.3558	06-Jan-14	1.3743	256,638
GBP	5,585,100	USD	9,159,005	1.6399	06-Jan-14	1.6556	87,686
USD	1,756,303	EUR	1,295,400	1.3558	06-Jan-14	1.3743	(23,965)
Total							320,359

31 December 2012

Buy	Amount	Sell	Amount	Contract Rate	Date	FX Rate - 31 December 2012	Unrealised (Loss) - USD
EUR	9,510,800	USD	12,427,762	1.3067	04-Jan-13	1.3192	118,885
GBP	3,353,900	USD	5,394,077	1.6083	04-Jan-13	1.6248	55,339
Total							174,224

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.

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

11. Related party transactions

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

Alan Tennant Johnson, Philip Peter Scales, Peter Hughes and Paul Meader are the directors of The Spitfire Funds (Bermuda) Ltd, the Fund, and are also 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 year, 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:

2013					
The Frontier Global Real Estate Fund Plc					
Date	Trade	Security	CCY	No. of shares	Price
01 February 2013	Redemption	Spitfire International Property Recovery Fund	EUR	(3,192)	125.51
01 April 2013	Redemption	Spitfire International Property Recovery Fund	EUR	(2,470)	126.49
01 May 2013	Subscription	Spitfire International Property Recovery Fund	EUR	37,673	127.07

2013					
The Frontier Commercial Property Fund Plc					
Date	Trade	Security	CCY	No. of shares	Price
01 May 2013	Subscription	Spitfire International Property Recovery Fund	GBP	16,958	2,113,164

2012					
The Frontier Global Real Estate Fund Plc					
Date	Trade	Security	CCY	No. of shares	Price
01 October 2013	Subscription	Spitfire International Property Recovery Fund	EUR	21,008	123.76
01 December 2013	Redemption	Spitfire International Property Recovery Fund	EUR	(1,631)	122.60

2012					
The Frontier Commercial Property Fund Plc					
Date	Trade	Security	CCY	No. of shares	Price
01 October 2013	Subscription	Spitfire International Property Recovery Fund	GBP	14,882	120.96
01 December 2013	Redemption	Spitfire International Property Recovery Fund	GBP	(2,500)	120.01

The Spitfire Asset Managers (Bermuda) Ltd is the Fund's Investment Manager where Alan Tennant Johnson is a director and beneficial owner, and where Paul Meader is a director. For the year ended 31 December 2013 and 2012, the fees charged by the Investment Manager were:

	2013	2012
	USD	USD
Investment management fees	471,353	265,427

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

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

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

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

11. Related party transactions (continued)

The board of directors of the Company through a resolution dated 25 March 2013 agreed to close segregated accounts of the Company called Spitfire Asian Property Recovery Fund and Spitfire European Property Recovery Fund as at 30 April 2013. This decision was taken due to the diminutive size of the funds which made it uneconomical to operate and maintain. The letters informing the shareholders were issued on 18 April 2013. Final redemption proceeds were invested in Spitfire International Property Recovery Fund on 1 May 2013 as follows;

Fund	GBP Class		EUR Class	
	GBP	USD	EUR	USD
Spitfire Asian Property Recovery Fund	487,175	756,680	4,358,744	5,739,720
Spitfire European Property Recovery Fund	1,625,988	2,525,488	428,413	564,134

The proceeds received by the Fund were by way of an in specie transfer of investments to the value of USD 8,461,326 and cash of USD 1,124,696.

As of 31 December 2013, proceeds receivable from Spitfire Asian Property Recovery Fund and Spitfire European Property Recovery Fund as a result of the above-mentioned in-specie transfers are as follows;

Spitfire Asian Property Recovery Fund	USD 728,791
Spitfire European Property Recovery Fund	395,905
	<u>1,124,696</u>

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

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 Company).

During the year a charge of USD 23,976 (2012: USD 13,613) was incurred in relation to the administration fees and USD 2,083 (2012: USD 1,250) for the corporate secretarial fees. USD 7,011 and USD 625 for administration services and corporate secretarial services respectively were payable as at 31 December 2013. USD 5,616 and USD 417 for administration services and corporate secretarial services respectively were payable as at 31 December 2012.

Custodian fees

The Custodian is paid a fee of 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 year a charge of USD 13,727 (2012: USD 7,254) was charged by the Custodian. Custody fees payable as at 31 December 2013 and 2012 amounted to USD 5,327 and USD 1,537 respectively.

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 year USD 471,353 (2012: USD 265,427) management fees were charged by the Investment Manager. Investment management fees payable as at 31 December 2013 and 2012 amounted to USD 137,952 and USD 59,623, respectively.

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, 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. In 2012 and 2013, there were no charges of performance fees by the Investment Manager. The Investment Manager has temporarily waived performance fees in 2013 and 2012. No performance fees were payable as at 31 December 2013 and 2012.

Deferred sales charge

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. No deferred sales charge was paid and USD nil was payable for the year ended 31 December 2013 and 2012.

Early redemption fees

Redemptions are subject to an early redemption fee of a percentage of the value of the redemption 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 both the current and prior year, no redemption fees were charged to investors and no income was recognised.

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

12. Fees and expenses (continued)

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 year USD 78,190 (2012: USD 42,595) was charged by the Investment Advisor. Investment advisor fees payable as at 31 December 2013 and 2012 amounted to USD 22,884 and USD 14,872, respectively. 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.

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. The Fund is not subject to externally imposed capital requirements.

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 dependent 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 macroeconomic 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%.

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

13. Risk associated with financial instruments (continued)

Market price risk (continued)

The following table illustrates the sensitivity of the profit or loss for the year 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.

	2013		2012	
	<u>Increase in</u> <u>Market value</u>	<u>Decrease in</u> <u>Market value</u>	<u>Increase in</u> <u>Market value</u>	<u>Decrease in</u> <u>Market value</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
At 31 December				
Net profit/(loss)	1,276,141	(2,552,281)	494,538	(989,076)
Net asset value	4.44%	(8.91)%	2.72%	(5.44)%

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable to meet a commitment that it has entered into with the Fund. Credit risk in relation to securities transactions awaiting settlement is managed through the rules and procedures of the relevant stock exchanges. In particular settlements for transactions in listed securities are effected by the Custodian on a delivery against payment or receipt against payment basis. Transactions in unlisted securities are effected against binding subscription agreements. 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. The principal credit risks for the Fund are in relation to deposits with banks. Kleinwort Benson Trustees (Isle of Man) Ltd ("KB") acts as the principal banker to the Funds, and as custodian of its assets. The securities held by KB as Custodian are held in trust and are registered in the name of the Fund. KB is a wholly owned subsidiary of RHJ International S.A. which is listed on Euronext. Kleinwort Benson is no longer rated by Moody's or Standard & Poor's. The credit risk associated with debtors is limited to any unrealised gains on open forward foreign currency contracts, as detailed above and other receivables.

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

	2013	2012
	USD	USD
Cash and cash equivalents	1,864,667	8,221,068

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.

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 on the next page summarises the Fund's exposure to interest rate risk:

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

13. Risk associated with financial instruments (continued)

Interest rate risk (Continued)

	Fixed	Less than one month	Non interest bearing	Total USD
At 31 December 2013				
Assets				
Financial assets at fair value through profit or loss	-	-	25,522,810	25,522,810
Dividends receivable	-	-	149,587	149,587
Due from related party	-	-	1,124,696	1,124,696
Other receivable	-	-	328,431	328,431
Cash and cash equivalents	-	1,864,667	-	1,864,667
Total Assets	-	1,864,667	27,125,524	28,990,191
Liabilities				
Accounts payable	-	-	265,309	265,309
Net assets attributable to holders of redeemable participating preference shares	-	-	28,724,882	28,724,882
Total Liabilities	-	-	28,990,191	28,990,191
At 31 December 2012				
Assets				
Financial assets at fair value through profit or loss	-	-	9,890,764	9,890,764
Dividends receivable	-	-	7,404	7,404
Other receivable	-	-	183,416	183,416
Cash and cash equivalents	-	8,221,068	-	8,221,068
Total Assets	-	8,221,068	10,081,584	18,302,652
Liabilities				
Accounts payable	-	-	112,693	112,693
Net assets attributable to holders of redeemable participating preference shares	-	-	18,189,959	18,189,959
Total Liabilities	-	-	18,302,652	18,302,652

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 2013 and 2012, the Fund's portfolio of financial assets includes assets with daily and monthly liquidity.

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

13. Risk associated with financial instruments (continued)

Liquidity risk

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.

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 functional currency of the Fund. The Fund is also permitted to invest in underlying assets which may be denominated in currencies which are different from the functional 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 an investment advisor who ensures that the currency classes and any non-base currency assets are 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	2013		2012	
		In foreign currency	USD	In foreign currency	USD
Financial Assets					
Cash and cash equivalents	EUR	11,223	15,424	318	420
Cash and cash equivalents	GBP	367	608	704	1,144
Financial assets at fair value through profit or loss	EUR	1,277,633	1,755,851	-	-
Financial assets at fair value through profit or loss	GBP	386,749	640,302	-	-
Subscriptions receivable	EUR	2,633	3,619	-	-
Other receivables	GBP	1,833	3,035	-	-
			16,032		1,564
Financial liabilities					
Creditors	GBP	33,625	55,670	19,502	31,688
			55,670		31,688

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS PROPERTY RECOVERY FUND)**

Notes to the Financial Statements for the year ended 31 December 2013

13. Risk associated with financial instruments (continued)

Currency risk (continued)

The following table illustrates the sensitivity of the profit or loss for the year 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.

2013						
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	32,015	30	(2,632)	29,413	0.10%	
EUR	87,793	771	181	88,745	0.31%	
Total	119,808	801	(2,451)	118,158	0.41%	

2012						
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	-	57	(1,584)	(1,527)	(0.01%)	
EUR	-	21	-	21	0.00%	
Total	-	78	(1,584)	(1,506)	(0.01%)	

The foreign exchange loss on revaluation of assets and liabilities (other than investments at fair value through profit and loss) during the year is USD 18,223 (2012: loss of USD 5,698).

14. Subsequent Events

There were no other significant events after the reporting period which affect the financial statements as at 31 December 2013.

The unaudited published Net Asset Value per share as of 30 April 2014 is EUR 133.79 for the EUR Class and GBP131.72 for the GBP Class.

The fund name The Spitfire Americas Property Recovery Fund has been changed to The Spitfire International Property Recovery Fund as per amended supplement dated January 13, 2014.

In February 2014, the Fund has received aggregate redemptions exceeding 5% of the Fund's net asset value. Shares redeemed were limited to 5% of net asset value of the Fund as per the gate provisions stated on the Fund supplement. Unsatisfied redemptions requests were moved the next dealing date until all requests have been satisfied in full.

From 3 February 2014, redemption proceeds were settled partly in cash and in kind by way of distributing prorated shares of CBRE Global Investors Asia Value Fund held by the Fund as disclosed in Note 3.

15. Non-cash transactions

In addition to the financial investments and financing activities presented in the cash flow statement on page 12 of the financial statements, the Fund issued USD 9,586,022 of redeemable shares. USD 8,461,326 of these shares were financed by an in specie transfer as disclosed in Note 11.