

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

**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2013**

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

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**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS 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
Paul Meader

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)
PO Box 45,
The Grange, St. Peter Port,
Guernsey, GY1 4AX

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS 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 Company number 42429, was incorporated in Bermuda on the 19 September 2008 under the Segregated Accounts Companies Act 2000.

The Spitfire International 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. The Fund was previously called The Spitfire Americas Property Recovery Fund, but changed its name on 13 January 2014.

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 company 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 International 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 International 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 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. 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 INTERNATIONAL PROPERTY RECOVERY FUND
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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.

List of Investments

As of 31 December 2013, the Fund held the following property investments:

| | 2013 | 2013 | 2013 | 2013 |
|--|-----------|-------------------|-------------------|----------------|
| Security | Quantity | Book Cost | Market Value | Percentage of |
| | | USD | USD | |
| Blackrock Granite Property Fund Class A | 41 | 3,009,542 | 3,088,801 | 12.10% |
| 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% |
| Other Investments | 1,115,308 | 4,257,005 | 4,895,481 | 19.18% |
| At 31 December 2013 | | 22,720,853 | 25,522,810 | 100.00% |

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

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.

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
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Directors' Report for the year ended 31 December 2013 (continued)

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.

Fees

The Fund incurred charges of USD 471,353 (2012: USD 265,427) and USD nil (2012: nil) respectively for investment management fees and performance fees in favour of the investment manager for the year ended 31 December 2013. The director fees amounted to USD 21,727 (2012: 13,196) for the same 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 discussed 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 3 February 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. In addition, the NAV as per financial statements included dividend adjustments from M&G Property Asia Fund Class D, one of the Fund's underlying investments. The net difference in the financial statements is a profit gain of USD 152,926 (2012: USD 90,250) and an increase in Net Asset Value of USD 60,403 (2012: USD (23,822)).

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
(FORMERLY SPITFIRE AMERICAS 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 | 128.71 | 176.89 | 128.98 | 177.26 | 125.33 | 165.33 | 125.05 | 164.97 |
| GBP Class | 126.48 | 209.40 | 126.75 | 209.84 | 122.72 | 199.40 | 121.28 | 197.06 |

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 USD | 2012 USD | 2011 USD | 2010 USD |
|--|-------------------|-------------------|-------------------|------------------|
| Assets | | | | |
| Financial assets at fair value through profit or loss | 25,522,810 | 9,890,764 | 3,217,057 | 6,222,304 |
| Dividends receivable | 149,587 | 7,404 | 7,254 | 2,131 |
| Due from related party | 1,124,696 | - | - | - |
| Debtors | 328,431 | 183,416 | 2,750 | - |
| Cash and cash equivalents | 1,864,667 | 8,221,068 | 8,792,570 | 2,378,456 |
| Total assets | 28,990,191 | 18,302,652 | 12,019,631 | 8,602,891 |
| Liabilities | | | | |
| Creditors: amounts falling due within one year | 265,309 | 112,693 | 505,680 | 185,476 |
| Total Liabilities:(excluding net assets attributable to holders of redeemable shares) | 265,309 | 112,693 | 505,680 | 185,476 |
| Net assets attributable to holders of redeemable shares | 28,724,882 | 18,189,959 | 11,513,951 | 8,417,415 |
| Profit/(loss) for the year | 1,893,994 | 1,162,719 | (656,544) | 1,045,321 |

**SPITFIRE INTERNATIONAL PROPERTY RECOVERY FUND
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Directors' responsibilities statement

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

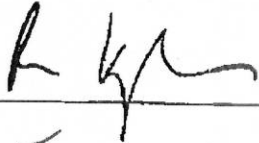
The Companies Act 1981 requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable 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 BRITISH PROPERTY RECOVERY FUND

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 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 incorrect 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 BRITISH PROPERTY RECOVERY FUND

Profit and loss account for the year ended 31 December 2013

| | Note | 2013 | 2012 |
|--|------|------------------|------------------|
| | | USD | USD |
| Income from continuing operations | | | |
| Dividend income | | 972,087 | 1,074,778 |
| Other Income | | 7,841 | 14,761 |
| Total income | | 979,928 | 1,089,539 |
| Expenses | | | |
| Administrator's fees | 12 | 37,839 | 37,904 |
| Audit fees | | 20,221 | 14,335 |
| Bank and broker fees | | 24,871 | 28,651 |
| Custodian fees | 12 | 20,653 | 23,848 |
| Directors' fees | | 21,727 | 13,196 |
| Investment advisory fees | 12 | 124,767 | 122,047 |
| Management fees | 12 | 752,138 | 739,064 |
| Sundry expenses | | 122,484 | 139,119 |
| Total expenses | | 1,124,700 | 1,118,164 |
| Net loss before investment gain | | (144,772) | (28,625) |
| Net realised gains on financial assets and liabilities held at fair value through profit or loss | 3 | 1,064,644 | 727,612 |
| Net change in unrealised gains on financial assets and liabilities held at fair value through profit or loss | 3 | 7,982,416 | 4,628,193 |
| Net losses on foreign exchange forwards | | (54,643) | (155,578) |
| Net (losses)/gains on exchange differences | 13 | (510,831) | 456,984 |
| Profits for the year before and after taxation attributable to holders of redeemable shares | | 8,336,814 | 5,628,586 |

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 BRITISH PROPERTY RECOVERY FUND

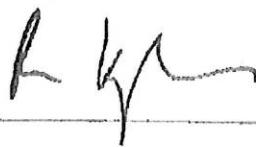
Balance Sheet as at 31 December 2013

| | Note | 2013 USD | 2012 USD | 2011 USD |
|---|------|-------------------|-------------------|-------------------|
| Assets | | | | |
| Financial assets at fair value through profit or loss | 3 | 39,203,268 | 27,591,648 | 24,281,256 |
| Dividends receivable | | 155,212 | 115,947 | 57,701 |
| Due from related party | 11 | 46,139 | - | - |
| Debtors | 4 | 1,134,798 | 8,645 | 2,730 |
| Cash and cash equivalents | | 4,448,258 | 9,268,356 | 12,021,203 |
| Total assets | | 44,987,675 | 36,984,796 | 36,362,910 |
| Liabilities | | | | |
| Creditors: amounts falling due within one year | 5 | 341,183 | 199,540 | 386,019 |
| Total liabilities: (excluding net assets attributable to holders of redeemable shares) | | 341,183 | 199,540 | 386,019 |
| Net assets attributable to holders of redeemable shares | 8 | 44,646,492 | 36,785,256 | 35,976,891 |

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 BRITISH PROPERTY RECOVERY FUND

Cash flow statement for the year ended 31 December 2013 and 2012

| | Note | <u>2013</u> <u>USD</u> | <u>2012</u> <u>USD</u> |
|--|------------|---------------------------|---------------------------|
| Net cash outflow from operating activities | (b) | (1,553,697) | (772,394) |
| Return on investment and servicing of finance | | | |
| Interest received | | 9,027 | 9,819 |
| Dividend received | | 932,822 | 1,016,532 |
| Financial investments | | | |
| Purchase of investments | 15 | (11,122,437) | (7,981,531) |
| Sale of investments | | 7,768,076 | 10,026,942 |
| Forward currency contracts settlement | | (42,586) | (231,996) |
| Financing | | | |
| Issue of redeemable shares | 15 | 46,139 | - |
| Redemption of redeemable shares | | (857,441) | (4,820,220) |
| Decrease in cash | (a) | (4,820,097) | (2,752,848) |

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 at the beginning of year | 9,268,355 | 12,021,203 |
| Net cash outflow | (4,820,097) | (2,752,848) |
| Balance at the end of year | 4,448,258 | 9,268,355 |

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

| | Note | <u>2013</u> <u>USD</u> | <u>2012</u> <u>USD</u> |
|---|------|---------------------------|---------------------------|
| Operating profit | | 8,336,814 | 5,628,585 |
| Increase in due from related party | | (46,139) | - |
| Increase in debtors | | (1,613) | (4,692) |
| Increase/(decrease) in creditors | | 129,586 | (110,061) |
| Net unrealised gains on investments | 3 | (7,982,416) | (4,628,193) |
| Net realised gains on investments | 3 | (1,064,644) | (727,612) |
| Net losses on forward currency contracts | | 54,643 | 155,578 |
| Dividend Income | | (972,087) | (1,074,778) |
| Interest Income | | (7,841) | (11,221) |
| Net cash outflow from operating activities | | (1,553,697) | (772,394) |

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

SPITFIRE BRITISH PROPERTY RECOVERY FUND

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

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

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.

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

2. Significant Accounting Policies (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.

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.

SPITFIRE BRITISH PROPERTY RECOVERY FUND

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

2. Significant Accounting Policies (continued)

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 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 "Net (losses)/gains on exchanges differences" 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 receive 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 BRITISH 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 | CCY | 2013 | 2013 | 2013 | 2013 |
|---|-----|-----------|-------------------|-------------------|-------------------------------|
| | | Quantity | Book Cost | Market Value | Percentage of Total Portfolio |
| | | | <u>USD</u> | <u>USD</u> | |
| Big Yellow Group Plc | GBP | 179,500 | 843,292 | 1,420,521 | 3.62% |
| Development Securities Ord | GBP | 920,000 | 3,567,202 | 4,063,008 | 10.36% |
| Grainger Plc Ord GBP 0.05 | GBP | 500,000 | 863,020 | 1,687,056 | 4.30% |
| Hammerson Plc | GBP | 188,000 | 1,293,674 | 1,562,489 | 3.99% |
| iShares Five Epra/Nar Uk Prp Etf | GBP | 120,000 | 994,312 | 1,024,899 | 2.61% |
| Land Securities Plc | GBP | 200,000 | 2,474,722 | 3,190,341 | 8.14% |
| Picton Property Income Ltd | GBP | 1,725,000 | 1,258,836 | 1,599,310 | 4.08% |
| 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% |
| Castellain Cavendish Limited Participating shares | GBP | 250,248 | 813,350 | 1,208,131 | 3.08% |
| F&C Property Growth & Inc Fund Limited - A BCP A | GBP | 43,000 | 806,372 | 1,136,205 | 2.90% |
| 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% |
| Hiel Infrastructure Company Ltd Ord 0.01p | GBP | 485,061 | 935,313 | 1,080,125 | 2.76% |
| Mediex Fund Ltd | GBP | 720,000 | 845,424 | 1,001,307 | 2.55% |
| At 31 December 2013 | | | 30,117,242 | 39,203,268 | 100.00% |

| Security | CCY | 2012 | 2012 | 2012 | 2012 |
|---|-----|-----------|-------------------|-------------------|-------------------------------|
| | | Quantity | Book Cost | Market Value | Percentage of Total Portfolio |
| | | | <u>USD</u> | <u>USD</u> | |
| Big Yellow Group Plc | GBP | 179,500 | 861,313 | 1,013,488 | 3.67% |
| Development Securities Ord | GBP | 920,000 | 3,797,302 | 2,137,587 | 7.75% |
| Grainger Plc Ord GBP 0.05 | GBP | 500,000 | 860,183 | 963,506 | 3.49% |
| Hammerson Plc | GBP | 188,000 | 1,297,541 | 1,491,573 | 5.41% |
| Land Securities Plc | GBP | 200,000 | 2,472,009 | 2,643,550 | 9.58% |
| Picton Property Income Ltd | GBP | 1,725,000 | 1,304,063 | 1,009,001 | 3.66% |
| SEGRO PLC | GBP | 440,000 | 1,906,440 | 1,762,973 | 6.39% |
| St. Modwen Properties Ord | GBP | 400,000 | 1,174,992 | 1,492,866 | 5.41% |
| TR Property Investment Trust Plc | GBP | 1,315,000 | 3,254,962 | 3,696,339 | 13.40% |
| Blackrock UK Property Fund | GBP | 80,675 | 4,124,215 | 4,418,968 | 16.02% |
| Castellain Cavendish Limited Participating shares | GBP | 250,248 | 812,400 | 1,013,256 | 3.67% |
| Hiel Infrastructure Company Ltd Ord 0.01p | GBP | 454,745 | 882,949 | 916,198 | 3.32% |
| Mediex Fund Ltd | GBP | 720,000 | 857,163 | 880,317 | 3.19% |
| Thames River Property G&I Fund 'Acc' | GBP | 172,313 | 3,460,489 | 4,152,026 | 15.05% |
| At 31 December 2012 | | | 27,066,021 | 27,591,648 | 100.00% |

SPITFIRE BRITISH 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 following tables provide 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.

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 tables

| 2013 | Level 1 USD | Level 2 USD | Level 3 USD | Total USD |
|-------------------------------|-------------------|-------------------|----------------|-------------------|
| Investments | | | | |
| Investments in Property Funds | 21,494,534 | 17,708,734 | - | 39,203,268 |
| Open forward Contracts | - | (13,701) | - | (13,701) |
| Total Investments | 21,494,534 | 17,695,033 | - | 39,189,567 |
| | | | | |
| 2012 | Level 1 USD | Level 2 USD | Level 3 USD | Total USD |
| Investments | | | | |
| Investments in Property Funds | 14,311,059 | 13,280,589 | - | 27,591,648 |
| Open forward Contracts | - | (1,644) | - | (1,644) |
| Total Investments | 14,311,059 | 13,278,945 | - | 27,590,004 |

No financial instruments were classified as level 3 at 31 December 2013 or 2012.

SPITFIRE BRITISH 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)

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

| | 2013 USD | 2012 USD |
|--|------------------|------------------|
| Net realised gains on financial assets at fair value through profit or loss - designated as fair value through profit or loss | <u>1,064,644</u> | <u>727,612</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>7,982,416</u> | <u>4,628,193</u> |

4. Debtors: amounts receivable within one year

| | 2013 USD | 2012 USD |
|---------------------|------------------|--------------|
| Prepayments | 6,019 | 3,902 |
| Interest receivable | 217 | 1,403 |
| Due from broker | 1,125,527 | - |
| Other receivables | 3,035 | 3,540 |
| | <u>1,134,798</u> | <u>8,845</u> |

5. Creditors: amounts falling due within one year

| | Note | 2013 USD | 2012 USD |
|---------------------------------------|------|----------------|----------------|
| Unrealised forward currency contracts | 9 | 13,701 | 1,644 |
| Management fees | | 211,333 | 120,212 |
| Administration fees | | 10,465 | 12,306 |
| Custodian fees | | 8,285 | 4,400 |
| Audit fees | | 16,556 | 22,206 |
| Investment advisory fees | | 35,057 | 29,933 |
| Due to broker | | 10,244 | - |
| Other creditors & accruals | | 35,542 | 8,839 |
| | | <u>341,183</u> | <u>199,540</u> |

SPITFIRE BRITISH 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 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 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.

| Issued and fully paid: | 2013 | | 2012 | |
|--|----------------|------------|----------------|------------|
| | No. of Shares | USD | No. of Shares | USD |
| Participating shares of EURO.001 each | | | | |
| At beginning of the year | 9,786 | 10 | 22,061 | 27 |
| Issued during the year | 504 | 1 | - | - |
| Redeemed during the year | (3,995) | (5) | (12,275) | (16) |
| Exchange differences during the year | | 1 | - | (1) |
| At end of the year | 6,295 | 7 | 9,786 | 10 |
| Participating shares of GBP0.001 each | | | | |
| At beginning of the year | 221,096 | 356 | 243,234 | 375 |
| Issued during the year | 1,926 | 3 | - | - |
| Redeemed during the year | (2,000) | (3) | (22,138) | (35) |
| Exchange differences during the year | | 7 | - | 16 |
| At end of the year | 221,022 | 363 | 221,096 | 356 |

SPITFIRE BRITISH PROPERTY RECOVERY FUND

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

7. Share Premium Account

| | 2013 USD | 2012 USD |
|--|-------------------|-------------------|
| Participating shares of EUR0.001 each | | |
| At beginning of the year | 1,319,187 | 2,850,951 |
| Issued during the year | 69,724 | - |
| Redeemed during the year | (546,925) | (1,517,604) |
| Exchange differences during the year | 50,357 | (14,160) |
| At end of the year | 892,343 | 1,319,187 |
| Participating shares of GBP0.001 each | | |
| At beginning of the year | 35,845,831 | 37,568,984 |
| Issued during the year | 312,135 | - |
| Redeemed during the year | (310,508) | (3,302,565) |
| Exchange differences during the year | 670,952 | 1,579,412 |
| At end of the year | 36,518,410 | 35,845,831 |

8. Net assets attributable to holders of participating redeemable shares

| 2013 | Share Capital USD | Share Premium USD | Retained Earnings USD | Total USD |
|---|----------------------|----------------------|-----------------------------|-------------------|
| Balance at 1st January 2013 | 366 | 37,165,019 | (380,129) | 36,785,256 |
| Profit on ordinary activities | - | - | 8,336,814 | 8,336,814 |
| Issue of EUR0.001 shares | 1 | 69,724 | - | 69,725 |
| Redemption of EUR0.001 shares | (5) | (546,925) | - | (546,930) |
| Exchange differences on EUR0.001 shares | 1 | 50,357 | (50,358) | - |
| Issue of GBP0.001 shares | 3 | 312,135 | - | 312,138 |
| Redemption of GBP0.001 shares | (3) | (310,508) | - | (310,511) |
| Exchange differences on GBP0.001 shares | 7 | 670,952 | (670,959) | - |
| Balance at 31 December 2013 | 370 | 37,410,754 | 7,235,368 | 44,646,492 |

| 2012 | Share Capital USD | Share Premium USD | Retained Earnings USD | Total USD |
|---|----------------------|----------------------|-----------------------------|-------------------|
| Balance at 1st January 2012 | 402 | 40,419,936 | (4,443,447) | 35,976,891 |
| Profit on ordinary activities | - | - | 5,628,585 | 5,628,585 |
| Issue of EUR0.001 shares | - | - | - | - |
| Redemption of EUR0.001 shares | (16) | (1,517,604) | - | (1,517,620) |
| Exchange differences on EUR0.001 shares | (1) | (14,160) | 14,161 | - |
| Issue of GBP0.001 shares | - | - | - | - |
| Redemption of GBP0.001 shares | (35) | (3,302,565) | - | (3,302,600) |
| Exchange differences on GBP0.001 shares | 16 | 1,579,412 | (1,579,428) | - |
| Balance at 31 December 2012 | 366 | 37,165,019 | (380,129) | 36,785,256 |

SPITFIRE BRITISH 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 (continued)

Net assets by each share class

| Share Class | 2013 | | | | 2012 | | | |
|-------------|------------|------------|-----------|-------------------|-----------|------------|------------|-------------------|
| | FCY | | USD | | FCY | | USD | |
| | NAV/Shares | NAV | NAV/Share | NAV | NAV/Share | NAV | NAV/Shares | NAV |
| EUR Class | 119.92 | 754,845 | 164.81 | 1,037,384 | 99.17 | 970,442 | 130.82 | 1,280,207 |
| GBP Class | 119.18 | 26,340,365 | 197.31 | 43,609,108 | 98.83 | 21,851,950 | 160.59 | 35,505,049 |
| | | | | 44,646,492 | | | | 36,785,256 |

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 2013 and 2012, 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 (Loss) - USD |
|--------------|-----------|------|-----------|---------------|-----------|----------------------------|-------------------------|
| EUR | 736,300 | GBP | 608,211 | 1.2106 | 06-Jan-14 | 1.2045 | 5,099 |
| GBP | 2,242,607 | EUR | 2,714,900 | 1.2106 | 06-Jan-14 | 1.2045 | (18,800) |
| Total | | | | | | | (13,701) |

31 December 2012

| Buy | Amount | Sell | Amount | Contract Rate | Date | FX Rate - 31 December 2012 | Unrealised (Loss) - USD |
|--------------|-----------|------|-----------|---------------|-----------|----------------------------|-------------------------|
| EUR | 964,500 | GBP | 782,746 | 1.2322 | 04-Jan-13 | 1.3192 | 826 |
| GBP | 2,340,529 | EUR | 2,884,000 | 1.2322 | 04-Jan-13 | 1.3192 | (2,470) |
| Total | | | | | | | (1,644) |

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 BRITISH 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 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 March 2013 | Redemption | Spitfire British Property Recovery Fund | EUR | (3,995) | 100.83 |
| 01 May 2013 | Subscription | Spitfire British Property Recovery Fund | EUR | (504) | 105.14 |

| 2013 | | | | | |
|---|--------------|---|-----|---------------|--------|
| The Frontier Commercial Property Fund Plc | | | | | |
| Date | Trade | Security | CCY | No. of shares | Price |
| 01 April 2013 | Redemption | Spitfire British Property Recovery Fund | GBP | (2,000) | 102.19 |
| 01 May 2013 | Subscription | Spitfire British Property Recovery Fund | GBP | (1,926) | 104.33 |

| 2012 | | | | | |
|--|------------|---|-----|---------------|-------|
| The Frontier Global Real Estate Fund Plc | | | | | |
| Date | Trade | Security | CCY | No. of shares | Price |
| 01 September 2012 | Redemption | Spitfire British Property Recovery Fund | EUR | (10,258) | 97.48 |
| 01 September 2012 | Redemption | Spitfire British Property Recovery Fund | EUR | (2,014) | 99.16 |

| 2012 | | | | | |
|---|------------|---|-----|---------------|-------|
| The Frontier Commercial Property Fund Plc | | | | | |
| Date | Trade | Security | CCY | No. of shares | Price |
| 01 June 2012 | Redemption | Spitfire British Property Recovery Fund | GBP | (7,747) | 90.36 |
| 01 September 2012 | Redemption | Spitfire British Property Recovery Fund | GBP | (12,365) | 97.05 |
| 01 December 2012 | Redemption | Spitfire British Property Recovery Fund | GBP | (2,026) | 98.70 |

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. The fees charged by the Investment Manager were:

| | 2013 | 2012 |
|-----------------------------------|---------|---------|
| | USD | USD |
| <u>Investment management fees</u> | 752,138 | 739,064 |

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 BRITISH 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 a segregated account of the Company called Spitfire European Property Recovery Fund as at 30 April 2013. This decision was taken due to the diminutive size of the fund which made it uneconomical to operate and maintain. The letter informing the shareholders was issued on 18 April 2013. Final redemption proceeds were invested in Spitfire British Property Recovery Fund on 1 May 2013 as follows:

| Fund | GBP Class | | EUR Class | |
|--|-----------|---------|-----------|--------|
| | GBP | USD | EUR | USD |
| Spitfire European Property Recovery Fund | 200,965 | 312,139 | 52,950 | 69,724 |

The proceeds received by the Fund were by way of an in specie transfer of investments to the value of USD 335,724 and cash of USD 46,139.

As of 31 December 2013, proceeds receivable from Spitfire European Property Recovery Fund as a result of the above-mentioned in-specie transfers amount to USD 46,139.

SPITFIRE BRITISH 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 37,839 (2012: USD 37,904) was incurred in relation to the administration fees and USD 2,083 (2012: USD 1,333) for the corporate secretarial fees. USD 10,465 (2012: USD 12,306) and USD 625 (2012: USD 417) for administration services and corporate secretarial services respectively were payable as at 31 December 2013.

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 year a charge of USD 20,653 (2012: USD 23,848) was charged by the Custodian and USD 8,285 (2012: USD 4,400) was payable as at 31 December 2013.

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 752,138 (2012: USD 739,064) management fees were charged by the Investment Manager. Investment management fees payable as at 31 December 2013 and 2012 amounted to USD 211,333 and USD 120,212, 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. The Investment Manager has temporarily waived performance fees in 2013 and 2012. No performance fees were payable as at 31 December 2013 and 2012.

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

12. Fees and expenses (continued)

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. No deferred sales charge was paid in and USD nil was payable as at 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 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 both the current and prior year, no redemption fees were charged to investors and no income was 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 year USD 124,767 (2012: USD 122,047) was charged by the Investment Advisor. Investment advisor fees payable as at 31 December 2013 and 2012 amounted to USD 35,057 and USD 29,933, 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 any 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.

SPITFIRE BRITISH 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)

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%.

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 | |
|-----------------------|--|---|--|---|
| | Increase in Market value (5%) | Decrease in Market value (10%) | Increase in Market value (5%) | Decrease in Market value (10%) |
| | USD | USD | USD | USD |
| At 31 December | | | | |
| Net profit/(loss) | 1,960,163 | (3,920,327) | 1,379,582 | (2,759,165) |
| Net asset value | 4.39% | (8.78)% | 3.75% | (7.50)% |

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

SPITFIRE BRITISH 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 | - | - | 39,203,268 | 39,203,268 |
| Dividends receivable | - | - | 155,212 | 155,212 |
| Due from related party | - | - | 46,139 | 46,139 |
| Debtors | - | - | 1,134,798 | 1,134,798 |
| Cash and cash equivalents | - | 4,448,258 | - | 4,448,258 |
| Total assets | - | 4,448,258 | 40,539,417 | 44,987,675 |
| Liabilities | | | | |
| Creditors | - | - | 341,183 | 341,183 |
| Net assets attributable to holders of redeemable participating preference shares | - | - | 44,646,492 | 44,646,492 |
| Total liabilities | - | - | 44,987,675 | 44,987,675 |
| At 31 December 2012 | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | - | - | 27,591,648 | 27,591,648 |
| Dividends receivable | - | - | 115,947 | 115,947 |
| Debtors | - | - | 8,845 | 8,845 |
| Cash and cash equivalents | - | 9,268,356 | - | 9,268,356 |
| Total assets | - | 9,268,356 | 27,716,440 | 36,984,796 |
| Liabilities | | | | |
| Creditors | - | - | 199,540 | 199,540 |
| Net assets attributable to holders of redeemable participating preference shares | - | - | 36,785,256 | 36,785,256 |
| Total liabilities | - | - | 36,984,796 | 36,984,796 |

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)

SPITFIRE BRITISH PROPERTY RECOVERY FUND

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

13. Risk associated with financial instruments (continued)

Credit risk (continued)

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 and Standard & Poors. 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 | 4,448,258 | 9,268,356 |

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.

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 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.

SPITFIRE BRITISH 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 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 | in USD | in foreign currency | in USD |
| <i>Financial assets</i> | | | | | |
| Cash and cash equivalents | EUR | 175 | 241 | 444 | 586 |
| Cash and cash equivalents | GBP | 2,686,650 | 4,448,017 | 5,703,945 | 9,267,770 |
| Financial assets at fair value through profit or loss | GBP | 23,679,191 | 39,203,268 | 16,981,566 | 27,591,649 |
| Due from broker | GBP | 679,830 | 1,125,527 | - | - |
| Dividends receivable | GBP | 93,750 | 155,212 | 71,361 | 115,947 |
| Bank interest receivable | GBP | 131 | 217 | 863 | 1,402 |
| Other receivables | GBP | 1,833 | 3,035 | - | - |
| | | | <u>44,935,517</u> | | <u>36,977,354</u> |
| <i>Financial liabilities</i> | | | | | |
| Creditors | GBP | 41,498 | 68,704 | 21,264 | 34,550 |
| | | | <u>68,704</u> | | <u>34,550</u> |

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 | 1,960,163 | 222,401 | 60,764 | 2,243,328 | 5.02% | |
| EUR | - | 12 | - | 12 | 0.00% | |
| Total | 1,960,163 | 222,413 | 60,764 | 2,243,340 | 5.02% | |

| 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 | 1,379,582 | 463,388 | 4,140 | 1,847,111 | 5.02% | |
| EUR | - | 29 | - | 29 | 0.00% | |
| Total | 1,379,582 | 463,417 | 4,140 | 1,847,140 | 5.02% | |

The foreign exchange loss on revaluation of assets and liabilities (other than investments at fair value through profit or loss) during the period is USD 510,831 (2012: gain of USD 456,984).

SPITFIRE BRITISH PROPERTY RECOVERY FUND

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

14. Subsequent Events

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

The published unaudited Net Asset Value per share as of 30 April 2014 is EUR 124.76 for the EUR Class and GBP123.62 for the GBP Class.

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.

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 381,863 of redeemable shares. USD 335,724 of these shares were financed by an in specie transfer of investments as disclosed in Note 11.