

**Registered Office:
11 Brooklyn Lane
Hamilton HM09
Bermuda**

iO ADRIA LIMITED

Registered in Bermuda No. 37474

Annual report and consolidated financial statements

31 December 2013

iO ADRIA LIMITED

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Advisors and corporate information

Directors

Emmanuel Blouin (non-executive chairman)
J. Andrew Smith
Goranko Fizulic
Bernard Lambert
Garth Lorimer Turner
William Crewdson
Alex Penkul

Company secretary

Tracy Packwood

Registered office

11 Brooklyn Lane
Hamilton HM09
Bermuda

Principal legal advisors

CMS Cameron McKenna LLP
Mitre House, 160 Aldersgate Street
London EC1A 4DD

Conyers Dill & Pearman

Clarendon House, 2 Church Street
Hamilton HM CX, Bermuda

CMS Zagreb d.o.o.

Jurisceva 24, 10 000
Zagreb, Croatia

Auditor

KPMG LLP
15 Canada Square
London E14 5GL

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CHAIRMAN'S STATEMENT

Dear shareholders,

I have recently joined the Company's board of directors as non-executive Chairman at a critical juncture in iO Adria's history, when the Company's prospects are more polarised than ever.

Along with my fellow directors, I am convinced that the foundations already laid down provide substantial value creation opportunities should the Company have access to the appropriate capital resources. The management team is doing a tremendous job growing and repositioning the first phase of Sun Gardens. The team's success is reflected in the resort's established and rising international reputation as a luxury destination. Their track record of selling and managing second home properties to international buyers is unique in Croatia and on par with the best global players. There is both a breadth and depth of experience, the latter nurtured and trained up within the Company, available to be applied both to extended and new operations.

At the same time, the management team has spent significant time in the past year negotiating advantageous restructuring terms with the Company's principal bankers to achieve a recapitalisation resulting in a sustainable capital structure. A recapitalisation is imperative to correct the legacy of over-indebtedness that ensued from the substantial over-investment committed to the first phase of development in 2008 and 2009 by the Company's former partners in Sun Gardens. The Company must now raise new capital or risk losing the benefit of the very favourable terms negotiated with its banking partner or worse; a failure to recapitalise now could result in rapid acceleration of loans by the bank and consequently the loss of the ownership of Sun Gardens.

The fund-raising environment has somewhat improved in the past twelve months. There has been a shift from defensive plays to more opportunistic strategies on the part of many investors in the hospitality and property sectors. Croatia has yet to demonstrate a track record of affording successful investment opportunities in tourism assets and enterprises, but over the past few months we have seen welcome interest from a number of substantial international investors. The key drivers of the Company's original business case remain valid; Croatia is well-positioned to develop its high end tourism potential on a long-term and sustainable platform.

Croatia's admittance to the European Union as the 28th Member State on 1st July 2013 represents an important step forward for the country. Symbolically, it is very significant. For hundreds of years, the Croatian people's self-image has been substantively defined by their geographical position at the Eastern frontier of Roman Catholicism in the Balkans; a bulwark of Western European values and culture. Domestically and internationally, admittance holds out the promise of stability and growing opportunity for wealth creation founded on a level and transparent platform.

The economic benefits of belonging to the EU may take some time to become tangible. The country has remained in recession during 2013, the fifth year in succession, and the outlook for the broad economy is poor, along with the ruling coalition's re-election prospects. Tourism remains one of the few areas of growth, and the growth continues to come mainly at the high end, supply constraints notwithstanding. The essential impediment to growth remains finance, particularly debt finance. The skies are lightening, but the new dawn remains some time away.

At 31st December, 2013, the Company held cash balances of €5.4 million. Of these balances, €5.3 million relates to the Company's operations and residential sales at Dubrovnik Sun Gardens and is not available for general group purposes. Total net equity at the year-end was €93.0 million and the Company incurred a loss of €3.7 million. Net assets per share, including the effects of translation difference were €0.51. The basis of asset valuation reflects the fair value of Dubrovnik Sun Gardens as independently determined upon the Company's acquisition of 100% of the project at the end of 2010 and includes the Company's other assets at cost less depreciation and adjustments for impairment. In the continuing absence of a market for development land, the Company has again decided not to commission an independent valuation of its development land bank.

Emmanuel Blouin

Chairman

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CHIEF EXECUTIVE'S REPORT

At the time of writing, the Group is engaged in a fund-raising process. In January, 2014, the Group reached outline agreement with its principal lender in regard to a comprehensive restructuring of the Group's debt that, if concluded, will have a significant impact upon the Group's balance sheet and financial stability. The Group has appointed Lazard to advise on the fund-raising and restructuring and it is planned that this process will be completed during the second half of 2014.

I am very pleased to welcome Emmanuel Blouin, who has recently been appointed to the Company's board of directors as Chairman. Emmanuel has considerable experience of investment in Central Europe, in property and in capital markets and investment banking.

Emmanuel takes over from Norman Lamont, who has been Chairman of the Company since its launch in 2006. We are extremely grateful to Norman for his dedication, enthusiasm and wisdom; his perceptive appraisal of constantly changing events and circumstances throughout the difficult years following the onset of the banking crisis in 2008 was invaluable.

I would also like to record considerable thanks to Bruce Weatherill and to Ivana Soljan, both of whom have left the board over the past six months, for their respective and significant services to the Company.

2013 has brought a 28% increase in the Group's revenue as operational performance at Sun Gardens improves further and momentum in the residential sales programme continues to strengthen. This said, 2013 was a challenging year for operational revenues, with tighter regional MICE market conditions and a loss of growth momentum in the high season following the re-imposition of visa requirements upon Croatia's admission to the EU. Growth in the year was satisfactory, but the trajectory was lower than expected. The operating loss for the year of €2.9m was broadly consistent with that of the previous year after adjusting for non-recurring items.

The Croatian Economy and EU Accession

Croatia's accession to the EU on 1st July, 2013, concluded a long and arduous path for the country and for those involved in preparing the way over a period of more than a decade. In contrast to central European precedents, Croatia's accession was acknowledged rather than cheered by the majority of the country's electorate. To date, there has been little to show by way of tangible economic benefit, set against a recession now in its sixth year and unemployment rising to 20%. The country's main political parties are in continuing internecine strife and have created fertile conditions for upstart parties to emerge from right and left.

Yet Croatia was far better prepared than, say, Bulgaria and Romania, to assume EU membership (the bar was surely set higher for Croatia in light of perceived short-comings of earlier admissions). It remains a key question whether or not the forward momentum in reforming the key organs of state generated during the long pre-accession period can be sustained, now that the EU negotiators are gone and absent sufficient political leadership in the country or any visible accession bonus to hold out as rationale.

Boris Vujcic, the governor of the Croatian National Bank, recently predicted that Croatia would remain in recession in 2014, dampening previous expectations of a return to growth, although preliminary first quarter results look more promising. Vujcic emphasised the lack of inward investment and of consumer spending that will encourage new growth. Croatian borrowing is expected to exceed 60% of GDP in 2014 and the government is managing a budget deficit of around 5.5% and rising. The country is, consequently, the latest member country to enter the EU's Excessive Deficit Programme, from which it is charged to emerge no later than 2016.

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Croatian Tourism

In contrast to the woes of the wider economy, Croatian tourism has continued to grow, as it has throughout the country's and the world's financial difficulties over the past five years. Foreign arrivals and overnights grew by 5.5% and 4.1%, respectively in 2013. The continuation of headline growth disguises the significant impact of the re-imposition of visa restrictions during the second half of the year on the inflow of tourists from Russia and Ukraine, both of which fell by over 20%.

This was more than out-weighed by similar increases in arrivals from a range of countries, notably from Finland and Scandinavia, as well as from the USA and UK. It is worth reflecting that visitors from these countries travelled by air rather than road; growth in the year was geographically uneven - there was no growth at all in Istria (the country's most accessible and developed drive-to region) and little around Zadar, but overnights in central and southern Dalmatia, from Sibenik to Dubrovnik grew by 9%.

Tourism's contribution and importance to the Croatian economy continues to rise. Including indirect and induced effects, it is forecast to reach 30% of GDP by the end of 2014 and 37% by 2024. The country is supply constrained in regard to high end hotel beds, whence the bulk of future growth will derive. Last year, the Croatian tourism minister unveiled plans to support a 20,000 increase in predominantly high end hotel beds over the next six years that would lift the hotel share of Croatia's lodging inventory from 13% to 18%. This is admirable in terms of vision, but ambitious when set in the context of the continuing constraints on finance.

Financial Results

The Group's revenue for 2013 rose to €28.0m, as compared to €21.9 million in 2012. The improvement in revenue year-on-year was driven by the increasingly significant contribution made from residential sales at Sun Gardens, which in 2013 amounted to €9.5 million, up from €4.5 million in 2012. Revenue from resort operations at Sun Gardens improved by €0.8 million year on year, with good growth in particular achieved in food and beverage sales. The Group also benefited from the opening in April 2013 of Hotel Sipan. Acquired in late 2012 and following a soft refurbishment in the winter and spring, Hotel Sipan generated revenues of €0.5 million in 2013, in line with expectations.

The Group reported an operating loss of €2.9 million in 2013, as compared to an operating loss of €1.2 million in 2012. The operating result reported in 2012 benefited from a number of non-recurring items, including a significant rebate in utility costs at Sun Gardens. Excluding this rebate and the profit contributed from residential sales, underlying operating results at Sun Gardens were stable year on year. Corporate overheads in 2013 were also adversely impacted by incremental costs relating to the restructuring and refinancing of the Group's loan and working capital facilities.

Operations

Operational turnover at Sun Gardens rose by 5% in the year to €18.9m. This growth was lower than planned and reflected a combination of tougher regional MICE conditions in the shoulder season and the disruption caused by EU entry in the middle of the year and the reinstatement of visa restrictions on some non-EU visitors to Croatia.

58% of the hotel's occupancy in 2013 was concentrated in the four months from June to September (59% in 2012). The average for Croatia as a whole remains at around 87% for the same four months. This illustrates a key differentiator between Sun Gardens and the great majority of coastal hotels in Croatia. Significant progress has been made over the past three years in driving non-seasonal occupancy. While there is still scope for improved occupancy (as well as rate) in the hotel and for the residences in the high season, the bulk of future growth potential for the hotel derives from the shoulder and low season. The resort welcomed guests from 130 different countries during the year, again demonstrating Dubrovnik's attractiveness as a world-class tourist destination.

I am pleased to report that, among other prizes and awards received during the year, Sun Gardens was voted Best European Coastal Resort at the World Luxury Hotel Awards in 2013. Furthermore, Sun Gardens currently ranks as the 30th best hotel in the world on the Expedia Insiders' Select rankings, from a list of over 150,000 hotels, the highest ranked resort in Europe.

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The Hotel Sipan reopened in April, 2013. The property underwent a limited refurbishment in the preceding five months, following its acquisition by the Group and the hotel performed well in its first season. The hotel had been closed for the preceding 18 months and it was therefore gratifying that there was good demand for the hotel despite it being without the benefit of tour operator contracts being in place for 2013. It is evident that awareness of Sipan as a boutique island vacation destination continues to grow.

Residential Sales

A total of 29 units were sold at Sun Gardens during 2013, delivering revenues of €9.5 million and bringing the total sold to 52 units sold from 14 different countries. As absorption of the inventory increases, more sales are taking place as a consequence of owner referral and we have seen a number of instances of multiple purchases by existing owners both completed and in the pipeline.

Pricing of the Residences remains to plan. The third release was launched at the beginning of 2014 at an average price increase around 8% above the average achieved in sales to date. The number of serious sales enquiries is also increasing. Sales are aided by the improving yield profile as both the occupancy and achieved rates of the Residences have continued to increase.

Development Projects

There were no significant developments in the Group's development portfolio during 2013. Although the financial environment has improved markedly over the past few months, there are few signs yet of a revival of interest on the part of Croatia's banks in development projects. The Croatian government is making well-publicised efforts to encourage investment into the leisure sector. Recent beneficial initiatives have included further simplification and stream-lining of the planning procedures and promises of bespoke Ministry focus and assistance to developers above a certain size of project.

The Group's most advanced development projects continue to be the second phase of Sun Gardens, the golf resort at Markocija in Istria and the Hotel Preko in northern Dalmatia, adjacent to the Group's marina and the Preko Gardens development project.

Financial restructuring

Having reached outline agreement with its principal lender in early 2014, the Group has made progress towards concluding terms for a financial restructuring. The Group received a number of non-binding offers of funds from internationally known and reputable institutions which possess both focus and experience in real estate and hospitality. If and once at least one binding offer has been received, or if an alternative restructuring proposal has been received that meets the criteria both of the Group's principal lender and the Directors, the Board expects to issue a shareholder circular, detailing the terms of the proposed restructuring and seeking shareholder approval to proceed. Further information will be communicated to shareholders as soon as it becomes available.

William Crewdson

Chief Executive

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DIRECTORS' REPORT

The directors present their report together with the consolidated audited financial statements of iO Adria Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2013. The financial statements were approved and authorised for issue by the board on 14 August 2014.

Objective

The Group's objective is to deliver superior returns on investment to its shareholders by becoming one of the pre-eminent providers of high end leisure services, primarily in Croatia and neighbouring countries, by acquiring, developing and operating businesses that may benefit from the expected sustained growth in travel and tourism in Croatia and the surrounding region.

Principal activities and business review

A review of the activities and progress made by the Group and the strategy for future growth and development is set out in the Chairman's review and Chief Executive's report on pages 4 to 7.

Directors

The directors who held office during the year ended 31 December 2013 were:

Name		Position
The Rt. Hon. The Lord Lamont of Lerwick	(Resigned 10 December 2013)	Non-executive chairman
Garth Lorimer Turner		Non-executive director
Goranko Fizulic		Non-executive director
Bernard Lambert		Non-executive director
J. Andrew Smith		Non-executive director
Bruce Weatherill	(Resigned 11 December 2013)	Non-executive director
William Crewdson		Executive director
Ivana Soljan	(Resigned 29 January 2014)	Executive director
Alex Penkul		Executive director

Emmanuel Blouin was appointed a director of the Company and non-executive chairman on 3 April 2014.

Directors' fees and remuneration is disclosed in note 17. The directors are re-elected annually, and their appointments may be terminated by not less than three months' notice, or by the members of the Company in accordance with the Company's bye-laws. The directors are entitled to claim reasonable out of pocket expenses and to participate in the share option plan.

The biographies of the directors at the date of this report are set out below:

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Emmanuel Blouin

Emmanuel Blouin set up Estere! Capital in 2008, a family-owned investment boutique actively involved in several special situations transactions across Europe in the property and hospitality, retail, e-commerce, alternative energy and education sectors. He is currently Non-Executive Chairman of the Board of LSE AIM-listed RGI International and an Independent Non-Executive Director of XXI Century Investments Ltd. He was formerly Executive Director at Morgan Stanley both on real estate and hospitality investing and banking situations. Emmanuel has 20 years of experience with Morgan Stanley, JPMorgan and Paribas in London, Paris, Prague and Moscow during which he has been involved in over €50 billion of transactions across Europe, with a focus on Emerging Europe. He is a regular speaker at investors' conferences and recognised member of the European property investment industry. Emmanuel graduated from HEC Paris with a Major in Finance in 1995.

J. Andrew Smith

J. Andrew Smith has over 35 years of senior executive and marketing experience in the beverage alcohol industry. Immediately prior to his retirement at the end of May 2006, he was President of Brown-Forman Spirits for Europe, Africa and Eurasia, managing nearly 300 people and such brands as Jack Daniel's Tennessee Whiskey, Southern Comfort and Finlandia Vodka. His previous positions at Brown-Forman included International Beverage Marketing Director, responsible for all countries outside the USA and Marketing Director for Europe, Middle East and Africa. Mr Smith was also General Manager of J. & F. Martell Inc. in New York, the North American marketing affiliate of Martell, the fine French cognac producer.

Goranko Fizulic

Goranko Fizulic is a Croatian national, a successful entrepreneur and Chief Executive Officer of Magma d.d., one of Croatia's largest non-food retailing companies which he founded with his wife in 1989. Mr Fizulic served as a deputy in the Croatian parliament throughout the 1990s, a founder and senior member of the Croatian Social Liberal Party. He served as Minister of the Economy in the coalition government headed by Ivica Racan from 2000 to 2002.

Bernard Lambert

Bernard Lambert has a deep understanding and experience of the hotel and leisure sector. Until recently he was the CEO of Société des Bains de Mer which owns and operates a number of prestigious luxury hotel and resort properties in Monte Carlo that offer gambling at four casinos, including the famous Monte-Carlo Casino. Mr. Lambert previously had a distinguished 27 year career with Le Meridien Group. From 1997-2001 he was President and Managing Director of Le Meridien Group, responsible for every aspect of finance, strategy and development, sales and marketing for a portfolio that grew to 130 hotels under his leadership. He now serves as an advisor for several groups and individuals. In 2000, Mr. Lambert was recognised as "Corporate Hotelier of the World".

Garth Lorimer Turner

Garth Lorimer Turner is a solicitor qualified in England & Wales and Hong Kong and a qualified Bermuda barrister and attorney. Mr. Lorimer Turner has extensive experience in cross-border international transactions having specialised in the area of corporate law in Hong Kong and London.

William Crewdson (Chief Executive)

William Crewdson was responsible for the concept and launch of iO Adria. As Director of private equity at Jupiter Asset Management from 1995 until the Company's separation from Jupiter in 2011, he built a track record of successful investment in strategic industries in the countries of Central Europe, including Croatia. He has garnered considerable experience negotiating acquisitions and disposals in a variety of industries, of creating management teams combining local and foreign component members, of complex public-to-private transactions, of structuring debt with a wide range of local and foreign banks, and of directing corporate strategy.

Alex Penkul (Chief Financial Officer)

Alex Penkul is a Chartered Accountant with over 20 years of experience in various finance roles in the hospitality industry. Prior to joining iO Adria in 2007, Mr Penkul was with Kerzner International as Finance Director of One&Only Resorts, the operator of luxury, award winning properties located in the Maldives, Mauritius, Dubai, Bahamas, South Africa and Mexico. Prior to that, Mr Penkul was Treasury and Planning Director with Queens Moat Houses plc, which owned and operated over 80 hotels in the UK, Germany and The Netherlands.

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Corporate governance

The board has a high regard for and recognises the value of good corporate governance. The board is of the opinion that it has taken the appropriate measures to comply with standards of good corporate governance, having regard for the current stage of development of the Company and its business.

Remuneration Committee

The board has constituted a Remuneration Committee comprised of Mr J. Andrew Smith as chairman, Mr Garth Lorimer Turner and Mr Bernard Lambert. The Remuneration Committee has responsibility for determining and agreeing with the board of directors the framework and policy for the remuneration of the Chairman, other directors and key management involved in the business and affairs of the Group.

Audit Committee

The board has constituted an Audit Committee comprised of Mr Garth Lorimer Turner as chairman, Mr Goranko Fizulic and Mr Jonathan Carey. The Audit Committee has responsibility for reviewing the operation and effectiveness of the Company's procedures for financial reporting, internal control and risk management and external audit.

Nominations Committee

The board has constituted a Nominations Committee comprised of all non-executive board members of the main board. It is responsible for the appointment and composition of the Board.

Dividends

No dividends are proposed for the period.

Going concern

Having made appropriate enquiries the directors consider that the Company and its subsidiaries have sufficient resources to continue its business for the foreseeable future and accordingly the accounts have been prepared on a going concern basis. Further details are disclosed in note 2.

Annual General Meeting ("AGM")

Notice of the AGM and a form of proxy will be circulated to shareholders in due course.

Auditor

A resolution to reappoint KPMG LLP as auditor will be proposed at the next AGM.

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STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Bermudan law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

The financial statements are required by law to give a true and fair view of the state of the consolidated affairs of the company and of the consolidated profit or loss of the company 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 estimates that are reasonable and prudent;
- state whether applicable IFRS's as adopted by the EU 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 company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's Auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

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Independent Auditor Report to the members of iO Adria Limited

We have audited the accompanying consolidated financial statements of iO Adria Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

This report is made solely to the members, as a body, in accordance with Section 90 of Part VI of Bermuda Companies Act 1981. Our audit work has been undertaken so that we might state to the members those matters we have been engaged to state to them in this 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

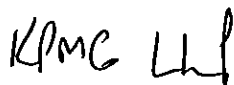
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Emphasis of matter – Going concern

In forming our opinion on the consolidated financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the consolidated financial statements concerning the Group's ability to continue as a going concern. On 21 January 2014 the Group signed a term sheet with its principal lender agreeing the basis upon which the Group's loans will be restructured and refinanced. The agreement with the principal lender expired on the 30 June, 2014. Discussions are ongoing with the Group's principal lender to extend the date to 30 September 2014, in order to provide sufficient time for binding offers to be received or for an alternative proposal to be agreed.

There is therefore uncertainty that the principal lender will extend this deadline, that sufficient equity will be raised to meet the restructuring conditions agreed with the bank and that the existing shareholders will approve any proposed new capital. Provided that an extension is agreed, in the event that the Group fails to raise sufficient funds, or is able to agree a further extension, the principal lender will have the right to enforce its security over the majority of the Group's assets and any remaining amounts owed to the lender will be repayable on demand. In this event, the Group will have insufficient funds to meet this repayment. These conditions, along with other matters explained in note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.



KPMG LLP

Chartered Accountants

15 Canada Square

London E14 5GL

21 August 2014

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Consolidated balance sheet

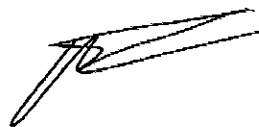
	Note	31 December 2013 €'000	31 December 2012 €'000
Assets			
Property, plant and equipment	3	208,523	213,157
Deferred tax asset	19	5,073	4,471
Goodwill	4	185	185
Total non-current assets		213,781	217,813
Inventories		366	229
Work in progress	5	4,878	4,878
Trade and other receivables	6	4,608	6,138
Property available for sale	7	36,992	44,517
Cash and cash equivalents	8	5,412	1,064
Total current assets		52,256	56,826
Total assets		266,037	274,639
Equity attributable to owners of the parent			
Ordinary shares	9, 10	1,835	1,835
Share premium		178,712	178,712
Translation reserve		(2,435)	(119)
Retained losses		(85,063)	(81,469)
Total equity		93,049	98,959
Liabilities			
Loans and borrowings	11	155,230	159,526
Finance lease liabilities	12	-	6
Deferred tax liabilities	13	5,895	6,080
Total non-current liabilities		161,125	165,612
Trade and other payables	14	8,857	8,232
Loans and borrowings	11	3,000	1,800
Finance lease liabilities	12	6	36
Total current liabilities		11,863	10,068
Total liabilities		172,988	175,680
Total equity and liabilities		266,037	274,639

The notes on pages 18 to 38 form an integral part of these consolidated financial statements.

Approved by the board of directors on 14 August 2014 and signed on its behalf by



Goranko Fizulic
Director



Garth Lorimer Turner
Director

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Consolidated statement of changes in shareholders' equity

	Note	Share capital €'000	Attributable to owners of the parent			Total equity €'000
			Share premium €'000	Accumulated losses €'000	Translation reserve €'000	
At 1 January 2012		1,835	178,712	(81,120)	664	100,091
Loss for the year		-	-	(372)	-	(372)
Share based payments	9, 10	-	-	23	-	23
Translation difference		-	-	-	(783)	(783)
At 31 December 2012		1,835	178,712	(81,469)	(119)	98,959
Loss for the year		-	-	(3,731)	-	(3,731)
Share based payments	9, 10	-	-	137	-	137
Translation difference		-	-	-	(2,316)	(2,316)
At 31 December 2013		1,835	178,712	(85,063)	(2,435)	93,049

The notes on pages 18 to 38 form an integral part of these consolidated financial statements.

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Consolidated income statement	Note	Year ended	Year ended
		31 December	31 December
		2013	2012
		€'000	€'000
Revenue	27	<u>27,984</u>	<u>21,931</u>
Cost of sales and related operating expenses	27	(27,847)	(19,981)
Administrative expenses		(1,402)	(1,450)
Management fees		(436)	(389)
Professional fees		(299)	(175)
Share based payments	10	(137)	(23)
Directors' remuneration and fees	17	(822)	(822)
Total expenses		<u>(30,943)</u>	<u>(22,840)</u>
Impairment provision – property, plant and equipment	3	-	(261)
Operating loss		<u>(2,959)</u>	<u>(1,170)</u>
Finance expense	18	(1,603)	(3,856)
Finance income	18	51	68
Net finance expense		<u>(1,552)</u>	<u>(3,788)</u>
Loss before tax		<u>(4,511)</u>	<u>(4,958)</u>
Income tax credit/(expense)	19	780	4,586
Loss for the year attributable to equity holders of the parent		<u>(3,731)</u>	<u>(372)</u>
Loss per share			
Basic loss per share (€ cents)	21	(2.0)	-
Diluted loss per share (€ cents)	21	(2.0)	-
Consolidated statement of comprehensive loss		Year ended	Year ended
		31 December	31 December
		2013	2012
		€'000	€'000
Loss for the year		(3,731)	(372)
Translation difference		(2,316)	(783)
Total comprehensive loss for the year attributable to equity holders of the parent		<u>(6,047)</u>	<u>(1,155)</u>

All results relate to continuing operations.

The notes on pages 18 to 38 form an integral part of these consolidated financial statements.

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Consolidated statement of cash flows		Year ended	Year ended
		31 December 2013	31 December 2012
	Note	€'000	€'000
Loss for the year		(3,731)	(372)
Adjustments for:			
Interest expense	18	1,592	3,852
Interest income	18	(6)	(3)
Depreciation and amortisation	3	4,285	4,169
Share based payments	10	137	23
Impairment provision – property, plant and equipment	3	-	261
Operating cash flow before changes in working capital		2,277	7,930
Change in inventories		(160)	34
Change in trade and other receivables		8,442	(4,794)
Change in trade and other payables and provisions		(1,159)	(2,902)
Cash flow from operations		9,400	268
Interest paid		(1,218)	(1,635)
Interest received		2	3
Net cash generated / (used) in operating activities		8,184	(1,364)
Cash flow from investing activities			
Purchase of property, plant and equipment	3	(761)	(4,567)
Disposal of property, plant and equipment	3	-	1,600
Net cash used in investing activities		(761)	(2,967)
Cash flow from financing activities			
Proceeds from borrowings	11	2,075	3,799
Repayment of borrowings	11	(5,147)	(2,766)
Net cash from financing activities		(3,072)	1,033
Net decrease in cash and cash equivalents		4,351	(3,298)
Opening cash and cash equivalents		1,064	4,386
Effect of exchange rate fluctuations on cash held		(3)	(24)
Closing cash and cash equivalents		5,412	1,064

The notes on pages 18 to 38 form an integral part of these consolidated financial statements.

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1. General information

The principal activity of iO Adria Limited (the "Company") is to invest in, develop and operate leisure and tourism related opportunities in Croatia.

2. Accounting policies

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU. The financial statements were approved by the board of directors on 14 August 2014.

Basis of preparation

The consolidated financial statements have been presented in euros, which is the Company's functional and presentation currency and all values are rounded to the nearest thousand unless otherwise indicated. The consolidated financial statements have been prepared under the historical cost convention. The accounting policies are set out below and have been consistently applied.

Going concern

At 31 December 2013, the Group had total equity of €93.0 million and net current assets of €52.3 million. The Group had bank loans totalling €158.2 million. Since 31 December 2013, the Group has repaid €4.5 million, reducing the balance outstanding to €153.7 million.

Due to its high debt burden, the Group has entered into a constructive dialogue with its principal lender with regards to a restructuring and concurrent refinancing of its loan and working capital facilities. The loans in negotiation are the iO Adria Limited acquisition loan, the DVS senior loan II (senior and junior) and the Marina Preko d.o.o loan. On 21 January 2014, the Group agreed and signed a term sheet with the lender agreeing a basis upon which a restructuring and refinancing might be completed, subject to the Group raising sufficient new funds. This term sheet set a completion date of 30 June 2014. Although interest has been shown in the restructuring proposal from a number of investors, no refinancing or binding offer of refinancing had been received by the deadline date. The directors have prepared cash flow projections which indicate that the Group should have sufficient funds to continue to trade up to 31 August 2014. Discussions are ongoing with the Group's principal lender to extend the date to 30 September 2014, in order to provide sufficient time for binding offers to be received or for an alternative proposal to be agreed.

The expressions of interest that have been received include internationally known and reputable institutions which possess both focus and experience in real estate and hospitality. These interested parties continue to perform their due diligence with a view to progressing to a binding offer. Final acceptance of any offer or of any alternative proposal is subject to shareholder approval which, although considered likely, is not certain to be achieved.

If successfully concluded, the restructuring and refinancing is designed to ensure that the Group has access to sufficient working capital for the foreseeable future.

In the event that the bank do not agree to extend the deadline, binding offers are not received, an alternative proposal is not agreed or the shareholders do not approve the offers or the alternative proposal, the amounts owed under the DSG loan facility will be repayable on demand and the Group will not have sufficient funds to be able to meet this repayment. The lender will thereupon be entitled to exercise its security and to take ownership of the Group's assets which would include Dubrovnik Sun Gardens and the majority of the development land. These factors together give rise to a material uncertainty which casts significant doubt on the Group's ability to continue as a going concern and it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that might result from the outcome of this uncertainty and have been prepared on a going concern basis.

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2. Accounting policies (continued)

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, there are significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements as disclosed in the following notes:

Note 2 – basis of consolidation, revenue recognition (property available for sale)

Note 3 – property, plant and equipment

Note 20 – utilisation of tax losses

Basis of consolidation

Subsidiaries are those entities, including special purpose entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions are eliminated on consolidation.

On 11 October 2011 one subsidiary of the Group, Nauta Lamjana d.d. ("NL") was placed into administration, under the supervision of a court appointed trustee. The Directors are of the opinion that the Company, which forms part of the majority creditor group of NL, is in sufficient control of this process in order to support the Company continuing to recognise NL as a subsidiary. The administration process is on-going at the date of this report.

Associates and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control based on contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities are accounted for using the equity method and are initially recognised at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of joint controlled entities.

Acquisitions

Acquisitions of companies that have no significant assets or liabilities other than land and property are considered to be asset acquisitions. Acquisitions of subsidiaries where management intends to operate the existing business as a going concern are treated as business combinations. Asset purchase acquisitions are accounted for on consolidation as if the Group had acquired the underlying assets directly. Accordingly, no goodwill arises on such acquisition as any difference between the fair value of assets acquired and the acquisition consideration is allocated as appropriate to the property, plant and equipment which have been acquired. Goodwill arises on the acquisition of subsidiaries, associates and joint ventures where management intends to operate the existing business as a going concern. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities acquired on the date of acquisition. Goodwill is measured at cost less accumulated impairment losses and is the subject of an annual impairment review.

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Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in the income statement. The assets and liabilities of foreign operations are translated to euros at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euros at average monthly exchange rates. Foreign exchange adjustments on the translation of foreign operations are recorded in equity as a translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of less than three months.

Trade and other receivables

Trade and other receivables are measured at amortised cost using the effective interest method, less impairment losses.

Loans receivable

Loans are measured at amortised cost using the effective interest method less impairment losses.

Trade and other payables

Trade and other payables are measured at amortised cost using the effective interest method.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are capitalised as these costs relate to the development of land. Repairs and maintenance costs are expensed as incurred. Land acquired for development is classified initially as property, plant and equipment pending completion of planning and obtaining the necessary building consents. The land will be subsequently reallocated as appropriate in accordance with its intended use. Depreciation is recognised in the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their estimated useful lives. Land and property under development are not depreciated.

The estimated useful life for the current period is as follows:

- Buildings: up to 80 years
- Plant and equipment: up to 12 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated selling expenses necessary to make the sale.

Work in progress

Work in progress represents costs incurred in connection with planning and consulting services performed by the Group. It is measured at cost less expected losses.

Property available for sale

Property available for sale comprises apartments situated at the Dubrovnik Sun Gardens resort. They are measured at the lower of cost and net realisable value.

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2. Accounting policies (continued)

Cost of equity transactions

Costs directly related to the issue of new Ordinary Shares are recognised in equity as a reduction of share premium.

Revenue recognition

Hotel and restaurant revenue is recognised when rooms are occupied and related services are provided (excluding VAT and similar taxes). Other revenue is recognised in the accounting period in which the services are rendered. Revenue from property available for sale is recognised when the significant risks and returns of ownership have been transferred to the buyer, which is normally on the unconditional exchange of contracts. Where conditional contracts are exchanged, revenue is recognised when conditions are satisfied.

Cost of goods sold is comprised of supplies directly used in the provision of these revenue generating activities and is recognised in the accounting period in which the expense is incurred.

Finance leases

Leases of assets where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, finance leases are measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and are depreciated over the shorter of the useful life of the asset in accordance with the accounting policy applicable to that class of asset and the lease term.

Minimum lease payments made under finance leases are allocated between the liability and interest expense so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Share based payments

The Company has established a Share Option Plan (the "Plan") permitting the directors to grant Eligible Participants options to acquire Ordinary Shares. The fair value of the services received in exchange for the grant of options under the Plan is recognised as an expense in profit and loss, with a corresponding increase in equity, over the vesting period with reference to the fair value of the options granted.

Loss per share

The basic loss per share is calculated by dividing the loss attributable to the shareholders of the Company by the weighted average number of Ordinary Shares in issue during the period. The diluted loss per share is equivalent to the basic loss per share as the effect of dilutive potential Ordinary Shares would decrease the net loss per share and so the potential Ordinary Shares are not treated as dilutive.

Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Impairment reviews are carried out on an annual basis.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

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2. Accounting policies (continued)

Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is recognised using the balance sheet method, providing for the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realised.

Segment reporting

Segment information is presented in respect of the Group's geographical segments. The Group's primary format for segment reporting is based on geographical segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly common expenses of the Group.

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New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these consolidated financial statements. Comments on specific new standards or amendments are as follows:

IFRS10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of interest in Other Entities', IAS27 (Revised) 'Separate Financial Statements' and IAS28 (Revised) 'Investments in Associates and Joint Ventures' all cover various aspects of Group Financial Statements but are not expected to have a significant impact on the Group.

IFRS9 'Financial Instruments' was reissued in October 2010 as the second step in the IASB project to replace IAS39 'Financial Instruments: Recognition and Measurement'. IFRS9 (2010) now includes new requirements for classifying and measuring financial assets and financial liabilities and the derecognition of financial instruments. The IASB is continuing the process of expanding IFRS9 to add new requirements for impairment and hedge accounting. In November 2013 the IASB officially removed the previous mandatory effective date (i.e 1 January 2015) and decided that it would be no earlier than 1 January 2015.

The Group is currently assessing the impact of the standard on the Group's results and financial position and will continue to assess the impact as the standard is revised by the IASB.

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3. Property, plant and equipment

At 31 December 2013	Land €'000	Buildings €'000	Plant & equipment €'000	Property under development €'000	Total €'000
Cost					
At 1 January 2013	124,977	59,521	27,509	18,895	230,902
Additions at cost	-	422	696	-	1,118
Disposals	(125)	-	-	-	(125)
Reclassification	-	-	-	(841)	(841)
Exchange differences	(246)	(39)	(149)	(198)	(632)
At 31 December 2013	124,606	59,904	28,056	17,856	230,422
Accumulated depreciation and impairment					
At 1 January 2013	8,140	1,416	8,189	-	17,745
Charge for the period	-	698	3,587	-	4,285
Impairment	-	-	-	-	-
Exchange differences	-	-	(131)	-	(131)
At 31 December 2013	8,140	2,114	11,645	-	21,899
Net book value at 31 December 2013	116,466	57,790	16,411	17,856	208,523

Assets held under finance leases have the following net book value:

Cost		103	-	103
Accumulated depreciation		(103)	-	(103)
Net book value at 31 December 2013		-	-	-

At 31 December 2012	Land €'000	Buildings €'000	Plant & equipment €'000	Property under development €'000	Total €'000
Cost					
At 1 January 2012	126,438	55,478	27,059	18,657	227,632
Additions at cost	215	4,043	460	251	4,969
Disposals	(1,658)	-	-	-	(1,658)
Exchange differences	(18)	-	(10)	(13)	(41)
At 31 December 2012	124,977	59,521	27,509	18,895	230,902
Accumulated depreciation and impairment					
At 1 January 2012	7,879	705	4,731	-	13,315
Charge for the period	-	711	3,458	-	4,169
Impairment	261	-	-	-	261
Exchange differences	-	-	-	-	-
At 31 December 2012	8,140	1,416	8,189	-	17,745
Net book value at 31 December 2012	116,837	58,105	19,320	18,895	213,157

Assets held under finance leases have the following net book value:

Cost		103	-	103
Accumulated depreciation		(90)	-	(90)
Net book value at 31 December 2012		13	-	13

Certain land owned by the Group is secured against loans and borrowings, as disclosed in more detail in note 11. Property under development relates to assets in the course of construction. During 2013, the Group has undertaken impairment reviews of its other development project sites in Croatia and concluded that no further provisions are required at this time.

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4. Goodwill

	31 December 2013 €'000	31 December 2012 €'000
At cost	185	185

Goodwill arose on the acquisition of Hosting International d.o.o.

5. Work in progress

Work in progress of €4,878,000 is being recognised by the Group in connection with certain planning and consulting services for the Pasma Rivijera development project. The related land is owned by the Pasma Municipality and is partially the subject of a title dispute by a third party, which may prevent the disputed portion of the land from being developed, although during 2012 the master plan for the project was amended, such that these issues have been substantially resolved.

The Group is of the opinion that any future litigation proceedings with regards to land title disputes will be concluded in favour of the Municipality. However, in the event that there is an adverse outcome, the Municipality will re-parcel the land to ensure that development can proceed on the undisputed portion. In this scenario, the Directors anticipate that sufficient revenues will be generated from the undisputed portion of land to recover the work-in-progress.

6. Trade and other receivables

	31 December 2013 €'000	31 December 2012 €'000
Amounts falling due within one year:		
Trade receivables	3,137	4,263
Other receivables	713	978
VAT	397	508
Prepayments and accrued income	361	389
	<u>4,608</u>	<u>6,138</u>

The carrying values of trade and other receivables are not materially different to their fair values.

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7. Property available for sale

Cost	€'000
At 1 January 2013	44,517
Disposals	(7,525)
At 31 December 2013	<u>36,992</u>

Cost	€'000
At 1 January 2012	47,877
Disposals	(3,360)
At 31 December 2012	<u>44,517</u>

Property available for sale comprises vacation residences, which form part of Dubrovnik Sun Gardens and which are currently being marketed for sale in phases. During 2013, 36 sales were recognised for aggregate sales proceeds of €9,488,000, which included 8 sales for which contracts were signed in 2012 but completion was delayed until 2013. During 2012, 12 sales were recognised with aggregate sales proceeds of €4,538,000. At 31 December 2013, 157 units remain unsold.

8. Cash and cash equivalents

Cash and cash equivalents held by the Group at 31 December 2013 comprise cash held at bank and in transit.

Out of the total Group cash balances held at 31 December 2013 of €5.4 million, cash held by Suncani Vrtovi d.o.o., Vrtovi Sunca Orasac d.o.o. and Dubrovacki Vrtovi Sunca d.o.o., which in aggregate amounts to €5.3 million, is not freely available for use by other Group companies.

The carrying values of cash and cash equivalents are not materially different to their fair values.

9. Called up share capital

The Company was incorporated with an authorised share capital of US\$12,000 divided into 12,000 shares par value US\$1.00 each (the "US dollar shares"). By a resolution of the members of the Company passed on 9 May 2006 it was resolved to change the currency of denomination of the Company's share capital from US dollars to euros and the authorised share capital of the Company was increased to €2,500,000 by the creation of 250 million Ordinary Shares par value €0.01 each and the cancellation of the US dollar shares. The holders of Ordinary Shares are entitled to receive notice of, and to attend and vote at, general meetings of the Company. Each Ordinary Share carries one vote. Although the Ordinary Shares carry rights to dividends it is not currently expected that any dividends will be declared. The Group also has issued share options (note 10).

Authorised equity share capital	
250 million Ordinary Shares of €0.01 each	€2,500,000
Alotted and called up equity share capital	
183,414,787 fully paid Ordinary Shares of €0.01 each	€1,834,147
Issued shares at 31 December 2012 and 31 December 2013	<u>183,414,787</u>

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10. Share based payments

On 3rd May 2012, the board approved a revision to the Group's Share Option Plan ("Options") whereby the then existing Options would be withdrawn and cancelled. On 22 October 2012, new Options over 7,900,000 ordinary shares were granted to various members of the board and management. The Options may only be exercised following the third anniversary of the grant date. The fair value of the services received in return for the share options granted is based on the fair value of the options granted measured using the Black-Scholes formula. The terms of the Options are summarised below.

Grant date	22 October 2012
Fair value of options at grant date	€0.05
Ordinary Share price at grant date	€0.20
Exercise price	€0.20
Expected volatility	18.8%
Option life	10 years
Risk-free interest rate	0.725%

The expected volatility was computed using the volatility of the FTSE All Share Index. During the year, an expense of €137,000 has been recognised for share options issued during the year (2012: €23,000).

11. Loans and borrowings

	31 December 2013 €'000	31 December 2012 €'000
Non-current	155,230	159,526
Current	3,000	1,800
	<u>158,230</u>	<u>161,326</u>

Further information regarding the Group's loans and borrowings are disclosed in the table below.

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11. Loans and borrowings (continued)

Borrower	Facility €'000	Interest	Repayment	31 December 2013 €'000	31 December 2012 €'000
iO Adria Limited <i>Acquisition loan</i>	31,400	3 month EURIBOR + 150 bps	Bullet repayment December 2015	25,134	23,595
DVS ¹ Senior loan II - senior	60,000	3 month EURIBOR + 100 bps	Quarterly Balloon payment December 2020	58,200	58,800
DVS ¹ Senior loan II - junior	70,000	Nil	Bullet repayment December 2015/20	63,803	68,388
Marina Preko d.o.o <i>Loan</i>	7,600	3 month EURIBOR + 150 bps	Bullet repayment December 2015	7,598	7,587
Casalinus d.o.o <i>Acquisition loan</i>	2,925	3% fixed	Semi-annual December 2014 to December 2028	2,912	2,925
Casalinus d.o.o <i>Capital investment loan</i>	375	3 month EURIBOR + 695 bps	Semi-annual December 2014 to December 2023	372	31
Casalinus d.o.o <i>Working capital loan</i>	200	6 month ZIBOR + 500 bps	Bullet repayment September 2013	211	-
Total				158,230	161,326

¹ Dubrovacki Vrtovi Sunca d.o.o

During 2013, the Group negotiated and agreed a framework within which a refinancing and restructuring of its loan facilities may be put in place, with regards to the iO Adria Limited, DVS and Marina Preko d.o.o. loan facilities. At the date of this report and as more fully explained in Note 2 (Going Concern) the Group is actively engaged in a process to enable it to complete the refinancing and restructuring on terms as agreed with its principal lender.

At 31 December 2013, the iO Adria Limited acquisition loan facility had €3.9 million undrawn, although availability of this facility has been suspended pending the outcome of the refinancing and restructuring. The facility is secured by property, including share pledges and mortgages, comprising the Group's projects at Sun Gardens, Markocija, Motovun, Novigrad, Nauta Lamjana, Preko and Sipan. The facility is subject to a €1.0 million repayment fee at maturity or if the facility is prepaid in full. There are also cross default arrangements with the DVS loan facilities.

The DVS loan facilities, which relate to Group's resort at Dubrovnik Sun Gardens, are secured by property, including share pledges, mortgages and floating charges comprising the Group's project at Sun Gardens. The junior facility is being repaid from net sales proceeds from property for sale. There is a Loan to Value test ("LTV") and a Debt Service Coverage Ratio test ("DSCR") effective from the year ending 31 December 2013. The maximum permitted LTV is 75% and the minimum DSCR is 1.15. There is also a performance covenant whereby property for sale is required to meet a minimum of 40 units sold per annum and realise minimum net sales proceeds of €12.5 million per annum in each year 2012 through 2015. The performance covenant test for 2013 has been waived by the bank.

The Marina Preko d.o.o. loan is secured against as yet undeveloped land owned by Vrtovi Sunca Orasac d.o.o ("VSO") and the Group's development sites at Preko, and a second ranking charge over the Group's projects at Motovun, Novigrad, Nauta Lamjana and Sipan.

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11. Loans and borrowings (continued)

On 29 September 2012, the Group completed the acquisition of Hotel Sipan. This acquisition was funded primarily by a new acquisition loan drawn down by the Group's wholly owned subsidiary Casalinius d.o.o. There are two additional loan facilities available for capital expenditure and working capital requirements relating to Hotel Sipan. These three facilities have a DSCR test with the minimum DSCR at 1.2 and an Interest Cover test with minimum interest cover at 2.4x, tested annually, with the first test dates at 30 June 2015.

The carrying value of loans and borrowings is not significantly different to their fair value.

12. Finance lease liabilities

	Principal € '000	Interest € '000	Minimum lease payments € '000
Less than one year	6	1	7
At 31 December 2013	6	1	7
Less than one year	36	4	40
Between one and five years	6	-	6
At 31 December 2012	42	4	46

Finance lease obligations comprise leases for motor vehicles

13. Deferred tax liabilities

	31 December 2013 €'000	31 December 2012 €'000
Deferred tax liabilities	5,895	6,080
	<u>5,895</u>	<u>6,080</u>

Deferred tax liabilities comprise amounts provided following a revaluation of land and property at Dubrovnik Sun Gardens.

14. Trade and other payables

	31 December 2013 €'000	31 December 2012 €'000
Trade payables	1,744	1,452
Other payables and accruals	7,113	6,780
	<u>8,857</u>	<u>8,232</u>

The carrying values of trade and other payables are not materially different to their fair values.

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15. Provisions

	31 December 2013 €'000	31 December 2012 €'000
Opening balance	-	100
Released during period	-	(100)
Carrying amount	-	-

Provisions held at 1 January 2012 were in respect of a claim being made by suppliers to the Group which were under dispute. These provisions were released during 2012.

16. Staff numbers and costs

Staff	Year ended 31 December 2013	Year ended 31 December 2012
Average numbers (including part time employees)	374	346
	€'000	€'000
Payroll costs:		
Wages and salaries	4,636	3,932
Social security	1,953	1,607
Pensions	1,132	952
Total payroll costs	7,721	6,491

Pension costs represent contributions paid on behalf of the Group to defined contribution pension schemes which are not operated or managed by the Group. All costs related to such pension schemes have been fully paid or accrued. The Group has no further liabilities with respect to these pension schemes for the period under review.

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17. Directors' remuneration and interests

Directors' remuneration is set out below.

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
The Rt. Hon. The Lord Lamont of Lerwick	50	50
Goranko Fizulic	25	25
Bernard Lambert	25	25
Garth Lorimer Turner	25	25
J. Andrew Smith	25	25
Bruce Weatherill	25	25
William Crewdson	217	217
Ivana Soljan	240	240
Alex Penkul	190	190
Total	822	822

Interests in the share capital of the Company at 31 December 2013, for those Directors who served during the year, are set out below:

Name	Number of Ordinary Shares in which the director has an interest	Number of options over Ordinary Shares in which the director has an interest ¹	Exercise price
The Rt. Hon. The Lord Lamont of Lerwick	147,467	250,000	€0.20
Goranko Fizulic	-	200,000	€0.20
Bernard Lambert	-	200,000	€0.20
Garth Lorimer Turner	230,000	200,000	€0.20
J. Andrew Smith	48,000	225,000	€0.20
Bruce Weatherill	200,000	225,000	€0.20
William Crewdson	11,000,000	-	-
Ivana Soljan	-	1,100,000	€0.20
Alex Penkul	3,200,000	1,100,000	€0.20

¹ Granted 22 October 2012

The options (note 10) may only be exercised following the third anniversary and before the tenth anniversary of the date granted. No options were exercised during the year ended 31 December 2013 (2012: nil).

18. Finance expense and income

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Finance expense		
Interest expense	1,592	3,852
Foreign exchange losses	11	4
	<u>1,603</u>	<u>3,856</u>
Finance income		
Interest income	6	3
Foreign exchange gains	45	65
	<u>51</u>	<u>68</u>

Finance expense comprises interest due on third party loans, foreign exchange losses and bank charges. Finance income comprises interest on short term cash deposits and foreign exchange gains.

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19. Taxation and deferred tax

	31 December 2013 €'000	31 December 2012 €'000
Loss before tax	<u>(4,511)</u>	<u>(4,958)</u>
Current tax		
Tax expenses and benefits calculated at domestic rates applicable to the respective countries	(880)	(719)
Expenses not deductible for tax purposes	378	274
Tax losses not recognised	<u>509</u>	<u>453</u>
Income tax expense	<u>7</u>	<u>8</u>
Deferred tax		
Release of prior year provision	185	123
Recognition of previously unrecognised tax losses	<u>602</u>	<u>4,471</u>
Deferred tax credit	<u>787</u>	<u>4,594</u>
Net tax credit / (income tax expense)	<u>780</u>	<u>4,586</u>
Effective tax rate	nil%	nil%

The principal charge to current tax arises in respect of the Group's UK subsidiary which is subject to a tax rate of 20%. Domestic tax rates in Croatia and Switzerland are 20% and 8.5% respectively. There are no applicable taxes in Bermuda. The aggregated tax losses of the Group's subsidiaries are summarised below.

		2013 total €'000	2012 total €'000
Tax losses arising in the year	Expiry date:		
2008	31 December 2013 – 15	-	2,342
2009	31 December 2014 – 16	2,553	2,553
2010	31 December 2015 – 17	3,650	3,650
2011	31 December 2016 - 18	3,016	3,016
2012	31 December 2017 - 19	449	449
2013	31 December 2018 – 20	<u>509</u>	<u>-</u>
Total		<u>10,177</u>	<u>12,010</u>
Deferred tax asset			
Opening balance		12,010	12,454
Tax losses for the current period		509	449
Tax losses expired		<u>(2,342)</u>	<u>(893)</u>
Closing balance		<u>10,177</u>	<u>12,010</u>
Tax losses recognised		5,073	4,471
Tax losses not recognised		<u>5,104</u>	<u>7,539</u>
Total tax losses		<u>10,177</u>	<u>12,010</u>

At 31 December 2013, tax losses of €5,073,000 have been recognised for carried forward tax losses, to the extent that the realization of the related tax benefit through future taxable profits is probable. Depending on the circumstances, there are a variety of taxes that may arise in each jurisdiction in which the Group operates. The disclosure below details the principal taxes relevant to the Group; however, it is not a comprehensive summary of the tax system in each country.

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19. Taxation and deferred tax (continued)

a) Bermuda

At the date of this report, there is no Bermuda income tax, corporation tax, profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by the Company or its shareholders other than shareholders ordinarily resident in Bermuda. The Company is not subject to stamp duty on the issuance or transfer of its Ordinary Shares. The Company is liable to pay in Bermuda a registration fee based upon its assessable share capital at a rate currently not exceeding US\$31,000 (2012: US\$ 31,000) per annum.

The Company has received from the Minister of Finance of Bermuda under the Exempted Undertaking Tax Protection Act 1966 an assurance that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income, or computed on any capital assets, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not until 28 March 2035 be applicable to the Company except in so far as such tax applies to persons ordinarily resident in Bermuda and holding such Ordinary Shares of the Company.

b) Croatia and Switzerland

Tax losses may only be utilised by the company in which they arise and may be carried forward for between five and seven years subsequent to the year in which the loss was incurred, depending on the tax jurisdiction of the company. A deferred tax asset of €5,073,000 has been recognised at 31 December 2013 (2012: €4,471,000), due to the probability that future taxable income will be available to utilise and benefit from the tax losses. The future availability of these tax losses is subject to review by the local tax authorities.

20. Net loss

	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
The following items have been included in arriving at the loss for the period:		
Staff costs (note 17)	7,597	6,491
Depreciation (note 3) and amortization	4,285	4,169
Repairs and maintenance on property, plant and equipment	511	422
Auditors' remuneration charged in the income statement comprises:		
Audit of the Company	56	55
Audit of subsidiaries	48	44
	<u>104</u>	<u>99</u>

21. Loss per share

	Year ended 31 December 2013	Year ended 31 December 2012
Basic and diluted loss per share ¹		
Loss attributable to ordinary shareholders (€'000)	(3,731)	(372)
Weighted average number of Ordinary Shares	183,414,787	183,414,787
Basic loss per share (€ cents)	(2.0)	-

¹ Diluted loss per share is equivalent to basic loss per share as the effect of diluting potential Ordinary Shares would decrease the net loss per share and so the potential Ordinary Shares cannot be treated as dilutive in accordance with IAS 33 Earnings per Share.

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22. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or if both parties are under the control of a common entity or entities.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

iO Adria AG

iO Adria AG is a limited liability company incorporated in Lucerne, Switzerland, which is a partner of EG iO Jadran and which makes acquisitions on behalf of EG iO Jadran.

23. Post balance sheet events

There are no post balance sheet events to report.

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24. Financial risk

The Group's activities expose it to a number of financial risks: market risk (which includes currency risk, and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program seeks to minimise potential adverse effects of financial risk on the Group's performance.

(a) Market risk

(i) Currency risk

The Group is exposed to foreign currency risk as certain of its current financial assets and liabilities are dominated in Croatian Kuna ("HRK"), Sterling ("GBP") and Swiss Francs ("CHF") but accounted for in Euros. These are summarised below.

At 31 December 2013

	HRK	CHF	GBP
Current:			
Trade and other receivables	4,363	-	76
Cash	5,241	-	-
Trade and other payables and provisions	(13,772)	(4)	(44)
Finance lease liabilities	(6)	-	-
Net exposure	<u>(4,174)</u>	<u>(4)</u>	<u>32</u>

At 31 December 2012

	HRK	CHF	GBP
Current:			
Trade and other receivables	5,274	-	67
Cash	628	-	29
Trade and other payables and provisions	(13,658)	(9)	(51)
Finance lease liabilities	(42)	-	-
Net exposure	<u>(7,798)</u>	<u>(9)</u>	<u>45</u>

The Group's current financial assets and liabilities do not have significant exposure to foreign currency risk. As a result, a sensitivity analysis has not been presented.

(ii) Interest rate risk

The Group has not put in place any hedging arrangements in connection with its various loan facilities.

(b) Credit risk

The majority of the Group's credit exposure relates to surplus cash held on short-term deposits.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2013 €'000	31 December 2012 €'000
Trade and other receivables (note 6)	4,573	6,138
Cash and cash equivalents (note 8)	5,412	1,064
	<u>9,985</u>	<u>7,202</u>

Trade and other receivables fall due within one year and are stated net of impairments. There are no significant provisions for doubtful debts as those debts are considered to be recoverable. The majority of trade and other receivables are due from Croatian entities.

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24. Financial risk (continued)

(c) Liquidity risk

Further information regarding the Group's ability to continue as a going concern is detailed on page 18. Ordinarily, the Group seeks to maintain sufficient cash headroom to mitigate liquidity risk and monitors forecast liquidity based on expected cash flows. At 31 December 2013, the Group's trade and other receivables, trade and other payables, and finance lease liabilities have due dates which are less than one year, except for finance lease liabilities which fall due between one and five years (notes 6, 14 and 12 respectively). The Group's loan and borrowings have repayment dates which are on-going, as disclosed more fully in note 11.

At 31 December 2013, cash and cash equivalents of €5,268,000 (2012: €266,000) were subject to certain restrictions and therefore not freely available for use by the Group. The increase in restricted cash balances is primarily the result of sales proceeds from property for sale which is required to be applied against DVS senior loan II – junior (note 11).

Capital raised from the three initial private placements has been used to acquire the Group's property portfolio and to pay management fees and other costs incurred by the Group. Capital raised from the interim fund raise completed in July 2011 has been used to fund the working capital requirements of the Group. The Group intends that the majority of future costs associated with the development of its property portfolio will be funded by debt.

25. Other risk factors

The Group's performance partly depends on political stability and the regulatory environment in Croatia. If the political and/or regulatory climate alters or stability deteriorates, this could have a material impact on the value of the Group's assets that are situated in Croatia. Changes in the institution and enforcement of regulations relating to taxation, land use and zoning restrictions, planning regulations, environmental protection and safety and other matters represent risks that may adversely affect the Group's assets and results of operations.

26. Capital management

The Group's capital includes share capital, share premium, reserves and accumulated losses. The Group's policy is to maintain its ability to continue as a going concern, so it can provide returns to shareholders and benefits for other stakeholders. To date, the Group's acquisition of property investments has been funded from equity. Any significant future development of the Group's existing property investments, or future acquisitions by the Group, will require further equity or alternative sources of finance. If appropriate, the group may seek to fund future development and acquisitions by bank debt, or seek co-investors or joint venture partners.

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27. Segment information

The Group owns and operates one resort property, Dubrovnik Sun Gardens. The Group is currently at the early stages of developing a number of other sites into high end hospitality, leisure and related businesses located in Croatia, which is the Group's primary business segment. The Group is also currently engaged in marine services, including the temporary provision of marine repair facilities to third parties. The table below shows the revenue, results, assets, liabilities and other information for the Group's geographic segments.

For the year ended 31 December 2013

	Croatia €'000	Other* €'000	Total €'000
Geographic segments			
Revenue from operations	18,496	-	18,496
Revenue from property sales	9,488	-	9,488
Operating profit / (loss) from operations	(1,179)	(2,520)	(3,699)
Operating profit from property sales	740	-	740
Depreciation and amortization	4,285	-	4,285
Assets	265,764	273	266,037
- property, plant and equipment	208,523	-	208,523
- other non-current assets	5,258	-	5,258
- current assets (excluding cash)	46,653	191	46,844
- cash	5,330	82	5,412
Liabilities	146,707	26,281	172,988
- non-current loans and finance leases	130,096	25,134	155,230
- current loans and finance leases	3,006	-	3,006
- current liabilities	7,710	1,147	8,857
- provisions	5,895	-	5,895

* Bermuda, Switzerland and United Kingdom.

For the year ended 31 December 2012

	Croatia €'000	Other* €'000	Total €'000
Geographic segments			
Revenue from operations	17,393	-	17,393
Revenue from property sales	4,538	-	4,538
Operating profit / (loss) from operations	549	(1,819)	(1,270)
Operating profit from property sales	100	-	100
Depreciation and amortization	4,169	-	4,169
Assets	273,065	1,574	274,639
- property, plant and equipment	213,157	-	213,157
- other non-current assets	4,656	-	4,656
- current assets (excluding cash)	54,624	1,138	55,762
- cash	628	436	1,064
Liabilities	151,090	24,590	175,680
- non-current loans and finance leases	135,937	23,595	159,532
- current loans and finance leases	1,836	-	1,836
- current liabilities	7,237	995	8,232
- provisions	6,080	-	6,080

* Bermuda, Switzerland and United Kingdom.

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28. Principal subsidiaries and associates

Subsidiaries	2013 Interest in ordinary share capital	2013 Indirect interest in ordinary share capital	2012 Interest in ordinary share capital	2012 Indirect interest in ordinary share capital	Country of incorporation/ formation
EG iO Jadran ¹	99.9%	-	99.9%	-	Switzerland
iO Jadran AG	100%	-	100%	-	Switzerland
Sinseg AG	85%	-	85%	-	Switzerland
Stancija Markocija d.o.o.	100%	-	100%	-	Croatia
iO Adria d.o.o.	100%	-	100%	-	Croatia
Nauta Lamjana d.d.	100%	-	100%	-	Croatia
Stancija Dolzani d.o.o.	100%	-	100%	-	Croatia
Cepljesi d.o.o.	100%	-	100%	-	Croatia
Vila Tartuf d.o.o.	100%	-	100%	-	Croatia
Vile Livade d.o.o.	100%	-	100%	-	Croatia
Ledina d.o.o.	100%	-	100%	-	Croatia
Vila Žužiči d.o.o.	100%	-	100%	-	Croatia
Vila Motovun d.o.o.	100%	-	100%	-	Croatia
Vila Zumesk d.o.o.	100%	-	100%	-	Croatia
Casalinus d.o.o.	100%	-	100%	-	Croatia
Stancija Dajla d.o.o.	100%	-	100%	-	Croatia
Hosting International d.o.o. ²	-	85%	-	85%	Croatia
Pašman Rivijera d.o.o. ³	-	68%	-	68%	Croatia
Marina Preko d.o.o.	100%	-	100%	-	Croatia
Preko d.o.o.	100%	-	100%	-	Croatia
Tertius d.o.o.	100%	-	100%	-	Croatia
iO Adria London Limited	100%	-	100%	-	UK
Zmorac Nekretnine d.o.o.	100%	-	100%	-	Croatia
Nova Dubrovnik d.o.o. ³	85%	-	85%	-	Croatia
Harpun d.o.o.	100%	-	100%	-	Croatia
Vrtovi Sunca Orasac d.o.o.	100%	-	100%	-	Croatia
Suncani Vrtovi d.o.o.	100%	-	100%	-	Croatia
Dubrovački Vrtovi Sunca d.o.o.	-	100%	-	100%	Croatia
iO Adria Management Limited	100%	-	100%	-	Bermuda
Associates					
Occo London Limited ⁷	17.15%	-	17.15%	-	UK

¹ EG iO Jadran is a partnership constituted by and between the Company, iO Adria AG and iO Jadran AG

² Sinseg AG owns 100% of Hosting International d.o.o. which in turn owns 80% of Pašman Rivijera d.o.o.

³ In liquidation