

# Agua Terra Limited

## Results for the year ended 31 December 2010

30 June 2011

### **Chairman's statement**

Agua Terra Limited (LSE: ATE), the first development company dedicated exclusively to high quality mixed-use leisure real estate projects in Southeast Europe to be quoted on AIM, is pleased to announce its results for the period 1 January 2010 to 31 December 2010 and provide an update on operational progress.

### **Operational highlights**

The Company has received planning permission on all its sites and is evaluating its options with the land it owns

Land holdings' valuation remains at €10m.

The assets of the Company have remained debt-free, shielding the Company from the deterioration in credit conditions worldwide

### **Financial highlights**

With no new sales, the income statement shows only operating and administrative expenses, which have been tightly controlled and amount to 32% of the costs incurred in 2009.

The balance sheet reflects the land holdings referred to above and relatively modest liabilities.

In the absence of any income from sales of properties, the Company received financial support from two of its directors, Markos Kashiouris and Petros Economides. These advances, which were made after the balance sheet date, have enabled the Company to settle all of its other liabilities.

### **Lord Balfour, Chairman, said:**

“While still owning important assets in Greece, the dire economic situation which has been unfolding in the country following on from the global crisis in 2008/9 has meant that development and transactions have been brought to a halt with obvious consequences for the Company. In the circumstances, in order to save costs, it has been decided to approach the Shareholders regarding de-listing the Company from the London AIM market. This recommendation and approval of the financial statements (audited by PwC) to 31st December 2010 took place at a meeting of the Board on 30th June 2011. A corollary of this is that I and all the other non-executive directors resigned effective this date. I wish to thank them for their support and wisdom during a very unusual period and wish the shareholders well in the coming years. “

### **Enquiries:**

Agua Terra Limited  
Markos Kashiouris, Director

Tel: 020 7581 1423

**Consolidated statement of comprehensive income  
for the year ended 31 December 2010**

		<b>2010</b>	Period from
	Note	€	3 July 2008 to 31 December 2009 €
Fair value gains on investment property	12	-	1,758,465
Employee benefit expense	5	<b>(408,028)</b>	(659,072)
Non-executive Directors' fees	20 (iii)	<b>(24,000)</b>	(195,000)
Professional fees for AIM listing		-	(494,244)
Other professional fees		<b>(76,492)</b>	(145,044)
Auditors' remuneration		<b>(5,040)</b>	(26,040)
Net foreign exchange transaction loss		<b>(1,743)</b>	(2,316)
Transportation expenses		<b>(20,162)</b>	(80,225)
Other expenses		<b>(2,340)</b>	(55,683)
<b>Operating (loss)/profit</b>		<b>(537,805)</b>	100,841
Finance costs	6	<b>(11,594)</b>	(6,678)
<b>(Loss)/profit before tax</b>		<b>(549,399)</b>	94,163
Income tax expense	7	<b>35,169</b>	(386,862)
<b>Loss for the year/period and total comprehensive income</b>		<b>(514,230)</b>	(292,699)
<b>Loss attributable to:</b>			
Owners of the parent		<b>(514,230)</b>	(292,699)
			Cents per Share
<b>Basic loss per share</b>	8	<b>(7.94)</b>	(5.36)
<b>Diluted loss per share</b>	8	<b>(7.94)</b>	(5.36)

The notes are an integral part of these consolidated financial statements.

**Consolidated balance sheet  
as at 31 December 2010**

	Note	2010 €	2009 €
<b>Assets</b>			
<b>Non-current assets</b>			
Investment property	12	10,023,000	10,023,000
		<u>10,023,000</u>	<u>10,023,000</u>
<b>Current assets</b>			
Trade and other receivables	13	39,516	37,730
Cash and cash equivalents	14	40,615	49,870
		<u>80,131</u>	<u>87,600</u>
<b>Total assets</b>		<u><b>10,103,131</b></u>	<u><b>10,110,600</b></u>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Share capital and share premium	15	9,072,500	9,072,500
Other reserves	16	317,100	209,072
Accumulated losses		(806,929)	(292,699)
<b>Total equity</b>		<u><b>8,582,671</b></u>	<u><b>8,988,873</b></u>
<b>Non-current liabilities</b>			
Borrowings	17	-	206,678
Deferred income tax liabilities	18	351,693	386,862
		<u>351,693</u>	<u>593,540</u>
<b>Current liabilities</b>			
Borrowings	17	255,603	-
Trade and other payables	19	913,164	528,187
		<u>1,168,767</u>	<u>-</u>
<b>Total liabilities</b>		<u><b>1,520,460</b></u>	<u><b>1,121,727</b></u>
<b>Total equity and liabilities</b>		<u><b>10,103,131</b></u>	<u><b>10,110,600</b></u>

On 30 June 2011 the Board of Directors of Agua Terra Limited authorised these financial statements for issue.

The notes on are an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity for the year ended 31 December 2010

	Note	Share capital €	Share premium €	Other reserves €	Accumulated losses €	Total €
<b>Transactions with owners</b>						
Issue of shares on incorporation	15	-	900	-	-	900
Additional issue of shares on 26 September 2008	15	-	9,061,600	-	-	9,061,600
Additional issue of shares on 23 December 2009	15	-	10,000	-	-	10,000
Share based payments – value of employee services	16	-	-	209,072	-	209,072
Total transactions with owners		-	9,072,500	209,072	-	9,281,572
<b>Comprehensive income</b>						
Loss for the period		-	-	-	(292,699)	(292,699)
<b>Balance at 31 December 2009/ 1 January 2010</b>		-	9,072,500	209,072	(292,699)	8,988,873
<b>Comprehensive income</b>						
Loss for the year		-	-	-	(514,230)	(514,230)
<b>Transactions with owners</b>						
Share based payments – value of employee services	16	-	-	108,028	-	108,028
<b>Balance at 31 December 2010</b>		-	9,072,500	317,100	(806,929)	8,582,671

The notes on are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows for the year ended 31 December 2010

	Note	2010 €	Period from 3 July 2008 to 31 December 2009 €
<b>Cash flows from operating activities</b>			
Profit before tax		(514,230)	94,163
Adjustments for:			
Interest expense	6	11,594	6,678
Fair value gains on investment property	12	-	(1,758,465)
Share-based payments (Chief executive Officer)	20 (iii)	108,028	209,072
Share-based payments (Non-executive Directors)	20 (iii)	-	60,000
		<u>(429,777)</u>	<u>(1,388,552)</u>
Changes in working capital:			
Trade and other receivables		(1,786)	(37,730)
Trade and other payables		384,977	488,187
<b>Net cash used in operations</b>		<u>(46,586)</u>	<u>(938,095)</u>
<b>Cash flows from investing activities</b>			
Purchase of investment property	12	-	(8,264,535)
<b>Net cash used in investing activities</b>		<u>-</u>	<u>(8,264,535)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares	15	-	9,012,500
Proceeds from borrowings from related parties	20 (v)	36,800	200,000
Interest paid		(44)	-
<b>Net cash from financing activities</b>		<u>36,756</u>	<u>9,212,500</u>
<b>Net (decrease)/increase in cash, cash equivalents and bank overdrafts</b>		<u>(9,830)</u>	<u>9,870</u>
<b>Cash, cash equivalents and bank overdrafts at the beginning of the year</b>		<u>9,870</u>	<u>-</u>
<b>Cash, cash equivalents and bank overdrafts at end of year</b>	14	<u>40</u>	<u>9,870</u>

The notes on are an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements

## 1 General information

### Country of incorporation

The Company is a limited liability company incorporated in British Virgin Islands on 3 July 2008. Its registered office is at 197 Main Street, Road Town, Tortola, British Virgin Islands. As of 3 October 2008, the Company's shares were admitted to trading on AIM, a market operated by the London Stock Exchange.

### Principal activities

The principal activity of the Group is that of property acquisition with view of its capital appreciation and/or development.

The consolidated financial statements were authorised for issue by the Board of Directors on 30 June 2011.

### Operating environment of the Group

The Group is operating in Greece, where its investment property is located. The challenging economic conditions in Greece with low purchasing power and competitive pressure are the main characteristics of the operating environment of the Group.

Fears of default of the Greek government resulted in a series of measures taken by a number of entities, including provision of rescue packages from the EU and austerity measures from the Greek Government.

Such circumstances could affect the fair value of its properties and ability of the Group to obtain new borrowings. Deteriorating operating conditions for debtors or borrowers may also have an impact on Management's cash flow forecasts.

Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented in these consolidated financial statements unless otherwise stated.

### Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2010 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a

higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

### **Going concern**

The financial statements have been prepared on a going concern basis. However, during the year ended 31 December 2010, the Company incurred a net loss of €514.230 (2009: €292,699) and as of the date the Company's current liabilities exceeded its current assets by €1,088,636 (2009: €430,587). The Board of Directors believes that the going concern basis of preparation is appropriate for the following reasons:

- The Chief Executive Officer, to whom the Group owes €525,000 at the end of 2010 (2009: €225,000) (Note 20(iv)), has agreed not to call for repayment of these balances until such time as the Group has adequate funds to repay them as well as to provide adequate financial support to enable the Group to meet its third party obligations for the foreseeable future; and

The parties that can exercise significant influence, to whom the Group at the end of 2010 has payable balances of €174,611 (2009:€116.003) (Note 20(iv)) and loan balances of €255.028 (2009: €255.028) (Note 20(v)), have agreed not to call for repayment of these balances until such time as the Group has adequate funds to repay them as well as to provide adequate financial support to enable the Group to meet its third party obligations for the foreseeable future.

### **Basis of consolidation**

#### **Subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of

subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

### **Adoption of new and revised IFRSs**

During the current year the Group adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2010. This adoption did not have a material effect on the accounting policies of the Group.

At the date of approval of these consolidated financial statements the following accounting standards were issued by the International Accounting Standards Board but were not yet effective:

#### **(i) Adopted by the European Union**

##### **New standards**

- IAS 24 (Revised) "Related Party Disclosures" (effective for annual periods beginning on or after 1 January 2011).

##### **Amendments**

- Amendments to IAS 32 "Financial Instruments: Presentation: Classifications of Rights Issues" (effective for annual periods beginning on or after 1 February 2010).
- Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First Time Adopters" (effective for annual periods beginning on or after 1 July 2010).
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011).

Annual Improvements 2010 (effective for annual periods beginning on or after 1 July 2010 and 1 January 2011).

##### **New IFRICs**

- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

#### **(ii) Not adopted by the European Union**

##### **New standards**

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 10, "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11, "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12, "Disclosure of Interests in Other entities" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13, "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).
- IAS 27, "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013).

IAS 28, "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013).

##### **Amendments**

- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for annual

periods beginning on or after 1 July 2011).

- Amendment to IAS 12 “Income Taxes” (effective for annual periods beginning on or after 1 January 2012).

Amendment to IFRS 1 “First-time adoption of International Financial Reporting Standards” (effective for annual periods beginning on or after 1 July 2011).

The Board of Directors expects that the adoption of these financial reporting standards in future periods will not have a material effect on the financial statements of the Company.

### **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of operating segments, has been identified as the Board of Directors who makes the strategic decisions.

At 31 December 2010 and 2009, the Group has no operating activity except for holding of land in Mykonos. As a result, the Group has no operating segments to report.

### **Employee benefits**

#### **(a) Share-based compensation**

The Group operates an equity-settled, share-based compensation plan for its Chief Executive Officer, under which the Group receives services from its Chief Executive as consideration for equity instruments (shares) of the Group. The fair value of the employee services received in exchange for the grant of shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted, excluding the impact of any non-market service and performance vesting conditions (for example, EBITDA targets). Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. The total amount expensed is recognised over the vesting period, which is the estimated period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

When the vesting period is linked to a market performance condition, and the vesting period is longer than originally estimated, the expense is recognised over the originally estimated vesting period.

#### **(b) Cash bonus plans**

The Group recognises a liability and an expense for cash bonuses attributable to the Chief Executive Officer, based on the agreed percentage of EBITDA. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### **Foreign currency translation**

#### **(i) Functional and presentation currency**

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Euro (€), which is the Group's functional and presentation currency.

#### **(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

### **Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax is calculated in the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country in which the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. If applicable tax regulation is subject to interpretation, it establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the Company where there is an intention to settle the balances on a net basis.

### **Investment property**

Investment property comprises of land held for capital appreciation purposes. Investment property is measured initially at its cost, including related transaction costs.

After initial recognition investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

Changes in fair values are recorded in the consolidated statement of comprehensive income. A transfer from investment property to inventories is made only when there is a change in use evidenced by commencement of development with a view to sale. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

### **Share capital**

Ordinary shares are classified as equity.

### **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings, using the effective interest method.

Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

### **Trade payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### **Cash and cash equivalents**

Cash and cash equivalents on the balance sheet include deposits held at call with banks, cash balances held with lawyers in fiduciary capacity on behalf of the Group and bank overdrafts. For the purposes of the statement of cash flows, cash and cash equivalents exclude cash balances held with lawyers in fiduciary capacity as they are not available for use by the Group.

## **3 Financial risk management**

**(i) Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk), credit risk and liquidity risk.

The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Board of Directors.

• **Market risk**

**Foreign exchange risk**

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functional currency. As at 31 December 2010 and 2009 the Group did not have material exposure in foreign exchange risk.

Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

**Fair value interest rate risk**

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from its borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

**Credit risk**

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions and committed transactions.

For banks and financial institutions, only independently rated parties with a satisfactory rating are accepted.

**Liquidity risk**

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years
	€	€
<b>At 31 December 2009:</b>		
Borrowings	-	226,954
Trade and other payables (excluding deferred income)	488,187	-
	<u>488,187</u>	<u>226,954</u>
<b>At 31 December 2010:</b>		
Borrowings	266,868	-
Trade and other payables (excluding deferred income)	913,164	-
	<u>1,180,032</u>	<u>-</u>

Prudent liquidity risk management implies maintaining sufficient cash and having available an adequate amount of committed credit facilities. The management maintains flexibility in funding by maintaining availability under committed credit lines with related parties (Note 17).

These undrawn borrowing facilities totalled €744,972 at the end of 2010 (2009: €793,322) and the Group reached an agreement with these parties to defer repayment of these borrowings to 31 December 2011 (Note 20(v)).

In addition, the Chief Executive Officer, to whom the Group owes €525,000 at the end of 2010 (2009: €225,000) (Note 20(iv)), has agreed not to call for repayment of these balances until such time as the Group has adequate funds to repay them.

## (ii) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratios at 31 December 2010 and 2009 were as follows:

	<b>2010</b> €	2009 €
Total borrowings (Note 17)	<b>255,603</b>	206,678
Less: cash and cash equivalents (Note 14)	<b>(40,615)</b>	(49,870)
Net debt	<b>214,988</b>	156,808
Total equity	<b>8,582,671</b>	8,988,873
<b>Total capital as defined by management</b>	<b>8,797,659</b>	9,145,681
<b>Gearing ratio</b>	<b>2.44%</b>	1.71%

## (iii) Fair value estimation

The table below analyse financial instruments carried at fair value by valuation method. The different levels have been identified as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2009 and 2010, the Group did not have any financial assets and liabilities that are measured at fair value.

## 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**(i) Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- **Income taxes**

Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Disposal of the Group's land located in Greece will attract Greek corporation tax. The Greek corporation tax rate is 24% for the year 2010 reducing by 1% yearly to 20% for year 2014 onwards. The Group provided for deferred tax on its land revaluation gain at 20% (2009: 22%), which is its best estimate as at 31 December 2010. The change was a result of the change in the management plans to hold the property for longer term than originally estimated.

- **Estimated fair value of investment properties**

The best evidence of fair value is current prices in an active market for the properties with similar characteristics. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- (i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The investment properties were valued at 30 June 2009 at fair value comprising open-market value, based on valuations by independent, professionally qualified valuers who hold recognised relevant professional qualifications and have recent experience in the locations and categories of the investment properties valued. At 31 December 2009 and 2010, the Board of Directors has determined this valuation still to be appropriate on the basis of available information as explained above.

**(ii) Critical judgements in applying the Group's accounting policies**

- **Share-based payments – Performance warrants**

The Group did not recognise share-based payment expense in respect of

additional performance warrants (Note 15) issuable to the Chief Executive Officer in the event of future capital raising, on the basis that such an exit event was assessed as not probable as at 31 December 2010 and 2009. This assessment requires significant judgement. If this assessment is estimated as probable in subsequent accounting periods, then the Group will need to recognise additional share-based payment expenses at a value of €0.7219 per additional warrant to be issued based on the formula explained in Note 15.

## 5 Employee benefit expense

	2010 €	Period from 3 July 2008 to 31 December 2009 €
Salaries	300,000	450,000
Share-based payments (Note 16)	108,028	209,072
	<u>408,028</u>	<u>659,072</u>

## 6 Finance costs

	2010 €	Period from 3 July 2008 to 31 December 2009 €
Interest expense:		
Loans from related parties (Note 20 (v))	11,550	6,678
Bank overdrafts	44	-
	<u>11,594</u>	<u>6,678</u>

## 7 Income tax expense

	2010 €	Period from 3 July 2008 to 31 December 2009 €
Deferred tax (credit)/charge (Note 18)	<u>(35,169)</u>	<u>386,862</u>

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2010 €	Period from 3 July 2008 to 31 December 2009 €
(Loss)/profit before tax	<u>(35,169)</u>	<u>94,163</u>

Tax calculated at the applicable corporation tax rates in BVI	-	-
Tax effect of the existence of permanent establishment in Greece	-	386,862
Tax effect due to the change in tax rates	<b>(35,169)</b>	-
Income tax charge	<b><u>(35,169)</u></b>	<b><u>386,862</u></b>

The Company is incorporated in the British Virgin Islands and hence is exempt from any tax on its profits.

The Company's subsidiaries (Note 11), which are registered in Cyprus, are subject to corporation tax on their taxable profits at the rate of 10%. Up to 31 December 2008, under certain conditions interest may be subject to defence contribution at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax thus having an effective tax rate burden of approximately 15%. From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and only subject to defence contribution at the rate of 10%. Disposal of the Group's land located in Greece will attract Greek corporation tax estimated at the rate of 20% (2009: 22%) (see Note 4 (i)).

As at 31 December 2010, the Company's Cyprus registered subsidiaries had tax losses carried forward amounting to €39,226 (2009: €28,820) for which no deferred tax asset has been recognised as profits for future periods against which these losses can be utilised cannot be estimated with sufficient reliability.

## 8 Basic and diluted loss per share

### (a) Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders by the weighted average number of shares in issue during the period.

	2010 €	Period from 3 July 2008 to 31 December 2009 €
Loss attributable to equity holders (€)	<b><u>(514,230)</u></b>	<b><u>(292,699)</u></b>
Weighted average number of shares in issue	<b><u>6,478,860</u></b>	<b><u>5,464,422</u></b>
Basic loss per share (cents per share)	<b><u>(7.94)</u></b>	<b><u>(5.36)</u></b>

### (b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares.

The Company's dilutive potential shares arose from founder and performance warrants explained in more detail in Note 15, as well as from the Chief Executive Officer's share bonus plan explored in more detail in Note 20 (iii).

The computation of diluted earnings per share excludes the effect of assuming the conversion of founder and performance warrants because their effect would have been anti-dilutive. In addition, the effect of the Chief Executive Officer's share bonus plan is nil, as no shares would have been issued under the plan since none of the conditions were met at 31 December 2010 and 2009.

## 9 Financial instruments by category

	Loans and receivables €	Total €
<b>31 December 2009</b>		
<b>Assets as per balance sheet</b>		
Trade and other receivables (excluding prepayments)	36,800	36,800
Cash and cash equivalents	<u>49,870</u>	<u>49,870</u>
<b>Total</b>	<u><u>86,670</u></u>	<u><u>86,670</u></u>
	Other financial liabilities €	Total €
<b>Liabilities as per balance sheet</b>		
Borrowings	206,678	206,678
Trade and other payables (excluding deferred income)	<u>488,187</u>	<u>488,187</u>
<b>Total</b>	<u><u>694,865</u></u>	<u><u>694,865</u></u>

	Loans and receivables €	Total €
<b>31 December 2010</b>		
<b>Assets as per balance sheet</b>		
Trade and other receivables (excluding prepayments)	36,800	36,800
Cash and cash equivalents	40,615	40,615
<b>Total</b>	<u><u>77,415</u></u>	<u><u>77,415</u></u>
	Other financial liabilities €	Total €
<b>Liabilities as per balance sheet</b>		
Borrowings	255,603	255,603
Trade and other payables (excluding deferred income)	873,164	873,164
<b>Total</b>	<u><u>1,128,767</u></u>	<u><u>1,128,767</u></u>

## 10 Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

	2010 €	2009 €
<b>Fully performing other receivables</b>		
Group 1	<u><u>36,800</u></u>	<u><u>36,800</u></u>
<b>Cash at bank and short-term bank deposits</b>		
Bank – Baa2 (Moody's)	615	9,870
Third parties with no external credit rating	<u><u>40,000</u></u>	<u><u>40,000</u></u>

615                      49,870

Group 1 – related parties

## 11 Investments in subsidiaries

The Group's interests in its subsidiaries, all of which are unlisted, were as follows:

Name	Principal activity	Country of incorporation	2010 % holding	2009 % holding
Agua Terra Alpha (Cyprus) Limited	Property investment	Cyprus	100	100
Agua Terra Beta (Cyprus) Limited	Dormant	Cyprus	100	100

The Company subscribed for 100% of the issued share capital of these subsidiaries upon their incorporation, at a price of €2,000 each, which is equal to the nominal value of their issued share capital.

## 12 Investment property

	2010 €	2009 €
At the beginning of the year/period	10,023,000	-
Purchases during the period (Note 20 (ii))	-	8,264,535
Fair value gains (Note 4(i))	-	1,758,465
At the end of the year/period	<u>10,023,000</u>	<u>10,023,000</u>

The above investment property comprises of three sites located in Mykonos, Greece, which collectively comprise the Mykonos Azure project.

The Group has obtained planning permissions for the development of ultra-luxury serviced residences over all three sites.

## 13 Trade and other receivables

	2010 €	2009 €
Receivables from related parties (Note 20 (iv))	36,800	36,800
Prepayments	2,716	930
	<u>39,516</u>	<u>37,730</u>

The fair values of trade and other receivables approximate their carrying amounts. Trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 14 Cash and cash equivalents

2010                      2009  
€                              €

Cash at bank	615	9,870
Cash balances held with lawyers (Note 19)	40,000	40,000
	<u>40,615</u>	<u>49,870</u>

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	2010	2009
	€	€
Cash and cash equivalents	615	9,870
Bank overdrafts (Note 17)	(575)	-
	<u>40</u>	<u>9,870</u>

## 15 Share capital and share premium

	Number of shares	Share capital €	Share premium €	Total €
Issue of shares on incorporation 26 September 2008:	450	-	900	900
Issue of shares at €2 per share	4,505,800	-	9,011,600	9,011,600
Issue of shares to non-executive Directors for free	25,000	-	50,000	50,000
	<u>4,530,800</u>	-	<u>9,061,600</u>	<u>9,061,600</u>
23 December 2009:				
Issue of shares in exchange of founder warrants	1,940,469	-	-	-
Issue of shares to a non-executive Director for free	7,141	-	10,000	10,000
	<u>1,947,610</u>	-	<u>10,000</u>	<u>10,000</u>
<b>At 31 December 2009 and 2010</b>	<u>6,478,860</u>	-	<u>9,072,500</u>	<u>9,072,500</u>

The Company has unlimited authorised share capital, comprising of shares of nil par value.

On incorporation, the Company issued 450 common shares of nil par value at a price of €2 per share.

On 26 September 2008, the Company issued an additional 4,505,800 common shares of nil par value at a price of €2 per share. In addition, on the same date the Company issued 25,000 common shares of nil par value for free to its non-executive Directors (see Note 20 (iii)).

On 23 December 2009, the Company issued an additional 1,940,469 common shares of nil par value for free to its founder warrants holders in consideration of the cancellation of 4,531,250 founder warrants. In addition, on the same date the Company issued 7,141 common shares of nil par value for free to a non-executive Director (see Note 20 (iii)).

As from 3 October 2008 the Company's issued shares are trading on the AIM of the London Stock Exchange.

### Founder Warrants

On 26 September 2008, the Company issued 4,531,250 founder warrants to subscribe for shares of the Company at an exercise price of €2 per founder warrant. The founder warrants were exercisable at any time from issue until 26 September 2018 and were non-transferable, except with the prior consent of the Board. On 23 December 2009, the Company cancelled all of the outstanding founder warrants, and issued instead 1,940,469 new common shares in exchange for such warrants.

## Performance Warrants

On 26 September 2008, the Company executed the Performance Warrant Instrument pursuant to which the Company may issue up to 453,125 warrants to subscribe for shares of the Company at an exercise price of €2.59 per share. After 3 October 2011, if the Company's share price is trading at more than a 20% discount to the Company's then net asset value, then the holder of performance warrants may elect to exercise his performance warrant at a price of 1.295 times the closing share price on the date falling three years before the date of exercise. Each performance warrant entitles the holder to acquire one share.

Shares issued on the exercise of performance warrants are subject to a three year lock-in, other than those shares issued following the election to exercise at a price of 1.295 times the closing share price, in which case the shares issued will be subject to a five year lock-in. The performance warrants are exercisable at any time from issue until 26 September 2018 and are non-transferable except with the prior consent of the Board.

The performance warrants are divided into four classes, which have identical rights save in respect of anti dilution provisions in the event of any future capital raises in which case the warrant-holders are entitled to additional warrants on the basis of X warrants for every 100 shares issued, where X is as set out below:

Class	Mkt Capitalisation OR Share Capital at time of issue less than €100m	Mkt Capitalisation OR Share Capital at time of issue €100m to €200m	Mkt Capitalisation OR Share Capital at time of issue €200m to €300m	Mkt Capitalisation OR Share Capital at time of issue more than €300m
A	2.777	1.895	1.014	0.600
B	3.902	5.203	6.504	7.040
C	2.345	1.601	0.856	0.600
D	0.976	1.301	1.626	1.760
	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>

As at 31 December 2009 and 2010, the following Performance Warrants were issued and outstanding:

Holder	Class	Number of Performance Warrants
Related party – significant influence	A	125,831
Related party - Chief Executive Officer	B	176,829
Related party – significant influence	C	106,258

The Company allocated performance warrants to its Chief Executive Officer over and above its capacity as a shareholder, and hence this arrangement (the excess allowance) was treated as a share-based payment under IFRS 2. The overallocated warrants to the Chief Executive Officer due to his executive capacity were estimated to be 64,978. The fair value of each warrant granted determined using an American Option Binomial Valuation model was €0.7219 per warrant. The significant inputs into the model were share price of €2 at grant date, exercise price of €2.59, volatility of 27.28% (measured on the basis of historical volatility of a basket of Central and South Eastern European AIM – listed real estate stocks), expected warrants life of 9 years, and an annual risk-free interest rate of 4.25%. The total fair value of €46,908 was expensed in the statement of comprehensive income for the period ended 31 December 2009, since the warrants vested immediately (Note 5).

No additional share-based expense was recognised in respect of additional warrants issuable to the Chief Executive Officer in the event of a future capital raising, as such an exit event was not considered probable as at 31 December 2009 and 2010.

## 16 Other reserves

Share-based payments reserves	
2010	2009
€	€

At beginning of year/period	209,072	-
Value of employee share-based services		
Share bonus scheme (Note 20 (iii))	108,028	162,164
Performance warrants (Note 15)	-	46,908
At end of year/period	<u>317,100</u>	<u>209,072</u>

## 17 Borrowings

	2010 €	2009 €
<b>Non-Current</b>		
Borrowings from related parties (Note 20 (v))	-	206,678
<b>Current</b>		
Borrowings from related parties (Note 20 (v))	255,028	-
Bank overdrafts	575	-
	<u>255,603</u>	<u>-</u>
<b>Total borrowings</b>	<u>255,603</u>	<u>206,678</u>
<b>Maturity non-current borrowings</b>		
Between 1 and 2 years	-	206,678

Borrowings issued at fixed rates expose the Group to fair value interest rate risks.

The Group has the following undrawn borrowing facilities with related parties (Note 20 (v)):

	2010 €	2009 €
Fixed rate:		
Expiring beyond one year	<u>744,972</u>	<u>793,322</u>

The carrying amounts of borrowings approximate their fair value.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2010 €	2009 €
Euro	<u>255,603</u>	<u>206,678</u>

## 18 Deferred income tax liabilities

The analysis of deferred income tax liabilities is as follows:

	2010 €	2009 €
Deferred tax liabilities to be settled after more than twelve months	<u>351,693</u>	<u>386,862</u>

The movement in the deferred income tax account is as follows:

Charged to:		Fair value gains on investment property €
Statement of comprehensive income (Note 7)		386,862

At 31 December 2009/1 January 2010	386,862
Credited to:	
Statement of comprehensive income (Note 7)	(35,169)
At 31 December 2010	<u>351,693</u>

## 19 Trade and other payables

	2010 €	2009 €
Payables to related parties (Note 20 (iv))	786,111	403,503
Other payables	72,013	61,384
Accrued expenses	15,040	23,300
Deferred income (see below)	-	40,000
	<u>873,164</u>	<u>528,187</u>

In October 2009, the Group signed contracts for the sale of the first two villas at the Mykonos Azure project. The sales price was €1,500,000 for each villa, totalling €3,000,000, out of which prepayments of €40,000 have been received and are held by a lawyer in fiduciary capacity on behalf of the Group (Note 14). The remaining balance was payable by 20 April 2010 and the contracts were terminable in case of failure by the buyers to pay by that day. In April 2010, with the mutual agreement of all parties involved, the expiry of the agreements was extended to 20 October 2010. By that time, no further actions had taken place and the agreements lapsed. Therefore these balances are now considered to be due back to the customers and hence they were reclassified within other payables.

The fair value of trade and other payables which are due within one year approximates their carrying amount at the balance sheet date.

## 20 Related party transactions

The following transactions were carried out with related parties:

### (i) Purchases of services

	2010 €	Period from 3 July 2008 to 31 December 2009 €
Related parties that can exercise significant influence	<u>58,231</u>	<u>241,524</u>

### (ii) Purchase and option for additional purchase of investment property from related parties

In October 2008, the Group purchased three properties in Pyrgi, Agrari and Platys Gialos all of which are in Mykonos, for a total consideration of €8 million from a party that can exercise significant influence over the Group. The Board was satisfied that the terms of the purchase were on an arms length basis and in accordance with an external third-party valuation of the land at the time of purchase.

On 9 November 2009, the Group signed an option agreement, for no consideration, in respect of a portfolio of sites, located in Mykonos, Greece, beneficially owned by a party that can exercise significant influence over the Group. The option was exercisable by the Group in respect of some or all the sites of any time prior to 31 March 2010. The consideration payable depended on which properties the Group would wish to acquire ranging from €1.7 million to €5.6 million per site, up to a total maximum consideration of €18 million for all sites. The Group did not

exercise the option due to financing constraints.

**(iii) Key management compensation**

The total remuneration of the Directors was as follows:

	2010 €	Period from 3 July 2008 to 31 December 2009 €
Chief Executive Officer emoluments in his executive capacity:		
Fixed cash salary for the period	300,000	450,000
Share-based payments: Performance warrants (Note 15)	-	46,908
Share-based payments: Share bonus scheme (see below *)	108,028	162,164
	<u>408,028</u>	<u>659,072</u>
Non-executive Directors:		
Fees	24,000	135,000
Share-based payments (see below **)	-	60,000
	<u>24,000</u>	<u>195,000</u>
	<u>324,000</u>	<u>854,072</u>

**(iii) Key management compensation (continued)**

\* With effect from 3 July 2008, the Director who acts as Chief Executive Officer entered into a service agreement with the Company under which he is entitled to receive the following remuneration:

- (a) Annual fixed cash salary of €300,000 per annum subject to automatic increase up to €1,000,000 per annum once certain market capitalisation or additional incremental capital raising targets are met;
- (b) Annual cash bonus, of up to 5% of the Group's EBITDA declining on a stepped basis to 3% when certain cash raising or market capitalisation targets are met, subject to hitting certain performance targets set by comparison of the Group's EBITDA per €1 of market capitalisation to a basket of Central and South Eastern European AIM – listed real estate stocks; and
- (c) Annual share bonus of:
  - (i) 0.5% of EBITDA increasing on a stepped basis to 4% of EBITDA once certain market capitalisation or capital raising milestones are reached, subject to hitting certain performance targets set as explained in (b) above; and
  - (ii) €500,000 worth of shares once the market capitalisation of the Group exceeds €20 million.

The Chief Executive Officer's share bonus plan has been accounted for as an equity settled share-based payment arrangement under IFRS2 with a total expense amounting to €108,028 (2009: €162,164). More specifically:

- (i) The estimated fair value on grant date (3 July 2008) is €242,705. Key inputs used for the estimation were as follows:

estimated probabilities for achieving various market capitalisation targets, ranging from 20% for a €100m target and declining on a

stepped basis to 0.6% for a €700m target;

estimated vesting period for achieving various market capitalisation targets, ranging from 8 years for a €100m target to 20 years for a 700m target;

market capitalisation estimated as 8 times EBITDA; and

estimated discount rate of 5%.

The expense arising for the year ended 31 December 2010 is €18,919 (2009: €28,378) with a corresponding credit in other reserves (Note 16).

- (ii) The estimated fair value on grant date (3 July 2008) is €401,357 and the estimated vesting period to achieve the vesting condition of market capitalisation exceeding €20 million is 4.5 years (up to 31 December 2012). Thus, the expense arising for the year ended 31 December 2010 is €89,109 (2009: €133,786) with a corresponding credit in other reserves (Note 16).

\*\* On 26 September 2008, the Company issued 25,000 shares for no consideration to its non executive directors. The fair value of each free share issued, determined on the basis of the price of shares issued to other parties on the same date, was €2. In addition, on 23 December 2009 the Company issued 7,141 shares for no consideration to a non-executive Director. The fair value of each free share issued, determined on the basis of the fair value of the Company's shares on the date of issue, was €1.40. The total fair value of €60,000 was expensed in the consolidated statement of comprehensive income for the period ended 31 December 2009.

#### (iv) Period-end balances with related parties

	2010 €	2009 €
Receivable from related parties (Note 13):		
Parties that can exercise significant influence	<u>36,800</u>	<u>36,800</u>
Payable to related parties (Note 19):		
Parties that can exercise significant influence	174,611	116,003
Chief Executive Officer	525,000	225,000
Non-executive Directors	86,500	62,500
	<u>786,111</u>	<u>403,503</u>

The Chief Executive Officer has agreed not to call for the repayment of the above amounts until such time as the a Group has adequate funds to repay them.

The above balances bear no interest, are unsecured and are repayable on demand.

#### (v) Loans from related parties

	2010 €	2009 €
Loans from parties that can exercise significant influence:		
At the beginning of the year/period	206,678	-
Loans advanced during period	36,800	200,000
Interest charged (Note 6)	11,550	6,678
	<u>255,028</u>	<u>206,678</u>

On 26 September 2008, the Group as borrower and three parties that can exercise significant influence as lenders, entered into a loan agreement pursuant to which, the lenders have agreed to make available the aggregate sum of €1,000,000 to the Group. The loan was originally repayable at the earlier of 1 January 2010 and such time as the Group raises €1,000,000 of capital following its admission to trading on the AIM of the London Stock Exchange. As a result of an addendum reached during 2009, the repayment of the loan was deferred to 31 December 2011. Interest is at 5% per annum and the loan is unsecured.

## **21 Events after the balance sheet date**

On 30<sup>th</sup> June 2011, the Board of Directors decided to approach the Company's shareholders regarding de-listing the Company from the London AIM market. On the same date all non-executive directors resigned.

There were no other material post balance sheet events, which have a bearing on the understanding of the financial statements.

The Independent Auditor's Report is unqualified.

The annual report is available at [www.aqua-terra.com](http://www.aqua-terra.com)