



2 December 2010

ELARG Agricultural Land Opportunity Fund REIT
(“ELARG” or “the Company”, BSE: 4EC, Bloomberg: 4EC BU)

Update from the Management and Nine Months 2010 Consolidated Results

Dear Shareholders

Today I am pleased to present to you ELARG's consolidated results for the nine months to September 30. I also would like to take this opportunity to update you on our progress with farmland portfolio optimisation, and provide you with the current parameters of our holdings, as well as an update on other important operational and financial developments.

Financial Results for the Nine Months to September 30

Today we are releasing our interim consolidated figures for the nine months of 2010. First of all I would like to note that Agromanage has now started to take over the Fund's accounting function (which was outsourced before), and we expect that presentation and usability of the Fund's financial reports, as well as their timeliness will soon improve. For example, because the Fund has started its farming operations, we are planning to introduce segmental reporting in the near future. I am aware that the presentation of these nine-month accounts makes them difficult to analyse and especially to compare to the corresponding period of last year as this is due to two large non-recurring items as well as the way farming operations are presently reflected on the P&L. Below I will highlight several important bits.

The bottom line for nine months to September 30 is a profit of BGN 564 thousand, compared to the loss of BGN 175 thousand in the corresponding period last year, adjusting for two non-recurrent items (as explained below). Without the adjustments the net result is a loss of BGN 55 thousand.

Rents which are our core revenue are up 21% year-on-year, at BGN 3.5 million. Operating costs are under tight control and up only 3% year-on-year. Note that the costs figures have to be taken net of accrued farming expenditure of BGN 1,266 thousand, which is offset on the P&L with the "Changes in unfinished production" revenue item.

The two non-recurrent items mentioned above are as follows: First, our land portfolio optimisation effort has resulted in the net gain of BGN 333 thousand. While we view this as a clearly good result, and this is a realised cash revenue item, we would disregard such gains when judging the Fund's operating performance.



Second, we have booked an impairment charge of BGN 952 thousand against the stock of our collected harvest, based on the market value of cereals, mainly grain, as of the end of 3Q. We do not expect such impairment charges to become norm. We also expect that some of this charge may be reversed, as the grain prices have recovered since the close of the accounting period.

One substantial new positive line on our P&L has to be noted here ó thanks to our farming efforts we started booking the agricultural subsidy revenue for the first time in the Fund's history. The amount is BGN 342 thousand, but I have to note that this is likely to be only part of the subsidy revenue for this year. This is because accounting rules dictate that only last year's EU subsidy levels can be recognised until all numbers are finalised for this year at the country level; also, the national subsidy top up ó expected at BGN 100 per hectare this year ó cannot be booked at all until actually paid.

Taking into account the subsidies and improvement in the market grain prices, we expect this farming season to be closed somewhat below breakeven. This is not bad ó as this was our first year of farming and a very steep learning curve. Mistakes had been made in choosing the scale and the particular land plots. As this was the first time, the operating cost structure was far from optimal. And finally, the weather has been unkind, treating farmers with record rainfalls in Bulgaria this summer.

As reported before, our farming approach for this year is being calibrated. We are focussing on fewer, more fertile villages ó only five (down from last year's 16) villages in the Yambol region, and we are also starting out in Vidin. We believe that ELARG's 2010-11 farming season will be profitable.

Land Portfolio Update

We wrote to you in our last update that the medium-term main goal for management is portfolio optimisation. In simple terms, we want the number of our land plots to decrease, and average size and quality to increase ó thus increasing our portfolio value. We are aiming to exchange the land that does not fit our holdings well for land that does ó at the level of individual villages as well as whole regions. This work was started in summer and today we are pleased to report on our progress and provide you with the current parameters of our farmland portfolio.

In total we sold 1,748 ha and bought 718 ha of farmland, resulting in the net decrease of our portfolio by 1,030 ha (3.5%), or from 29,303ha as of mid-year to 28,273ha at present (note: as the work is on-going, the figures include some deals that have been signed but not yet fully closed). The number of villages where we hold land was reduced from 1,573 to 1,488, and the overall number of plots was reduced from 39,218 to 37,792. The average plot size remains 0.75ha, however this often-quoted figure is somewhat misleading, as many larger, higher-value plots consist of several smaller ones.

The present shape of the portfolio by region is illustrated below.

ELARG Bulgarian Farmland Portfolio by Region, December 2010

Total farmland holdings:
28,273ha



Source: ELARG Agricultural Land Opportunity Fund REIT.

Bond rollover and buyback

In September we reported on the agreement we had reached with our bondholders to extend the Fund's outstanding bond by three years, until August 2013. As part of the agreement the Fund committed to purchase back up to €2.85 million (of the €10 million outstanding) before the end of the year at the bondholders' option.

Today I am happy to report that ELARG is fulfilling its buyback commitment ahead of schedule. As of today we have repaid €2.34 million (82%) out of €2.85 million due. The cash was generated from the Fund's normal operations including rents, sale of this year's harvest and land portfolio optimisation activities. As the cash becomes available it is optimal for the Fund to fulfil its buyback commitment ahead of schedule, as this significantly reduces interest costs.



I would like to reiterate that by extending the bond the core stakeholders in the Fund have now demonstrated publically their support to the new management team. We are pleased to keep our end of the bargain and are confident that the buyback will be completed well within the end-year deadline.

Leasing and rent collection progress

Finally, I would like to update you on our progress with securing rents for the next agricultural season, as well as with collecting rents due for the season that just ended. As of the end of November signed lease agreements for 2010/11 season reached 22,138ha, or 78% of the farmland portfolio, at an average rate of BGN 211/ha, whereas a year ago the signed agreements for 2009/10 season stood at an estimated 59%. At the end of November BGN 3.183 million (€1.627 million), or 71%, of 2009/10 rents have been collected, compared to estimated 43% this time last year.

The insurer of our corporate receivables (state-owned Bulgarian Export Insurance Agency, or BAEZ) was notified promptly of all accounts in arrears. While collection is expected to improve further towards year end, the management is following the procedure of notifying the claims to BAEZ promptly.

Arbitration between Elarg and Elana Property Management AD

I feel obliged to mention the pending arbitration between ELARG and Elana Property Management AD (EPMö) and, in particular, EPM's BGN 10.452 million counterclaim against the Fund. You can find more details on the subject in the Executive Director's letter to the shareholders of 29 October 2010. The Board of Directors is fully committed to defending the interests of the Fund and its investors and will continue to seek equitable compensation from EPM for all damages sustained by ELARG.

Plans and Outlook

In summary, I am happy to report that ELARG intends to complete the financial year with a restructured balance sheet with significantly lower liabilities, secured financing, and a rationalized footprint of the farmland portfolio. We intend to bring the cumulative loss to less than BGN 3 million and make it possible to pay dividends in the medium term. This will enable us to look forward to an even more successful 2011.

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