

UPDATES ON TRANSITION TO NEW AUDITOR AND PORTFOLIO DEVELOPMENTS

At a Glance:

- **Following KPMG’s withdrawal from 2022 Audit at short notice, we are currently seeking regulatory approval for Moore Audit as a replacement;**
- **Fund split scheduled for end of summer, 2025;**
- **EUR 42.5 million loans recovered since January, 2024.**
- **Portfolio Developments:**
 - **Properties the fund has invested in;**
 - **Reimbursements of loans;**
 - **Additional loan proposals.**

KPMG Withdrawal Process

At the end of December, 2024 we received an email from KPMG stating that if we provided certain accounting information before January 6th, KPMG would be in a position to sign the audit by the third week of January. Afterwards, we received the draft of the 2022 Audit, in which KPMG stated they would be ready to sign the audit, but they would not give an opinion for 16% of the AUM of the fund. Also, they stated that the information requested from us at the end of December would not change the substance of the draft Audit, but merely the wording.

By the third week of January we were told that KPMG’s technical team was still reviewing the details, and on January 31st we talked to the KPMG partner in charge of the Audit, who stated he had received the letter we sent to all investors in early January informing them of the developments at the fund and also he had received the letter of complaint from December to the regulator, and after reviewing both documents he would come back to us with his comments. He subsequently told us that we should have let him know of both such communications (the letter of complaint we did in fact share with KPMG in October 2024, officially by certified mail) and was very disappointed by the “lack of trust,” and as a result he terminated our relationship and stopped the Audit. We discussed with our legal advisors Baker McKenzie and the regulator, and even though it is difficult to understand the situation where an Auditor quits days before he is supposed to sign the Audit, this is within KPMG’s rights.

In sourcing an alternative Auditor, we examined the credentials of Deloitte and [Moore Audit](#) in Luxembourg, which forms part of [Moore Global](#), the 11th-largest audit firm globally. Moore Audit has informally accepted working with us to complete the 2022 Audit, and once we have regulatory approval we will also seek investor approval.

We expect that the 2022 Audit will be completed in four to five months from when Moore Audit begins working, and the audit of 2023 will take not much more time since all the valuations are already accessible. We still predict the portfolio split will take two additional months from when the 2022 Audit of is completed.

Timings for October NAV Computation and Split of Portfolio

Due to the Auditor change, the timings are expected to take until the end of summer to have the 2022 Audit finished and then two additional months to complete the split, which means we are looking to have the split of the portfolio in November/December 2025.

Next Step for Auditor Change

As required, once the regulator has approved the new Auditor, we will convene a General Meeting of Shareholders to vote on the change from KPMG to Moore Audit, which has been set for June 16th. You should have all received such notice, and once the voting is complete, we will move ahead with the decision taken by investors: either to move ahead with the change of Auditor and the split, or to not move ahead and liquidate the fund. In the absence of agreement to change Auditor, we would have to liquidate the fund because without the Audit the split cannot occur.

Additionally, we have also requested that the regulator allows a side pocket to be created, since the split of the portfolio requires for the auditor to review the valuations, and for the 16% of the AUM KPMG did not want to give an opinion, the split would not be able to be completed. Therefore, if we do a side pocket with such loans, the split will be able to be completed. We do not yet have an answer from the regulator.

Status of Redemptions and Timeline

In the next two months we expect to make a partial repayment for the redemptions accepted as of February 2023. Such repayments are possible due to recoveries we expect to receive as per below, which are in the range of EUR 20 million.

Current Economic Situation

We are living in volatile times, where we mix good news (such as the new German government and the capacity to invest EUR 800 billion into the economy), with less positive news (such as the new US administration's tariff policies). We are unsure how the German sentiment will develop over the coming months, and if we will be able to see a change in sentiment that will bring investors into the real estate market again, together with a change of interest from banks to lend to developers. If such changes occur, that will be the news we have been waiting for in order for the market to start moving again and improve our recoveries, and for finding partners to complete the developments.

Portfolio Developments

Since the end of January, 2024 we have recovered the following amounts for seven loans. The last three of these have been recovered since January, 2025:

- Two loans amounting to EUR 5.6 million with an initial nominal value of EUR 6.6 million for the establishment of a commercial property;
- One loan amounting to EUR 16.2 million with an initial nominal value of EUR 17 million for the establishment of logistics platforms;
- One loan amounting to EUR 10 million with an initial nominal value of EUR 15 million for the establishment of a residential building;
- One junior loan was sold for EUR 2.35 million with an initial nominal value of EUR 4.5 million;
- One junior loan was sold for EUR 1.35 million with an initial nominal value of EUR 6.1 million, being a logistics center, which required demolishing and rebuilding at a larger scale than initially envisaged;
- One senior loan was sold for EUR 7 million with an initial nominal value of EUR 13.6 million, the discount being derived from the construction phase, as it was not implemented properly and losing fire protection authority approval lowered the expected price obtained, as covered in our prior report.

The current situation of the portfolio is the following:

Status	Number of Loans	Definition
Forced Auction	15	Which means the borrowers' properties will be sold at an auction, under the supervision of administrators appointed by the courts.
Insolvency sale	11	Which means a court-appointed insolvency administrator is taking over the "mother company" which may have several real estate projects, and the insolvency administrator will try to continue the business the best way possible by selling parts of the business to keep it alive and maximise the value of the company. This can take a significant amount of time.
Discounted Payoff/Arrangement solution	17	We are talking to the developer to find an arrangement.
Development by Emerald	5	The fund (i) took control of the underlying real estate assets or is exploring to do so, and (ii) is costing the completion of the project.
Sale of loans	1	A potential buyer wants to purchase the loan.
Settled	2	Properties are sold belonging to the same borrower, payment of purchase price in October 2025 by the latest.

Properties the Fund has Invested in

These are properties the fund has taken control of and we have invested capital in order to complete the projects, selling them once the assets have been leased:

1) This project for two loans for a total value of EUR 20 million for a commercial Centre has not had significant development since our last report. The Fund has executed its claim on the property, so this is now owned by the Fund. The refurbishment of the asset would have consumed a large amount of capital, therefore we have a strategic plan to obtain planning permission based on a new concept for the building as a hotel and retail center. This has been extensively discussed with the local Mayor and the major political parties in the region and has the support of the majority. The fund has successfully applied for the build permit and we will now look to sell, or alternatively go into a JV with a developer to complete the workout. We expect the permit to be obtained in the next two to three months.

2) One of the projects we took over, a loan of EUR 5 million, was for a hotel for which we undertook an agreement with a construction company to structure the refurbishment to the needs of a hotel management company. The construction company went bankrupt when the hotel work was 70% completed. We are now exploring how to finish the property and find a new operator, as the current operator we had a lease agreement with cancelled the contract due to the delays. We expect the hotel to be fully operational in Q2 2026. It will then take one to two years until the hotel is generating consistent income that can be presented to potential buyers, and then we will market the hotel to be leased. We expect a higher lease than the one we previously had, because the completed hotel will be higher grade and our previous operating company negotiated a more favorable deal. We have engaged a broker to look for another operator.

3) Loan of EUR 7 million consists of a conversion from a commercial building into holiday flats close to the Baltic Sea. Due to nine junior liens (we are senior) we have decided to acquire through auction, as buying the junior liens seems challenging, because it will take a long time to negotiate and take a lot of money. It is easier to go to auction because if only one of the nine junior lien holders says no, it paralyzes everything. Therefore, we decided to go to auction because at auction for the land charge we will get paid in full first and what is left will go to the junior lenders, if applicable. This strategy will ensure maximum value for the shareholders' funds. The building permit is already granted last week. The investment amount is limited as the shell construction is already in place which allows to sell units and take the first 30% prepayment of the sales price which can be used for construction of the flats, and the rest will be paid in tranches depending on the progress of the works. The estimated sales price will allow a repayment of the whole loan, including interest. Construction and pre-sale shall start immediately after auction in the 3rd quarter of 2025, and will be completed in 2nd or 3rd quarter 2026. The construction works will be refinanced with our pre-sales from the apartments as they are completed by the developer.

4) This loan of EUR 7.5 million was covered in the last report. In approximately three months we expect to know if the project will move ahead with the Munich Brewery, which intends to transform the building into residences on the upper floors, a restaurant with a beer garden on the ground floor, and a cellar with three commercial units in the ground floor that are already finished and leased. We are currently analysing the feasibility of this project with the brewery, based mainly on the construction costs of what the brewery proposes. We expect the permit to be granted in six months, and then the

construction would be 12-15 more months. We have not yet talked with the brewery as to how the project would move ahead, whether they provide all the equity, or we create something mixed between the brewery and the fund.

Reimbursements of Loans

The following loans are expected to be reimbursed over the next six months:

For the loan of EUR 1.95 million we detailed in the previous report, we need to apply for the auction to be repeated, which we expect to take place in October/November this year. The court value was already set in the prior auction but for the new auction we will ask the court to maintain the old value of EUR 2.9 million.

Loan of EUR 11 million was already written off significantly due to the insolvency of the construction company in October 2022, which left the building unfinished and deteriorating over time. The investment committee is due to review any potential bids coming this year.

Loan of EUR 20 million for a commercial property which is subject to a loan sale.

Loan of EUR 10 million for the construction of 13 terraced houses in Berlin, being still unfinished. The refinancing has not yet taken place but it is announced that it will be secured with payment of EUR 7 million by the end of June. To receive such payment, our land charge will have to move into junior position, and meanwhile we will get additional security until the properties are finished and sold and then the fund will receive the outstanding EUR 3 million.

Loan of EUR 7.15 million for the purchase of residential property in Berlin. The refinancing did not materialise and is now arranged with another bank and is expected to complete by the end of July. In this case as a first step the fund will receive by end of July a repayment of EUR 5 million, afterwards we will step back in ranking to junior, and we will obtain additional security until the rest of the nominal is paid from the sale of other projects belonging to the borrower.

Loan of EUR 20 million as second lien we explained in the previous report, receiving as the highest offer EUR 15 million, with EUR 5.5 million for the fund and the remaining for the senior bank loan, being executed by the end of June/early July with a closing expected six weeks afterwards. This is an office building that was supposed to be converted into a gaming hotel, but it did not happen because the energy costs for the small hotel increased significantly, making the hotel unprofitable. Our advantage is that the senior lender is under liquidation and thus is liquidating their portfolio as per order of the German banking regulator, and needs to speed up the process, allowing us to push for our junior loan to be repaid a portion, since the bank is not even getting its full nominal for his senior loan. If we had not negotiated such a price and went into auction (the time it needs an auction to happen was a problem for the bank) we would most likely have not been paid any sum. The buyer of the asset for EUR 15 million has not explained what he wants to do for the project, but seems a willing buyer.

Loan of EUR 7.2 million auction date is set for June 2025. We believe we will recover 50%-70% of nominal value. Currently this is a small hotel license but we expect people to buy it and change into residential, since looking at the surroundings and developments there we believe someone will find it attractive as residential as it faces a beach.

Additional Loan Proposals

Additional loans proposals we have been working on recovering include:

Loan of EUR 2.7 million for a logistics property, recovery of the nominal and some interest is very likely. Located near the Polish border, the current renter is DHL which is negotiating to extend the lease for 10 more years and with a higher rent, which we expect to be closed in four to six months. Afterwards the bank will be able to give a loan to the future buyer and we will be exited.

Loan of EUR 9.5 million, we expect to recover within the next six months, being a residential property in Berlin, with an expected recovery of the nominal and some of the interest likely. The bank is already in conversations with the renter to receive a mortgage and then he will repay us.

Loan of EUR 8.2 million for a retail property near Berlin, recovery of the nominal and some of the interest is likely. The owners are cancelling the current rental agreement to a discount chain, and there is a new lease contract under negotiations with one of the three biggest German food retail firms, with a higher rent, and thus, when completed there will be a bank loan and we expect to be repaid. The current discussions are of a lease agreement for 10-15 years. We expect in 12 months to be repaid the bank loan by the borrower.

We received a letter of intent (LOI) for a sale for three properties in the east of Germany in negotiation for at least 50% of the nominal, which is EUR 17.6 million. We are still in negotiations to receive a higher payout.

Second lien loan of EUR 6 million in the north of Germany expected EUR 600k from combined property and loan sale. We moved to a junior position and the borrower is in insolvency, the senior lender will lose about 75% of the 10 million loan as the property has deteriorated significantly in the last couple of years. We will get EUR 300k from one property from a loan sale and another EUR 300k where we are in senior position from a sale of 14 units in the property secured for our loan.