

2012 Annual Report |  
Fortress Caribbean Property Fund



Fortress Fund Managers is a Barbados-based investment manager. We have been providing top-ranked returns, open communication and accessible service to our clients since 1996.

We offer a range of funds and investments products to meet the needs of individuals and institutions. In each case, our main goal is to achieve consistent long-term returns for our clients. We do this by applying sound, disciplined processes to our investments in equities, fixed income and real estate. We offer products with global reach, and those that focus primarily on the Caribbean region.

Please feel free to contact us to learn more about this Fund, or any of our products.

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**2012**

Fortress Caribbean Property Fund Limited  
**2012**



# Invitation

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December 21st, 2012

Under the provisions of Clause 2 of the Articles of Fortress Caribbean Property Fund Limited, holders of Class "A" common property fund shares are entitled to vote only in special circumstances by virtue of Sections 202 (3) and 208 (3) of the Companies Act. Nevertheless, Fund Shareholders of Fortress Caribbean Property Fund Limited have traditionally been invited to formal meetings of the Fund.

The Directors have been advised that the procedure should be revisited in keeping with the Company's corporate documents and the industry's practice. Notwithstanding the above, the Directors of the Fund wish to make every effort to continue the cordial dialogue with Fund Shareholders that has been enjoyed from the inception of the Fund.

On this basis, the Fund Shareholders are cordially invited to meet with the Board to review and discuss the performance of the Fund during the preceding year, on Thursday, the 17th day of January, 2013 at 5:30 p.m. at the Savannah Beach Hotel, Hastings, Christ Church.

With Best Wishes for the Season.



Roger Cave  
Fortress Fund Managers Limited  
For and on behalf of the Board of Directors

# Investment Objectives & Fund Details

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Fortress Caribbean Property Fund Limited is a closed-end investment company registered with limited liability in Barbados under the provisions of the Mutual Funds Act of Barbados.

The investment objective of the Fortress Caribbean Property Fund is to achieve income and capital appreciation over the long term. The Fund is authorised to invest in real estate, Caribbean listed shares or open-ended funds, foreign listed shares or open-ended funds, unlisted shares of Caribbean companies, and government securities.

<b>FUND NAME:</b>	Fortress Caribbean Property Fund Limited
<b>FUND TYPE:</b>	Closed-End Fund
<b>LAUNCH DATE:</b>	August 20th 1999
<b>LAUNCH PRICE:</b>	\$1.00 per share
<i>Warrants Exercise Price:</i>	\$1.00 per share
<i>Rights Issue Price:</i>	\$1.40 per share
<b>NO. OF SHARES OUTSTANDING:</b>	55,652,768
<b>NET ASSETS – 30/9/2012:</b>	\$78,123,902
<b>NET ASSET VALUE PER SHARE – 30/9/2012:</b>	\$1.40 per share
<b>SHARE PRICE - 30/9/2012:</b>	\$0.85 per share
<b>STOCK EXCHANGE LISTINGS:</b>	Barbados Stock Exchange (BSE) Trinidad & Tobago Stock Exchange (TTSE)
<b>MANAGEMENT EXPENSES:</b>	
<i>Manager:</i>	0.75% per annum of the net assets of the Fund
<i>Investment Advisor:</i>	0.75% per annum of the net assets of the Fund
<b>FUND VALUATIONS:</b>	Monthly
<b>INDEPENDENT PROPERTY APPRAISALS:</b>	Annually & Semi-Annually
<b>NAV QUOTATIONS:</b>	Updated Monthly Internet: <a href="http://www.fortressfund.com">www.fortressfund.com</a>

# Directors & Administrators

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## **DIRECTORS**

Senator Geoffrey Cave, C.B.E., B.C.H., L.L.D. (Hon) - Chairman  
Paul Altman B.C.H., L.L.D. (Hon)  
Anthony Audain  
Trevor Carmichael Q.C., G.C.M.  
Maureen Davis  
Terry Hanton  
Algernon Leacock  
John Williams

## **BANKER**

CIBC FirstCaribbean International Bank  
(Barbados) Limited  
Broad Street  
Bridgetown  
Barbados

## **ATTORNEYS-AT-LAW**

Sir Henry deB. Forde, K.A., Q.C.  
Juris Chambers  
Fidelity House  
Wilkey Business Park  
St. Michael  
Barbados

## **INDEPENDENT AUDITORS**

PricewaterhouseCoopers SRL  
The Financial Services Centre  
Bishop's Court Hill  
St. Michael  
Barbados

## **INVESTMENT ADVISOR**

Altman Real Estate  
Property Consultancy Services Inc  
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St. James  
Barbados  
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Fax: 246-432-2147  
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## **PROPERTY MANAGER**

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## **INDEPENDENT VALUER**

Terra Caribbean  
Somerley  
Worthing  
Christ Church  
Barbados

## **INVESTMENT COMMITTEE**

John Williams  
Algernon Leacock  
Roger Cave

## **AUDIT COMMITTEE**

Anthony Audain  
Algernon Leacock  
John Williams

## **GOVERNANCE COMMITTEE**

Anthony Audain  
Trevor Carmichael Q.C., G.C.M.  
Algernon Leacock

## **FUND MANAGER & SECRETARY**

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## | Reports

# Directors' Report

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*“The Fortress Caribbean Property Fund had another challenging year in 2012 ...”*

The Fortress Caribbean Property Fund had another challenging year in 2012 recording a reduced loss of \$16,000 compared to a loss of \$2.9 million in 2011. The Fund's net assets decreased to \$78.1 million from \$79.4 million in the prior year. The net asset value (NAV) is now \$1.40 per share compared to \$1.42 per share at September 30th 2011.

The Fund's loss is primarily due to two main factors; revaluation losses on the Fund's investment properties of \$0.9 million and impairment losses on the Fund's real estate available for re-sale of \$1.9 million. Together, these non-cash items have resulted in a \$2.8 million charge to the Fund's net income.

The Fund generated cash from its operating activities of \$4.4 million most of which was used in the repayment of loans and the payment of dividends. The Board has once again declared a dividend of \$0.02 per share with a payment date of December 21th, 2012.

The Fund's 'Investment Properties' are detailed in note 5 of the financial statements. Other than a few exceptions, most of these assets have recorded further fair value losses in 2012. We were fortunate that the CS&C JV properties held their value largely due to the existence fixed head-tenant contracts. The Chattel Village lease has been extended for a further 10 years, for which the Fund paid a lease premium of \$400,000. As a result of the lease extension this investment recorded a revaluation gain of \$890,000 for this financial year.

The Fund's properties classified as 'Real Estate available for re-sale' are detailed in Note 6 of the financial statements. The majority of these investments recorded impairment losses which reflect the overall weakness in the demand and pricing for vacation homes in Barbados and St. Lucia. Our Villas on the Green properties and the attached residual lands were further written down in 2012 by \$1.1 million compared to a \$3.4 million write-down in 2011. We have reduced the selling prices of these units and of several of the other properties. However, despite the price reductions and having listed the properties with several of the island's leading real estate agents, we have had no success in achieving any sales.

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The market conditions locally, in the region and internationally, remain extremely difficult despite the incentive of very low interest rates. The real estate markets in selected areas such as very high-end properties in New York and London are doing well, but outside of that, it really is a case of little or no demand and significant discounting to get any deals done.

While there is excess liquidity in the banking systems, commercial banks are being very cautious in new lending due to increasing numbers of non-performing loans and related delinquency. With business conditions being so difficult and the absence of growth, few new projects are attractive enough to be able to service debts and make a reasonable return.

The economic conditions in the United States (US) have maintained although the recovery has been extremely weak by historical standards and has been driven by excessive money printing by the Federal Reserve (QE3). Thankfully there are now some signs that the housing market in the United States has started to recover. There still remain a large number of foreclosed homes that have to be cleared and many home mortgages still exceed the value of the related properties. It will take many more years for the excessive inventory to be cleared but at least there appears to be a bottom and even some growth in selected areas of the country.

The situation in Europe is still very difficult especially in the highly indebted countries in southern Europe including Greece, Spain, Italy & Portugal. The painful austerity measures are causing rising unemployment and further recessions and it will be many years and several more bail-outs before these countries can get their fiscal deficits in order.

The government debt dynamics for many of our Caribbean economies resemble those of southern Europe and during the past year we have witnessed the harsh restructuring of St. Kitts government debt, Grenada being late on a coupon payment, Belize missing an interest payment and in July Barbados was downgraded to below investment grade by S&P and is now effectively a “junk” status as it is known in the credit markets.

Sadly, few, if any of the regions debt problems have been solved which means that very significant challenges lie ahead and with the developed market economies still so weak, there is little basis on which one could reasonably expect any positive changes in the growth of the regional economies in the near term.

## **FINANCIAL REVIEW**

Total investment income was \$7.4 million compared \$6.3 million in the prior year (an increase of 17%) mainly due to reduced fair value losses of \$1.5 million.

Total expenses decreased to \$5.7 million, down from \$7.6 million in the prior year. The majority of this decrease was due to reduced impairment losses on real estate available for resale of \$2.2 million. Most expense items were down from the prior year other than the net carrying costs of real estate available for

## Directors' Report Cont.

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re-sale which increased by \$176,165 primarily due to the costs of running Villas on the Green development in St. Lucia.

The Consolidated Statement of Financial Position remains very solid with total assets of \$113 million and total liabilities of only \$20.1 million. The Fund's overall debt situation continues to improve as the loans on the CS&C JV properties are paid down. One of the tranches on the Fund's bond payable matured in July 2012 but the bond holder exercised their option to roll it for a further three years.

### **PROPERTY HIGHLIGHTS**

We reported last year that we were going to take an aggressive position to Villas on the Green and we reduced our prices and appointed new agents to manage both the sales and the property. Unfortunately, we had success with neither and a new managing agent has been appointed from May 1st 2012. We have just completed significant repairs on several of the unsold units and we hope that with further reductions in selling prices that we will be able to move a few more units this winter.

We are disappointed that we have not yet recorded any sales of our 16 lots in the commercial sub-division done of the CS&C lands at Lower Estate. The market remains extremely weak and until there is renewed confidence in the business sector in Barbados, little activity will be seen for new projects of this kind.

Our plans for a commercial development on the six acre site at Wotton have fallen through mainly because we were unable to secure an addition road access to and from the site. We believe it is an excellent location on the highway which will only increase in value over time and we will explore other options to maximize the value from this property.

Our CWBET Building Joint Venture only has four years remaining on the lease and it appears unlikely that C&W will renew the lease when it expires in 2016. We have engaged consultants, engineers and land planners to review the buildings and the site so that we can explore all the alternatives for the redevelopment and upgrading of the properties to maximize its best use going forward.

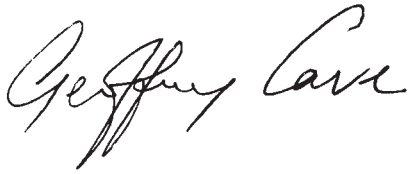
### **LOOKING FORWARD**

Overall, the market conditions in Barbados, the Caribbean and the developed countries of the US, UK & Europe continue to be very difficult and the debt levels of most countries continue to worsen rather than improve.

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The excessive money printing and the zero interest rates by central banks in Japan, UK, Europe and the US have until now been unsuccessful in reviving the world economy to 'normalised' levels of growth.

The Fund is currently trading at \$0.84 per share, a 40% discount to the Fund's Net Asset Value (NAV) of \$1.40 per share which is very attractive for a long-term investor. While we did buy-back some shares during the year, we hope to be able to re-purchase more in the coming year assuming we can realize additional cash from the sale of some of the non-income producing properties.

A handwritten signature in black ink, reading "Geoffrey Cave". The signature is written in a cursive, flowing style with a large initial 'G'.

Geoffrey Cave  
Chairman

# Investment Advisors' Report

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*"The business outlook shows no immediate signs of recovery..."*

## **CURRENT MARKET CONDITIONS**

In the 2011 Annual Report the Advisors indicated that "the next five years will be challenging". The emphasis was on improving the performance of the Funds assets while increasing reliance on the income producing assets and reducing assets available for resale.

The Advisors also cautioned on weakness in the Caribbean economies where domestic demand has shrunk. These conditions have deteriorated further in the last 12 months. The majority of the Fund's assets are in Barbados where the recessionary head winds still prevail and the domestic economic indicators including inflation, unemployment, GDP, and National debt have continued to worsen. The recent downgrade by S&P is evidence of the difficult economic conditions.

The business outlook shows no immediate signs of recovery and business closures have accelerated in the last 12 months along with clear signs that the commercial banks are now prepared to enforce their security by appointing receivers and liquidators for non-performing loans. There is a clear downturn in the offshore financial services sector exhibited by the departure of a number of IBCs from the jurisdiction and also declines in tourism revenues as a result of declining arrivals of both long stay and cruise.

## **IMPACT ON PROPERTY VALUES**

### *Local Residential*

Sales of lots and low to middle income residential properties have remained at very low levels even though the banks are reducing mortgage lending rates. Several residential subdivisions have been removed from the market and new developments have exhibited poor absorption of home stocks.

There is evidence that there is selective buying by Barbadians who have capital on which they cannot currently make an adequate return

## Investment Advisors' Report Cont.

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### *Luxury Residential*

The luxury residential market continues to be challenged by a weak economy in Europe and Great Britain which now seems to be slipping back into recession. Transaction volumes in Barbados have been steady but in Grenada, St Lucia and Tobago are almost non-existent. Demand in Antigua and St Kitts have improved largely driven by the economic citizenship program. As a Caribbean microcosm all other major development sites in St. Lucia are for sale or in receivership with the exception of Sugar Beach at the Jalousie Plantation and Freedom Bay which are fractional ownership programs based around sales by independent financial advisors and stimulated by tax schemes.

Listings of re-sales of condominiums and resort homes continue to flood the market for new sales.

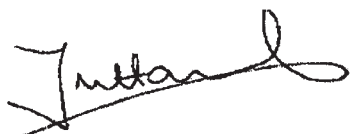
Values of luxury residential properties are now at or below replacement cost and we do not anticipate further value reductions other than of distressed properties.

### *Outlook and Opportunities*

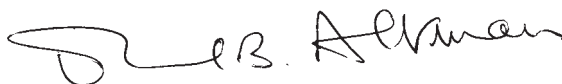
In 2012/13 the Fund is well positioned to deliver on the consolidation of its available for sale properties over the last 12 months. VOTG has been refurbished, Rockley Cane Garden will receive its planning permission and firmer decisions should be forthcoming on BET Wildey and Canmore.

In keeping with the stated strategy the Fund may dispose of a number of its residential properties provided market conditions do not indicate significant write offs. The Fund is no longer evaluating new residential purchases and instead is focused on examining opportunities to acquire investment properties at below market value which generate good cash flows

We expect the Fund's assets to maintain similar values to this year and we should seek to leverage the value of the BET JV with a property acquisition with good yields.



Terry Hanton



Paul Altman

# Property Report

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## The CWBET Building

Location - Wildey, Barbados  
Fair Market Value - \$34.9 million  
Tenantable Space - 84,838 square feet

The Fund owns a 57% share in The BET Joint Venture that owns this property. Cable & Wireless has leased back the building for a fifteen year term, ending in October 2016, with annual rental increments of 5%.

During the twelve months ended September 30, 2012 The BET Joint Venture earned \$4.8 million (2011 - \$4.8 million) in gross rental income and the valuers have revalued the building at \$34.9 million (2011 - \$35.5 million) resulting in a fair value loss of \$600,000. The joint venture has made a profit after interest of \$4.2 million compared to \$3.8 million in 2011. This represents an average return on equity of 12% in this financial year (2011 - 13%), including fair value losses.

The independent valuer has reduced the value of the property assuming a reduction in potential rents after the end of the current lease. Discussions are on-going with LIME about the potential renewal of their lease beyond 2016. The building is ideally located and the Board has commissioned a study into the potential uses of the property after the end of the lease to LIME. The study will be completed at the end of January 2013.



## No. 24 Broad Street

Location - Bridgetown, Barbados  
Fair Market Value - \$8.5 million  
Tenantable Space - 14,000 square feet  
Property Type - Commercial

No 24 Broad Street is in the centre of Bridgetown. It encompasses 14,000 square feet of office and retail space. The building is leased on a triple net to Duty Free Caribbean who sublets the ground floor to Colombian Emeralds International on a seven years lease ending August 2016. Under this lease, payments will increase at an average of 3% per annum. Additional rent is also payable in respect of any cost incurred by the developer for building upgrades.

The valuers have maintained the value of the property at \$8.5 million.





### Carlisle House

Location - Bridgetown, Barbados  
 Fair Market Value - \$12.0 million  
 Tenantable Space - 48,426 square feet  
 Property Type - Commercial

The property earned \$0.8 million in gross rents, which is the same as prior year. In 2012 there was a fair value loss of \$400,000 whereas in 2011 there was no fair value adjustment.

As a result of government's decision to consolidate some of their departments along with LIAT's decision to close all of their region-wide ticketing offices, the occupancy level at Carlisle House fell from 98% to the current level of 78%. As a result, 9,846 sq. ft. of space is currently available.



### Holder's site

Location - St. James, Barbados  
 Fair Market Value - \$2.25 million  
 Size - 158,000 square feet  
 Property Type - Residential Type

This 3 ½ acre site has expansive views over Holder's Polo Field, the Sandy Lane Green Monkey golf course and the west coast. The Fund has no immediate plans for the property but intends to demolish the building to improve the presentation of the lot for sale.

The valuers have re-valued the property at \$2.25 million (2011 - \$2.5 million) resulting in a fair value loss of \$250,000 (2011 - \$500,000)

## Property Report Cont.

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### Carter's & Cave Shepherd Buildings

Location - Various

Fair Market Value - \$62.75 million (entire joint venture)

The Fund holds 24% interest in The CS&C Joint Venture, a real estate partnership, which owns land and buildings at five locations in Barbados. These properties were previously owned by Carter Holdings Limited and Cave Shepherd & Co. Limited. The properties represent a diversified portfolio of prime real estate comprising land and 250,000 square feet of retail, office and warehouse space.

Four of the locations are leased to major retailers in Barbados on long term leases and the four properties have been valued at \$62.75 million, maintaining their 2012 value (with a 2011 - \$800,000 fair value loss).

During the year ended September 2012 the Fund's proportionate share of the joint venture's gross rental income amount to \$1.4 million (2011 - \$1.4 million) with no fair value adjustment for 2012. The Fund earned a profit of \$1.1 million (2011 - \$1.2 million) from our share of the joint venture.

In the first quarter of 2012 the Barbarees Hill service station will be substantially upgraded at no cost to the Fund, as Esso is bearing the cost.



### Lower Estate Lands

Location - Lower Estate

Carrying Value - \$8.3 million (entire joint venture)

The Fund holds 24% interest in these lands through the CS&C Joint Venture. It is a 13 acre site in Lower Estate with planning permission for sub-division to 16 commercial lots. During the year the site was sub-divided to include roads and services.

The Lands are included in real estate available for re-sale at adjusted costs as the lots are being actively being marketed for resale. The Funds interest in the land at September 30, 2012 is \$2million.



### Alanridge Canmore Villa - Unit #5

Location - Alberta, Canada

Fair Market Value - CDN\$860,000

Tenantable Space - 2,436 square feet

Property Type - Residential Property

The Fund purchased this three bedroom condominium on the Three Sisters Golf Course in Canmore, Alberta, Canada in 2004. Three Sisters is in the heart of the Canadian Rockies. The unit is located behind one of the greens of the golf course. The unit was completed at the end of 2006 and is being held for its long term capital appreciation. It has also been leased on a number of short term rentals.

It is now valued at CDN\$0.86 million (2011 CDN\$0.95 million) and recorded in the Fund at BDS\$1.7 million. The gross rental income amounted to \$61,902 (2011 - \$59,530). The Fund has recorded a fair value loss of \$128,074 (2011 - \$55,189) including foreign exchange gains / losses.

The Fund has conducted market research on the potential sale of this unit and the market remains strong in Canmore. The Fund may well sell this property during 2013, in pursuance of its stated goal of reducing dependence on residential property.



### Chattel Village

Location - Holetown, Barbados

Fair Market Value - \$1.76 million

Tenantable Space - 8,000 square feet

Property Type - Commercial

The Chattel Village remains one of the Fund's most visible and attractive assets. Located in the heart of Holetown on the West Coast it is highly in demand by prospective tenants and remains fully tenanted.

The property earned gross rental income of \$513,000 (2011 - \$490,000) as the property was fully occupied for the year. This property presents well and has been a good success for the Fund.

During the year the lease with Sunset Crest Property Owners Inc was renegotiated and extended by 10 years to August 2026.



## Property Report Cont.

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### Sunset Mall

Location - Sunset Crest, St. James  
Fair Market Value - \$9.4 million (entire joint venture)  
Property Type - Commercial building

The Fund has invested \$936,000 for 24% of the equity in a joint venture, set up with The CS&C partners to acquire a mall in Sunset Crest St James. The purchase was completed during the year 2009 and the property was rented on a 10-year lease to Duty Free Caribbean from February 2009.

The original purchase included plans for a \$2 million renovation. The first phase of this was executed during the year and has been well received. The partnership receives rent increments of 10% of any costs spent. The property has been valued at \$9.4 million, resulting in fair value gain of \$127,481 (2011 - \$52,894 loss).

During the year ended September 2012 the Fund earned \$208,003 (2011 - \$204,157) in gross income and recognized \$30,595 in fair value gains (2011- \$12,695 fair value loss) resulting in \$176,239 (2011 - \$138,145) of profit after expenses from our share of the joint venture.



### Lion Castle Lot 21

Location - St. Thomas  
Fair Market Value - \$1 million  
Property Type - Undeveloped Residential lands

This lot was acquired at the Lion Castle Polo Development in 2005. It overlooks the northern polo goal and sits on top of a coral stone escarpment with panoramic views of the south coast.

Plans have been developed for the lot which has planning permission. The Board has no immediate plans to develop the property.

The valuers have decrease the value to \$1.0 resulting in a fair value loss of \$150,000 (2011 - \$225,000).



### Apes Hill Polo Villa

Location - Waterhall, St. Thomas  
Fair Market Value - \$1.7 million  
Property Type - Residential Unit

During 2008 the Fund completed the purchase of a three bedroom villa overlooking the polo field at Waterhall, St. James for \$1.7 million. It has been furnished and is available for sale.

The unit is being kept for future sale, when the Apes Hill community matures. In the mean time it is available for rent.

The valuers have decreased the value of the property from \$1.8 million to \$1.7 million, resulting in fair value loss of \$100,000 (2011 - nil).



### Apes Hill Land

Location - Apes Hill, St. Thomas  
Fair Market Value - \$1.1 million  
Property Type - Undeveloped Residential Lands

This 20,800 square foot lot is located next to the sixth tee at the Apes Hill Golf Club. Plans have been developed for a four bedroom house and planning approval has been received from Town & Country Planning and from the Architectural Review Board of Apes Hill. The property is currently being offered for sale in accordance with the Fund's stated goal to reduce dependence on residential properties

The land is now included at its fair market value of \$1.1 million resulting in \$150,000 fair value loss (2011 - \$310,000).

# Property Report Cont.



## Villas on the Green

Location - Cap Estate, St. Lucia

Carrying Value - \$10.2 million

Property Type - Residential Development

The Fund acquired an 18 acres site adjacent to the third and seventh hole at the Cap Estate Golf Club in St. Lucia. A master plan community was approved for 72 homes and the Fund has developed 20 townhouses in Phase I of this plan. The 20 townhouses were completed in 2008 with seven units sold, with one additional sale completed in the current year.

The 12 unsold units remain available for sale, however six of the unsold units are rented short term in order to mitigate holding costs. The remaining units were upgraded during the year to keep them in good condition for sale/rental. The development incurred \$413,651 (2011 - \$235,207) in property maintenance & upgrade, administrative and other holding costs, and received rental income of \$105,402 (2011 - \$132,807) in rental income. Together with debt service this resulted in a net loss after interest of \$478,746 (2011 - \$315,003) from the Villas on the Green development.

Real estate available for re-sale is carried at lower of cost or net realisable value. At year end an independent valuation was performed on the units and the land. Based on these values the Villas on the Green property was subsequently adjusted to its net realisable value resulting in an impairment loss of \$1.1 million (2011 - \$3.5 million) being recognised.

The prices of the villas have been marked down to stimulate sales activity as market conditions in St Lucia are very weak. The Board would like to exit this asset but may have to wait until market conditions improve. The Board proposes to obtain planning approval for the sub-division of the remaining lands into golf frontage lots for re-sale. It is anticipated that the approval will be obtained early in the New Year.



### Wotton Lands

Location - Wotton, Christ Church

Carrying Value - \$6.8 million

Property Type - Undeveloped commercial lands

In 2008 the Fund completed the purchase of 6.2 acres of land on the ABC Highway with permission for offices. A sub division plan has been prepared and we are soliciting comments from the agency community on the draft plan. The property offers an excellent joint venture opportunity. Planning approval for subdivision into 6 commercial lots is about to be achieved.

Real estate available for re-sale is carried at its cost of \$6.8 million (2011 - \$6.8 million) which is lower than its net realisable value.



### Rockley Central Area

Location - Rockley, Barbados

Carrying Value - \$2.9 million (entire joint venture, remaining lands)

Property Type - Undeveloped lands

The Rockley Joint Venture is a 50:50 joint venture with Dowding Estates and Trading Company Ltd. The joint venture presently owns the central facilities site (having sold the Worthing Great House site to the Fund).

The two and a half acres site, formerly the central facilities location, remains undeveloped and is earmarked as Phase III of the development. The re-development is in its early stages, and the date for the commencement of this phase has not yet been determined but subdivision approval has just been received.

During the year \$47,755 (2011 - \$49,254) was spent by each partner of the joint venture on maintenance, property, administrative and other holding costs. Gross rental income of \$42,987 (2011 - \$40,219) was earned to defray such costs.

Real estate available for re-sale is carried at lower of cost or net realisable value. The Rockley Central facilities was adjusted to its net realizable value of \$2.9 million, resulting in an impairment loss of \$146,218 (2011- nil) realised by each partner.



## Property Report Cont.

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### Lime Grove Hillside Villa

Location - Lime Grove, St. James

Carrying Value - \$1.35 million

Property Type - Residential Unit

The Fund owns Limegrove Hillside Villa 6 and title will be legally transferred in the near future. The Fund has possession of the unit during the year and commenced rental of it, to defray costs, in July 2011. The unit is listed for sale with multiple real estate agents.

Real estate available for re-sale was adjusted to its net realizable value of \$1.35 million, resulting in a \$457,000 impairment loss (2011 – nil).



### Rockley Cane Gardens

Location - Rockley, Barbados

Carrying Value - \$2.5 million

Property Type - Undeveloped lands

Worthing Great House site is earmarked as Phase II and is to be developed as a new cluster called Cane Garden.

The Rockley Central facilities spent \$56,863 (2011 - \$100,717) on professional fees in relation to the planned development, as well as property, administrative and other holding costs.

Real estate available for re-sale is carried at lower of cost or net realisable value. At year end an independent valuation was performed on the land. Based on this value the Cane Gardens site value was subsequently adjusted to its net realisable value of \$2.5 million, resulting in an impairment loss of \$230,000 (2011 - \$678,716) being recognised.





### Canouan

Location - Canouan Island, St. Vincent & the Grenadines

Carrying Value - \$3.0 million

Property Type - Undeveloped residential lands

The Fund purchased a 35% interest in this 3.92 acre site with spectacular views of the Grenadines.

The land has been classified as an investment in an associated company and is carried at cost which is lower than its net realisable value. The Fund's portion of the cost is \$3.0 million. A spectacular 5 star new hotel at this resort will be opened in the early part of 2013 and it is anticipated that there will be substantial interest in this lot at values well above current carrying cost.

October 1, 2012

The Board of Directors  
Fortress Caribbean Property Fund  
Carlisle House  
Bridgetown

Dear Members of the Board,

As instructed we have conducted appraisals of the properties of the Fortress Caribbean Property Fund and we have formed an opinion of their market value as of September 30<sup>th</sup> 2012. In accordance with the International Valuation Standards Council (2011), market value is defined as:

*The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after property marketing and where the parties had each acted knowledgeably, prudently and without compulsion.*

We understand that you will be using these values to calculate the net asset value of the fund as at the valuation date. We have assumed that all information provided by the Property Managers representing the Fund is accurate and this information has been included in our report. Our opinion is subject to the limiting conditions attached to the detailed reports.

Generally, the three accepted approaches for estimating market value of real property have been applied. These indicators of value were reconciled to arrive at the final value estimate for each property. In the case of the leasehold property, Chattel Village, the net economic benefit of the lease was capitalized in order to estimate the value.

The properties appraised were:

- |                               |                                |                        |
|-------------------------------|--------------------------------|------------------------|
| • Carlisle House              | • Chattel Village              | • Sunset Crest Plaza** |
| • Holders Cottage             | • No. 24 Broad Street          | • BET Building         |
| • Carter & Co; (3 Locations)* | • Cave Shepherd, Broad Street* | • Canmore Property***  |
| • Apes Hill Lot 1-4           | • Apes Hill Polo Villa 3       | • Lion Castle Lot 21   |

\* 24% interest in properties at Wilkey, High Street, Barbarees Hill, & Broad St.

\*\* 24% interest in the Sunset Crest Shopping Plaza

\*\*\* Reviewed the appraisal completed in Canada

In our opinion, the market value of the Fortress interest in the above listed properties is **\$82,275,571** as of September 30, 2012.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Mallalieu".

Andrew W. Mallalieu, MRICS  
Managing Director

**Terra Caribbean (Barbados) Limited**

'Somerley', Worthing, Christ Church, BB15009, Barbados  
Tel: (246) 434-9000 | Fax: (246) 430-3758

Newton House, Battaleys, St. Peter, BB26094, Barbados  
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# Financial Statements





## **INDEPENDENT AUDITOR'S REPORT**

### **To the Shareholders of Fortress Caribbean Property Fund Limited**

We have audited the accompanying consolidated financial statements of Fortress Caribbean Property Fund Limited which comprise the consolidated statement of financial position as of September 30, 2012 and the consolidated statements of changes in equity, comprehensive income, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

#### ***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 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's 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 the auditor's judgment, 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, the auditor considers 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.

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PricewaterhouseCoopers SRL, The Financial Services Centre, Bishop's Court Hill, P.O. Box 111, St. Michael, BB14004, Barbados, West Indies  
T: +246-626-6700, F: 246-436-1275, [www.pwc.com/bb](http://www.pwc.com/bb)



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fortress Caribbean Property Fund Limited as of September 30, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Price Waterhouse Coopers SRL*

December 21, 2012  
Bridgetown, Barbados

# Fortress Caribbean Property Fund Limited

## Consolidated Statement of Financial Position

As of September 30, 2012

(expressed in Barbados dollars)

	2012 \$	2011 \$
<b>Assets</b>		
Investment properties (note 5)	82,275,571	82,972,727
Real estate available for re-sale (note 6)	24,355,688	26,292,358
Investment in associated company (note 9)	2,999,625	2,999,625
Investments (note 10)	581,090	1,654,841
Accounts receivable and prepaid expenses	850,231	515,228
Short term deposits (note 11)	49,200	241,200
Cash and cash equivalents (note 12)	2,359,338	2,611,674
<b>Total assets</b>	<b>113,470,743</b>	<b>117,287,653</b>
<b>Liabilities</b>		
Loans payable (note 13)	17,550,931	19,173,635
Accounts payable and accrued expenses	1,293,836	1,921,232
Security and advance deposits	1,267,708	1,345,797
<b>Total liabilities</b>	<b>20,112,475</b>	<b>22,440,664</b>
<b>Total assets less liabilities</b>	<b>93,358,268</b>	<b>94,846,989</b>
<b>Equity</b>		
<b>Capital and reserves attributable to the Fund shareholders</b>		
Share capital (note 18)	66,522,072	66,718,500
Retained earnings	11,601,830	12,682,539
<b>Total shareholders' funds</b>	<b>78,123,902</b>	<b>79,401,039</b>
<b>Non-controlling interests</b>	<b>15,234,366</b>	<b>15,445,950</b>
	<b>93,358,268</b>	<b>94,846,989</b>
<b>Net asset value per share (note 19)</b>	<b>1.40</b>	<b>1.42</b>

The accompanying notes form an integral part of these consolidated financial statements.

Approved by the Board of Directors on December 21, 2012



Director



Director

# Fortress Caribbean Property Fund Limited

## Consolidated Statement of Changes in Equity

For the year ended September 30, 2012

(expressed in Barbados dollars)

	Attributable to Fund shareholders			
	Share capital \$	Retained earnings \$	Non-controlling interests \$	Total \$
<b>Balance - September 30, 2010</b>	<b>66,718,500</b>	<b>17,305,322</b>	<b>14,755,061</b>	<b>98,778,883</b>
Dividends declared (3.0 cents per share)	—	(1,674,513)	—	(1,674,513)
Distributions to non-controlling interests	—	—	(924,500)	(924,500)
Total comprehensive (loss)/income for the year	—	(2,948,270)	1,615,389	(1,332,881)
<b>Balance - September 30, 2011</b>	<b>66,718,500</b>	<b>12,682,539</b>	<b>15,445,950</b>	<b>94,846,989</b>
Repurchase of shares	(196,428)	51,745	—	(144,683)
Dividends declared (2.0 cents per share)	—	(1,116,342)	—	(1,116,342)
Distributions to non-controlling interests	—	—	(1,999,500)	(1,999,500)
Total comprehensive (loss)/income for the year	—	(16,112)	1,787,916	1,771,804
<b>Balance - September 30, 2012</b>	<b>66,522,072</b>	<b>11,601,830</b>	<b>15,234,366</b>	<b>93,358,268</b>

The accompanying notes form an integral part of these consolidated financial statements.



# Fortress Caribbean Property Fund Limited

## Consolidated Statement of Comprehensive Income

For the year ended September 30, 2012

(expressed in Barbados dollars)

	2012 \$	2011 \$
<b>Revenue</b>		
Net rental income (note 15)	8,195,495	7,934,420
Fair value losses on investment property (note 5)	(857,479)	(2,316,027)
Net gain on sale of real estate available for re-sale (note 16)	–	262,593
Net gain on financial assets at fair value through profit or loss (note 10)	76,765	(31,532)
Interest income	28,859	80,547
Dividend income	261	367
Other income	3,967	331,118
<b>Total investment income</b>	<b>7,447,868</b>	<b>6,261,486</b>
<b>Expenses</b>		
Interest expense	1,288,353	1,471,504
Impairment loss on real estate available for re-sale (note 6)	1,954,368	4,173,249
Fund management fees (note 17)	595,465	630,862
Investment advisor fees (note 17)	595,465	630,862
Net carrying costs of real estate available for re-sale (note 16)	484,365	308,200
Lease premium expense	400,000	–
Professional fees	295,686	317,143
Directors and subcommittee fees	46,000	46,000
Office and administrative expenses	16,362	16,547
<b>Operating expenditure</b>	<b>5,676,064</b>	<b>7,594,367</b>
<b>Total comprehensive income/(loss) for the year</b>	<b>1,771,804</b>	<b>(1,332,881)</b>
<b>Attributable to:</b>		
Class “A” common property fund shareholders	(16,112)	(2,948,270)
Non- controlling interests	1,787,916	1,615,389
	<b>1,771,804</b>	<b>(1,332,881)</b>
<b>Earnings per share - basic and diluted (note 19)</b>	<b>0.00</b>	<b>(0.05)</b>

The accompanying notes form an integral part of these consolidated financial statements.

# Fortress Caribbean Property Fund Limited

## Consolidated Statement of Cash Flows

For the year ended September 30, 2012

(expressed in Barbados dollars)

	2012 \$	2011 \$
<b>Cash flows from operating activities</b>		
Total comprehensive income/(loss) for the year	1,771,804	(1,332,881)
Adjustments for:		
Fair value losses on investment property	857,479	2,316,027
Net gain on sale of real estate available for re-sale	—	(262,593)
Impairment loss on real estate available for re-sale	1,954,368	4,173,249
Net (gain)/ loss on financial assets at fair value through profit or loss	(76,765)	31,532
Interest income	(28,859)	(80,547)
Dividend income	(261)	(367)
Interest expense	1,288,353	1,471,504
Operating income before working capital changes	5,766,119	6,315,924
Net (increase) /decrease in accounts receivable and prepaid expenses	(336,600)	749,460
Net (decrease)/ increase in accounts payable and accrued expenses	(661,137)	725,717
Net (decrease)/ increase in security and advance deposits	(15,244)	78,516
Additions to investment properties	(160,323)	(404,920)
Purchases/additions to real estate available for re-sale	(17,698)	(2,244,358)
Net proceeds from sale of real estate available for re-sale	—	2,863,828
Increase in investment in associated company	—	(2,999,625)
Purchase of investments	—	(2,431,600)
Proceeds on sale of investments	1,150,516	1,254,158
Cash generated from operations	5,725,633	3,907,100
Interest received	30,457	154,410
Interest paid	(1,335,632)	(1,474,967)
Dividends received	261	367
<b>Net cash generated from operating activities</b>	<b>4,420,719</b>	<b>2,586,910</b>
<b>Cash flows from investing activities</b>		
Decrease in short-term deposits	192,000	4,402,210
<b>Net cash generated from investing activities</b>	<b>192,000</b>	<b>4,402,210</b>
<b>Cash flows from financing activities</b>		
Distributions to non-controlling interests	(1,999,500)	(924,500)
Repurchase of shares	(144,683)	—
Dividends paid	(1,116,342)	(1,674,513)
Loan advances received	144,000	72,000
Repayment of loans	(1,748,530)	(3,410,900)
<b>Net cash used in financing activities</b>	<b>(4,865,055)</b>	<b>(5,937,913)</b>
<b>Net (decrease)/increase in cash and cash equivalents- carried forward</b>	<b>(252,336)</b>	<b>1,051,207</b>

# Fortress Caribbean Property Fund Limited

## Consolidated Statement of Cash Flows

For the year ended September 30, 2012

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(expressed in Barbados dollars)

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>Net (decrease)/increase in cash and cash equivalents - brought forward</b>	<b>(252,336)</b>	<b>1,051,207</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>2,611,674</b>	<b>1,560,467</b>
<b>Cash and cash equivalents - end of year</b>	<b>2,359,338</b>	<b>2,611,674</b>

The accompanying notes form an integral part of these consolidated financial statements.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 1 Incorporation and principal activities

Fortress Caribbean Property Fund Limited “the Fund” was incorporated on May 7, 1999 and is registered under the Mutual Funds Act of Barbados as an authorised mutual fund. It commenced operations on August 20, 1999. The Fund maintains its registered office at 1<sup>st</sup> Floor, Carlisle House, Hincks Street, Bridgetown, Barbados. The Fund’s shares are listed on the Regular Market of the Barbados Stock Exchange and the Trinidad and Tobago Stock Exchange.

The investment objective of the Fund is to achieve income and capital appreciation over the long term from a portfolio of real estate property and other securities in the Caribbean and internationally.

### 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 years presented unless otherwise stated.

#### a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of certain financial assets held at fair value through profit or loss and investment properties which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund’s accounting policies. Although these estimates are based on management’s best knowledge of current events and conditions, actual results could differ from these estimates.

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.

#### *Standards, amendments and interpretations that are issued but not yet effective which may be relevant for the Fund’s operations*

- IFRS 10, ‘Consolidated financial statements’ builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 was issued in May 2011 and is applicable from January 1, 2013. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Fund is yet to assess IFRS 10’s full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 2 Summary of significant accounting policies ...continued

#### a) Basis of preparation ...continued

*Standards, amendments and interpretations that are issued but not yet effective which may be relevant for the Fund's operations...continued*

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and is applicable from January 1, 2015. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Fund is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.
- IFRS 11, Joint Arrangements - IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. IFRS 11 was issued in May 2011. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to net assets of the arrangements and hence equity account for its interest. Proportional consolidation of joint ventures is no longer allowed. The Fund is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 was issued in May 2011. The Fund is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 13, 'Fair value measurement', issued in May 2011. The standard explains how to measure fair value for financial reporting and introduces significantly enhanced disclosure about fair values. It does not address or change the requirements on when fair values should be used. IFRS 13 has been issued to provide a single source of guidance for all fair value measurements and to clarify the definition of fair value. The standard is not applicable until 1 January 2013, but is available for early adoption.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 2 Summary of significant accounting policies...continued

#### b) Foreign currency translation

##### *Functional and presentation currency*

Items included in the financial statements of the Fund and its subsidiary companies are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The consolidated financial statements are presented in Barbados dollars which is the Fund's functional and presentation currency.

##### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. 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 statement of comprehensive income.

Translation differences on non-monetary financial assets such as equities held at fair value through profit or loss are recognised in the statement of comprehensive income as part of the fair value gain and loss.

#### c) Investments

##### *i) Classification*

The Fund's investments in equity securities and other mutual funds have been classified as financial assets at fair value through profit or loss in accordance with International Accounting Standards 39 (IAS 39), Financial Instruments: Recognition and Measurement.

Financial assets in the category at fair value through profit or loss have been so designated by management at inception since the assets form part of the managed portfolio whose performance is evaluated on a fair value basis in accordance with a documented investment strategy.

##### *ii) Recognition, derecognition and measurement*

Regular-way purchases and sales of investments are recognised on the trade date, which is the date the Fund commits to purchase or sell the investments. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

The Fund's interests in jointly controlled entities are initially recognised at cost and are subsequently carried at fair value based on the Fund's proportionate share of the underlying fair value of the entity's net assets.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 2 Summary of significant accounting policies...continued

#### c) Investments...continued

##### ii) Recognition, derecognition and measurement...continued

Financial assets at fair value through profit or loss are initially recognised at fair value and are subsequently carried at fair value based on quoted bid prices. In the absence of quoted bid prices, the last close price and other information including the quoted offer price is considered by management in determining the appropriate fair value to be used. Investments in other investment funds are valued on the basis of the net asset value per share as determined by the administrators of those investment vehicles in accordance with industry practice.

Gains or losses arising from changes in the fair value of securities classified as financial assets at fair value through profit or loss are recognised in the statement of comprehensive income as they arise. Average cost method is used to compute realised and unrealised gains on investments.

#### d) Accounting for leases

Leases in which a significant portion of the risk and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Where the Fund is the lessee, payments, including prepayments, made under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease. Where the Fund is the lessor, properties leased out under operating leases are included in investment property in the statement of financial position. Lease income is recognised over the term of the lease on a straight line basis.

#### e) Investment properties

Investment properties are treated as long-term investments. Investment property is initially measured at its cost including related transaction costs. After initial recognition investment property is carried at market value, determined semi-annually except for the CWBET building, the Sunset Joint Venture building and the CS&C joint venture buildings which are determined annually, by professional independent valuers. Investment properties are not subject to depreciation. Changes in the fair value of investment property are recorded in the statement of comprehensive income. Changes in the fair value of investment property related to foreign currency translation are also recognised in the statement of comprehensive income.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of comprehensive income.

If investment property is reclassified as real estate available for re-sale, its fair value at the date of reclassification becomes its cost for accounting purposes.

If real estate available for re-sale is transferred to investment property, any difference resulting between the carrying value and the fair value of this item at the date of transfer is recognised in the statement of comprehensive income.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 2 Summary of significant accounting policies...continued

#### f) Real estate available for re-sale

Properties that are being held for future sale are classified as real estate available for re-sale and are carried at cost. Subsequent costs are included in the properties' carrying value. The carrying value is immediately written down to its recoverable amount if its carrying value is assessed to be greater than the estimated recoverable amount.

Gains and losses realised on the sale of real estate are included in the statement of comprehensive income at the time of sale.

#### g) Cash and cash equivalents

Cash equivalents are short term, highly liquid investments, with original maturities of three months or less that are readily convertible to known amounts of cash which are subject to insignificant changes in value.

#### h) Share capital

The Fund's Class "A" common property fund shares with discretionary dividends and Class "B" common shares are classified as equity. Proceeds from the issue of shares are recorded net of share issue costs.

#### i) Net asset value per share and earnings per share

The net asset value per share is calculated by dividing the net assets of the Fund by the number of common property fund Class "A" shares.

Earnings per share is calculated by dividing the net profit attributable to the Class "A" shareholders by the weighted average number of Class "A" shares outstanding during the period. For the purpose of calculating diluted earnings per share the weighted average number of shares is adjusted for the effects of all dilutive potential Class "A" shares.

#### j) Dividends payable

Dividend distributions on the Fund's Class "A" shares are recorded in the period during which the dividend declaration has been approved by the Board of Directors.

#### k) Revenue recognition

Interest income is recognised in the statement of comprehensive income for all interest-bearing instruments on an accrual basis using the effective yield method.

Rental income is recognised on an accrual basis in accordance with the relevant rental agreements. Rental income is shown net of the direct property expenses incurred in managing the properties.

Dividend income is recognised when the Fund's right to receive payment is established.



# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 2 Summary of significant accounting policies...continued

#### l) Taxation

The Fund is licensed as an authorised mutual fund under the Mutual Funds Act, 2002-22 of Barbados. The Directors have resolved that all of the net comprehensive income of the Fund is attributable to the Fund's Class "A" common property fund shareholders. In calculating the assessable income of the Fund for tax purposes, the Act provides for a deduction of up to 100% of the income that is designated to be the income of the Fund shareholders.

#### m) Expenses

Expenses are accounted for on an accrual basis. Expenses are charged to the statement of comprehensive income. In addition to the management fees and administration expenses, the Fund is responsible for the payment of all direct expenses relating to its operations such as audit, legal and professional fees.

#### n) Management and advisor fees

Fortress Fund Managers Limited serves as manager and registrar of the Fund. As a result of providing investment advisory, management and registrar services, Fortress Fund Managers Limited receives a management fee based on the average net asset value of the Fund, calculated monthly and payable in arrears, at the rate of 0.75% per annum of the net asset value of the Fund.

Altman Real Estate serves as investment advisor. As a result of providing investment advisory services, Altman Real Estate receives an advisory fee based on the average net asset value of the Fund, calculated monthly and payable in arrears, at the rate of 0.75% per annum of the net asset value of the Fund.

#### o) Subsidiary, associated undertakings and joint ventures

Subsidiaries are all entities over which the Fund has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

Associated undertakings are entities in which the Fund has a shareholding or interest of between 20% and 50%, has significant influence but does not control. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 2 Summary of significant accounting policies...continued

#### o) Subsidiary, associated undertakings and joint ventures...continued

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The Fund's interests in jointly controlled entities are initially recognised at cost and subsequently carried at fair value based on the Fund's proportionate share of the underlying fair value of the entity's net assets.

All intercompany transactions, balances and unrealised gains and losses on intercompany transactions are eliminated on consolidation.

The Fund's holdings are set out as below:

	2012	2011
Subsidiaries:		
BET Building Joint Venture	57%	57%
JK Holdings Limited	100%	100%
Fortress (St. Lucia) Limited	100%	100%
Associated Undertakings:		
Rockley Development Limited	50%	50%
Contonou Shores Ltd	35%	35%
Joint Ventures:		
The CS&C Joint Venture	24%	24%
Rockley Joint Venture	50%	50%
The Sunset Joint Venture	24%	24%

#### p) Loan note payable

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

#### q) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors who makes the strategic decisions. The Board of Directors is responsible for the Fund's entire portfolio and considers the business to have a single operating segment. The asset allocation decisions are based on a single, integrated investment strategy, and the Fund's performance is evaluated on an overall basis.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 2 Summary of significant accounting policies...continued

#### r) Security and advance deposits

The Fund obtains deposits from tenants as a guarantee for returning the property at the end of the lease term in a specified good condition or for the lease payments for a period ranging from 1 to 12 months. Such deposits are treated as financial assets in accordance with IAS 39 and they are initially recognised at fair value. The deposit is subsequently measured at amortised cost.

#### s) Transaction costs

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include the bid-ask spread, fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income as an expense.

### 3 Critical accounting estimates and assumptions

Estimates and assumptions that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year include the valuation of investment properties. Management policies surrounding these estimates and assumptions are disclosed in note 2e and 5.

### 4 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (which includes price risk and interest rate risk), credit risk and liquidity risk. The risk management policies employed by the Fund to manage these risks are discussed below:

#### Market risk

##### i) Price risk

The Fund is exposed to market price risk arising from changes in the prices of its financial assets at fair value through profit or loss. To manage the risk the Fund holds a diversified portfolio of investments in accordance with its investment policy. A summary of the overall balance sheet market exposures at September 30, 2012 is disclosed in note 10.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Market risk ...continued

##### i) Price risk...continued

###### Sensitivity

The effects of an across the board 10% change in prices of the Fund's financial assets at fair value through profit or loss are set out below:

#### Financial assets at fair value through profit or loss

	Carrying value \$	Effect of 10% change \$
<b>September 30, 2012</b>		
Listed on Caribbean stock exchanges and markets	9,272	927
Mutual funds	571,818	57,182
	<b>581,090</b>	<b>58,109</b>
<b>September 30, 2011</b>		
Listed on Caribbean stock exchanges and markets	9,802	980
Mutual funds	1,645,039	164,504
	<b>1,654,841</b>	<b>165,484</b>

##### ii) Interest rate risk

The Fund's interest rate risk arises mainly from long-term borrowings. Borrowings issued at variable rates expose the Fund to cash flow interest rate risk. The Fund holds the majority of its long term borrowings in fixed rate instruments. The details of the Fund's long-term borrowings are included in note 13. Any excess cash and cash equivalents of the Fund are invested at short-term market interest rates. The effective yield on short term deposit and cash and cash equivalents are disclosed in note 11 and note 12 respectively.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Market risk ...continued

#### ii) Interest rate risk ...continued

The table below summaries the Fund's exposure to interest rate risk. It includes the Fund's financial assets and liabilities categorised by the earlier of the contractual re-pricing or maturity dates.

	0 - 3 months \$	4 months to 1 year \$	Over 1 year \$	Non- interest bearing \$	Total \$
<b>September 30, 2012</b>					
<b>Financial assets</b>					
Investments	—	—	—	581,090	<b>581,090</b>
Accounts receivable	—	—	—	547,125	<b>547,125</b>
Short term deposits	49,200	—	—	—	<b>49,200</b>
Cash and cash equivalents	473,395	—	—	1,886,464	<b>2,359,859</b>
<b>Total financial assets</b>	<b>522,595</b>	—	—	<b>3,014,679</b>	<b>3,537,247</b>
<b>Financial liabilities</b>					
Loans payable	766,092	3,689,902	12,813,194	281,741	<b>17,550,929</b>
Accounts payable and accrued expenses	—	—	—	1,293,836	<b>1,293,836</b>
Security and advance deposits	—	—	900,000	367,708	<b>1,267,708</b>
<b>Total financial Liabilities</b>	<b>766,092</b>	<b>3,689,902</b>	<b>13,713,194</b>	<b>1,943,285</b>	<b>20,112,473</b>

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Market risk ...continued

#### ii) Interest rate risk ...continued

	0 - 3 months \$	4 months to 1 year \$	Over 1 year \$	Non- interest bearing \$	Total \$
<b>September 30, 2011</b>					
<b>Financial assets</b>					
Investments	—	—	—	1,654,841	<b>1,654,841</b>
Accounts receivable	—	—	—	376,785	<b>376,785</b>
Short term deposits	241,200	—	—	—	<b>241,200</b>
Cash and cash equivalents	2,611,674	—	—	—	<b>2,611,674</b>
<b>Total financial assets</b>	<b>2,852,874</b>	<b>—</b>	<b>—</b>	<b>2,031,626</b>	<b>4,884,500</b>
<b>Financial liabilities</b>					
Loans payable	1,448,861	3,668,356	13,325,899	730,519	<b>19,173,635</b>
Accounts payable and accrued expenses	—	—	—	1,921,232	<b>1,921,232</b>
Security and advance deposits	—	—	900,000	445,797	<b>1,345,797</b>
<b>Total financial liabilities</b>	<b>1,448,861</b>	<b>3,668,356</b>	<b>14,225,899</b>	<b>3,097,548</b>	<b>22,440,664</b>

The carrying value of all financial assets and liabilities are considered reasonable estimates of their fair value

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on total comprehensive income.

	Effect on total comprehensive income 2012 \$	Effect on total comprehensive income 2011 \$
<b>Change in interest rate:</b>		
-2%	<b>42,003</b>	49,547
2%	<b>(42,003)</b>	(49,547)

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Market risk ...continued

##### iii) Foreign currency risk

The majority of the Fund's significant financial assets and liabilities are denominated in the Barbados dollar or currencies fixed to the Barbados dollar, its functional currency. The Fund therefore has no significant exposure to foreign currency risk.

#### Credit risk

Credit risk is the risk that an issuer or counterparty to a financial instrument will be unable or unwilling to meet a commitment thereby causing a financial loss to the Fund.

The maximum exposure of the Fund to credit risk is set out in the following table:

	2012 \$	2011 \$
Accounts receivable	547,125	376,785
Short term deposits	49,200	241,200
Cash and cash equivalents	2,359,338	2,611,674
Total financial assets	2,955,663	3,229,659

Accounts receivable is comprised mainly of amounts due from the tenants of investment properties. As part of the lease agreements tenants provide a security deposit. The property manager does an assessment of the business of the prospective client to determine its viability and hence its ability to meet the lease commitments.

The Fund has no significant individual credit exposure on amounts due from tenants.

The Fund's exposure to individual counterparty credit risk on its cash and cash equivalents and short term deposits exceeding 2% of total Fund net assets are set out below:

	2012 \$	2011 \$
Cash and cash equivalents		
CIBC FirstCaribbean International Bank (un-rated)	1,353,454	1,950,145

The Fund has no past due or impaired financial assets or liabilities.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and ensuring the availability of funding through an adequate amount of committed credit facilities to meet the obligations of the Fund.

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

	0 - 3 months \$	4 months to 1 year \$	1 - 5 years \$	Over 5 years \$
<b>September 30, 2012</b>				
Loans payable	1,046,938	4,475,785	13,518,176	499,302
Accounts payable and accrued expenses	1,293,836	—	—	—
Security and advance deposits	104,077	90,078	1,163,553	—
<b>Total financial liabilities</b>	<b>2,444,851</b>	<b>4,565,863</b>	<b>14,681,729</b>	<b>499,302</b>
	0 - 3 months \$	4 months to 1 year \$	1 - 5 years \$	Over 5 years \$
<b>September 30, 2011</b>				
Loans payable	1,749,927	4,505,726	14,858,940	761,288
Accounts payable and accrued expenses	1,921,232	—	—	—
Security and advance deposits	138,879	170,133	1,124,645	2,140
<b>Total financial liabilities</b>	<b>3,810,038</b>	<b>4,675,859</b>	<b>15,983,585</b>	<b>763,428</b>

The future operating lease commitments where the Fund is the lessee is also disclosed in note 20. Note 20 also details committed lease income where the Fund is the lessor in the BET Building Joint Venture and the CS&C Joint Venture which will be used to meet a significant component of the contractual loan payments identified above.



# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Fair value estimation

The Fund adopted the amendment to IFRS 7, effective October 1, 2009. This requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- 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).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' also requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following tables analyse within the fair value hierarchy the Fund's financial assets and liabilities (by class) measured at fair value:

	Level 1 \$	Level 2 \$	Total \$
<b>September 30, 2012</b>			
<b>Financial assets at fair value through profit or loss</b>			
Listed equity securities	1,272	8,000	9,272
Mutual funds	—	571,818	571,818
	<b>1,272</b>	<b>579,818</b>	<b>581,090</b>

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Fair value estimation ...continued

	Level 1 \$	Level 2 \$	Total \$
<b>September 30, 2011</b>			
<b>Financial assets at fair value through profit or loss</b>			
Listed equity securities	9,802	—	9,802
Mutual funds	—	1,645,039	1,645,039
	<b>9,802</b>	<b>1,645,039</b>	<b>1,654,841</b>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities. The Fund does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include unlisted mutual funds. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently. As observable prices are not available for these securities, the Fund has used valuation techniques to derive the fair value.

The following table presents the transfers between levels for the year ended September 30, 2012. There were no transfers between levels for the year ended September 30, 2011.

	Level 1 \$	Level 2 \$
<b>September 30, 2012</b>		
<b>Financial assets at fair value through profit or loss:</b>		
Listed equity securities	(8,000)	8,000
	<b>(8,000)</b>	<b>8,000</b>

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Capital risk management

The Fund's objectives when managing capital are to safeguard the Fund'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. In order to maintain or adjust the capital structure, the Fund may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

### 5 Investment properties

The detailed portfolio of investment properties is as follows:

			<u>Fair value gains/(losses)</u>		
	Fair value b/fwd \$	Additions \$	Foreign exchange gain \$	Revaluation gains/(losses) \$	Fair value c/fwd \$
The CWBET Building	35,500,000	—	—	(600,000)	34,900,000
The CS&C Joint Venture - buildings	15,060,000	—	—	—	15,060,000
Carlisle House	12,400,000	—	—	(400,000)	12,000,000
No. 24 Broad Street	8,500,000	—	—	—	8,500,000
Holdings Cottage	2,500,000	—	—	(250,000)	2,250,000
The Chattel Village	870,000	—	—	890,000	1,760,000
Alanridge Canmore Villa	1,869,746	—	56,732	(184,806)	1,741,672
The Sunset Mall	2,065,082	160,323	—	30,595	2,256,000
Lion Castle land	1,150,000	—	—	(150,000)	1,000,000
Apes Hill land	1,250,000	—	—	(150,000)	1,100,000
Apes Hill Polo Villa	1,807,899	—	—	(100,000)	1,707,899
	<b>82,972,727</b>	<b>160,323</b>	<b>56,732</b>	<b>(914,211)</b>	<b>82,275,571</b>

During the year the investment properties were appraised by an independent valuer at \$82,275,571 (2011 - \$82,972,727). The decrease of this current valuation over the previous valuation amounting to \$914,211 (2011 - \$2,316,027) has been recorded as fair value losses in the statement of comprehensive income.

The CWBET building was acquired under a sale/leaseback arrangement where the present tenant and the previous owner, Cable & Wireless (Barbados) Limited has an option to repurchase the property at the end of the lease term of 15 years for a purchase price of no less than the fair value of the property at that date.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

(expressed in Barbados dollars)

### 6 Real estate available for re-sale

The detailed portfolio of real estate available for re-sale is as follows:

	Cost b/fwd \$	Additions \$	Impairment Loss \$	Cost c/fwd \$
<b>Developed properties:</b>				
Villas on the Green villas	7,693,678	—	(937,509)	6,756,169
Lime Grove Hillside Villa	1,802,994	—	(457,214)	1,345,780
<b>Land and properties under development:</b>				
Wotton lands	6,788,380	4,198	—	6,792,578
Rockley- Cane Gardens lands	2,760,002	—	(230,002)	2,530,000
Rockley- Central area lands	1,591,932	—	(146,218)	1,445,714
The CS&C Joint Venture lands	1,986,872	13,500	—	2,000,372
Villas on the Green lands	3,668,500	—	(183,425)	3,485,075
	<b>26,292,358</b>	<b>17,698</b>	<b>(1,954,368)</b>	<b>24,355,688</b>

Real estate available for re-sale is carried at lower of cost or net realisable value. During the year impairment tests on the carrying value of the real estate available for re-sale were performed. Based on these tests the Villas on the Green, Lime Grove Hillside Villa and Rockley properties were subsequently adjusted to their net realisable values resulting in impairment losses of \$1,954,368 (2011- \$4,173,249) being recognised.

### 7 Investment in subsidiaries

The Fund owns a 57% interest in The BET Building Joint Venture which was registered in Barbados on October 12, 2001. The joint venture owns The CWBET Building in Wilkey which has been included in investment properties (note 5).

The Fund owns a 100% interest in JK Holdings Limited, a company incorporated in Barbados. This company owns the Holders Cottage which has been included in investment properties (note 5).

The Fund owns a 100% interest in Fortress (St. Lucia) Limited, a company incorporated in St. Lucia. This company owns the Villas on the Green property which has been included in real estate available for re-sale (note 6).

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 8 Joint ventures

The Fund has a 50% interest in a joint venture partnership called the Rockley Joint Venture. The partnership was formed to facilitate the purchase of land and buildings at Rockley. This property Rockley Central area lands has been included in real estate available for re-sale and all assets and liabilities of the joint venture have been proportionately consolidated (note 6).

The Fund has a 24% interest in a joint venture partnership called The CS&C Joint Venture. The partnership was formed to facilitate the purchase of land and buildings previously owned by Cave Shepherd and Co. Ltd. and Carter Holdings Limited. The partnership has acquired the Carter's properties at Wildey, Barbarees Hill, High Street, 13.5 acres of undeveloped land at Lower Estate and the Cave Shepherd building at 10-14 Broad Street. These properties have been included in investment properties and real estate available for re-sale (note 5 & 6). All the assets and liabilities of The CS&C Joint Venture have been proportionately consolidated.

The Fund has a 24% interest in a joint venture partnership called The Sunset Joint Venture. The partnership was formed to facilitate the purchase of the Sunset Mall, a commercial property at Sunset Crest, St. James. These properties have been included in investment properties at fair value (note 5). All the assets and liabilities of The Sunset Joint Venture have been proportionately consolidated.

Rental income arising on properties held by the joint venture amounted to \$1,702,005 (2011-\$1,667,988).

### 9 Investment in associated company

During the prior year the Fund acquired a 35% interest in Contonou Shores Ltd, a company incorporated in the Bahamas. This company owns land on Canouan Island, St. Vincent and the Grenadines. This property is available for sale.

The Fund's share of results of its principal associates and its aggregated assets (including goodwill) and liabilities is as follows:

	Assets \$	Liabilities \$	Revenues \$	Profit/(Loss) \$	%Interest held
<b>September 30, 2012</b>					
Contonou Shores Ltd	2,999,625	—	—	—	35%

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

(expressed in Barbados dollars)

### 10 Investments

The detailed portfolio of investments which are carried at fair value through profit and loss is as follows:

	2012		2011	
	Cost	Market value	Cost	Market value
	\$	\$	\$	\$
Listed on Caribbean stock exchanges and markets	2,646	9,272	2,646	9,802
Caribbean mutual funds	81,601	84,526	1,231,600	1,221,925
International mutual funds	99,960	487,292	99,960	423,114
<b>Total financial assets at fair value through profit or loss</b>	<b>184,207</b>	<b>581,090</b>	<b>1,334,206</b>	<b>1,654,841</b>

The net gain on financial assets at fair value through profit or loss as follows:

	2012	2011
	\$	\$
Realised gain	11,172	7,185
Unrealised gain/(loss)	65,593	(38,717)
<b>Net gain/ (loss) on financial assets at fair value through profit or loss</b>	<b>76,765</b>	<b>(31,532)</b>

### 11 Short term deposits

Short term deposits of \$49,200 (2011 - \$241,200) with maturities in excess of three months, are placed with leading regional commercial banks and government entities. The effective yield on short term deposits is 2.5% (2011 – 2.5%).

### 12 Cash and cash equivalents

	2012	2011
	\$	\$
Cash at bank	1,904,338	2,371,674
Deposits	455,000	240,000
<b>Cash and cash equivalents</b>	<b>2,359,338</b>	<b>2,611,674</b>

Cash and cash equivalents are placed with leading regional commercial banks. The effective yield on cash and cash equivalents is 0.62% (2011 - 0.24 %).

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

(expressed in Barbados dollars)

### 13 Loans payable

	2012 \$	2011 \$
Bond payable		
Series 1 - 2015	3,035,000	3,035,000
Series 2 - 2013	3,036,250	3,036,250
Series 3 - 2014	4,050,000	4,050,000
RBTT Merchant Bank Limited		
BET Building Joint Venture	—	542,891
The CS&C Joint Venture	4,197,391	5,178,550
The Sunset Joint Venture	786,200	844,011
FirstCaribbean International Bank		
Fortress (St. Lucia) Limited	1,319,724	1,511,794
Fortress Mutual Fund Limited		
Fortress (St. Lucia) Limited	910,366	903,139
Fortress Caribbean High Interest Fund		
The Sunset Joint Venture	216,000	72,000
	<b>17,550,931</b>	<b>19,173,635</b>

The current portion due of loans payable, amounts to \$4,774,564 (2011 - \$5,183,738).

The Fund has outstanding a bond payable issued in three series. Series 1 carries an interest rate of 7% maturing July 31, 2015. Series 2 carries an interest rate of 7.25%, maturing July 31, 2013 with an option to rollover for a further 4 years. Series 3 carries an interest rate of 7.50% maturing July 31, 2014. Interest is payable semi-annually in arrears and principal will be fully repaid on maturity. The collateral security on the bond is Carlisle House, Hincks Street, Bridgetown and No.24 Broad Street, Bridgetown.

The RBTT Merchant Bank loan was related to The BET Building Joint Venture and was secured by a first mortgage over the CWBET building at Wildey, St Michael and an assignment of the lease payments due to the BET Building Joint Venture from Cable and Wireless (Barbados) Limited. Interest was payable quarterly in arrears at a rate of 8.85% per annum.

The RBTT Merchant Bank loan related to The CS&C Joint Venture is a fixed rate non callable mortgage bond secured by first charge stamped to cover \$34.5 million on the Carter's properties at Wildey, Barbarees Hill, High Street, 13.5 acres of undeveloped land at Lower Estate and the Cave Shepherd building at 10-14 Broad Street. At year end the effective interest rate on the loan was 7.19 % (2011 - 7.19%) and is repayable by April 2018.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 13 Loans payable ...continued

The RBTT Merchant Bank loan related to The Sunset Joint Venture is a demand loan with a fixed rate for the first two years and variable thereafter. It is secured by a charge over property at Sunset Crest #2, St. James as well as a charge on the fixed and floating assets of The Sunset Joint Venture. The loan is repayable by March 2019. At year end the effective interest rate on the loan was 5.50% (2011-5.50%).

The FirstCaribbean International Bank loan related to Fortress (St. Lucia) is a registered demand debenture mortgage. It is secured by a first charge stamped to cover \$8.8million (USD \$4.4million) over land and buildings on 16.6 acres of land at Villas on the Green Cap Estate St. Lucia, plus a first floating charge over all of the assets of Fortress (St. Lucia) Limited. The loan is repayable quarterly in arrears from 80% of the net sales proceeds of each town house for a period not exceeding 5 years starting September 23, 2009. Interest is payable quarterly at US 3- month LIBOR plus 2.75%. At year end the effective interest rate of the loan was 3.21% (2011 - 3.12%).

The loan due to Fortress Mutual Fund Limited relating to Fortress (St. Lucia) Limited bears interest at year end at a rate of 3.21 % (2011 - 3.12%) per annum. The loan is subordinated to the FirstCaribbean International Bank loan. The total amount committed to be loaned is the equivalent of US\$1.4 million. The loan is repayable from net sales proceeds on the sale of town houses or by guarantee from the Fund in 5 years. Interest is payable quarterly at US 3-month LIBOR plus 2.75%.

The loan due to Fortress Caribbean High Interest Fund relates to The Sunset Joint Venture and bears interest at a rate of 7% per annum. The total amount committed to be loaned to the Sunset Joint Venture is \$1 million. This is a short term loan, repayable on the finalization and advancement of financing from a leading financial institution.

### 14 Dividend payable

A dividend of \$0.02 per share was declared during the current financial year and was paid on December 20, 2011. This amounted to a dividend totaling \$1,116,342.

### 15 Net rental income

Rental income is shown net of direct property expenses of \$1,421,470 (2011 - \$1,541,877) incurred in managing the properties.

### 16 Net gains and carrying costs of real estate available for re-sale

During the prior year the Coral Cove unit was sold for \$2,863,828 generating a gain of \$262,593.

The Villas on The Green development incurred net carrying costs of \$413,651(2011- \$235,207) which comprise of property, administrative and other holding costs and is shown net of \$105,402 (2011- \$132,807) of rental income.



# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 16 Net gains and carrying costs of real estate available for re-sale...continued

The Rockley Joint Venture incurred net carrying costs of \$4,768 (2011 - \$9,035) which comprise of property, administrative and other holding costs and is shown net of \$42,988 (2011 - \$40,219) of rental income.

The Rockley Central facilities incurred \$56,863 (2011 - \$100,717) in professional fees as well as property and other holding costs

The carrying costs also include \$13,759 (2011-\$36,759 income) from other available for re-sale properties.

### 17 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.

During the year, fund management fees amounting to \$595,465 (2011 - \$630,862) were paid to Fortress Fund Managers Limited and investment advisor fees amounting to \$595,465 (2011 - \$630,862) were paid to Altman Real Estate (see note 2n).

The Fund holds nil (2011- 647,447) shares in the Fortress Caribbean High Interest Fund. The CS&C Joint Venture holds 203,686 (2011-203,686) shares in the Fortress Caribbean High Interest Fund, of which 24% is reflected in the financial statements. Gains on the total shareholding amounted to \$13,116 (2011 -losses \$2,491). Management fees of \$2,183 (2011- \$517) were refunded by Fortress Fund Managers Limited being 0.75% of the net asset values of Fortress Caribbean High Interest Fund shares held by the Fund during the year. This is to avoid double charging of management fees on assets invested in related Funds which have the same Manager. This figure is included in other income.

Included in the accounts payable is \$1,712 (2011-\$119,691) due to Fortress Fund Managers Limited and \$70,803 (2011 - \$70,803) due to Altman Real Estate and its subsidiaries.

Included in the loans payable is \$2,060,000 (2011-\$2,045,250) due to Fortress Caribbean High Interest Fund for the Series 3 bond payable. Interest expense of \$153,250 (2011-\$151,500) relating to this loan was recognised in the statement of comprehensive income.

Included in the loans payable is \$910,366 (2011-\$903,139) due to Fortress Mutual Fund Limited with respect to Fortress (St. Lucia) Limited. Interest expense of \$25,470 (2011 - \$27,706) relating to this loan was recognised in the statement of comprehensive income.

Included in the loans payable is \$216,000 (2011-\$72,000) due to Fortress Caribbean High Interest Fund Limited with respect to The Sunset Joint Venture. Interest expense of \$11,438 (2011 - \$210) relating to this loan was recognised in the statement of comprehensive income.

Included in net rental income is an amount of \$2,151,242 (2011 - \$1,916,691) earned from an affiliated company.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 17 Related party transactions ...continued

Property management fees of \$92,713 (2011 - \$98,794) were paid to Altman Real Estate and its subsidiary Property Consultancy Services during the year.

During the year, commissions of \$10,124 (2011 - \$11,996) were charged on property rentals and paid to Altman Real Estate and its subsidiaries.

Directors and subcommittee fees of \$46,000 (2011 - \$46,000) were paid during the year. Directors' interest (including beneficial interests) in class "A" common property fund shares are as follows:

	2012	2011
<b>Geoffrey Cave</b>		
Number of shares held at September 30	<u>32,000</u>	<u>32,000</u>
<b>Paul Altman</b>		
Number of shares held at September 30	<u>659,920</u>	<u>659,920</u>
<b>Anthony Audain</b>		
Number of shares held at September 30	<u>26,000</u>	<u>26,000</u>
<b>Dr. Trevor Carmichael</b>		
Number of shares held at September 30	<u>26,333</u>	<u>26,333</u>
<b>Maureen Davis</b>		
Number of shares held at September 30	<u>21,506</u>	<u>21,506</u>
<b>Terry Hanton</b>		
Number of shares held at September 30	<u>7,200</u>	<u>7,200</u>
<b>John Williams</b>		
Number of shares held at September 30	<u>17,000</u>	<u>17,000</u>

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

(expressed in Barbados dollars)

### 18 Share capital

	2012		2011	
	Number of shares	\$	Number of shares	\$
<b>a) Class “B” shares</b>				
Authorised				
A maximum of 10 Class “B” shares				
Issued and outstanding	10	10	10	10
<b>b) Class “A” common property fund shares</b>				
Authorised				
An unlimited number of Class “A” shares of no par value				
Issued and outstanding	55,652,768	66,522,062	55,817,101	66,718,490
<b>Total share capital</b>	<b>55,652,778</b>	<b>66,522,072</b>	<b>55,817,111</b>	<b>66,718,500</b>

#### Class “B” shares

The Class “B” shares are held equally by the Investment Advisor and the Fund Manager and no Class “B” share can be transferred to any person other than another investment advisor or fund manager. The holder of Class “B” shares have the voting rights. Each Class “B” share entitles the holder to one vote per share. The holders of Class “B” shares are not entitled to receive dividends.

#### Class “A” common property fund shares

During the year the Fund repurchased 164,333 Class A common property fund shares for a total consideration of \$144,683.

The holders of Class “A” common property fund shares have an interest in the undivided portion of assets of the fund. These shares secure an equal share in distribution of net income and net capital gains and participate equally in all other respects.

The holders of Class “A” common property fund shares are entitled to vote only in respect of:

- The liquidation of the company;
- The winding up of the company;
- The reconstruction of the company;
- The amalgamation of the company with any other company or mutual fund.

Common property fund shares may not be redeemed by the Class “A” shareholders, but may be traded on the Barbados and the Trinidad and Tobago Stock Exchanges.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 19 Earnings per share and net asset value

Basic earnings per share is calculated by dividing the net profit attributable to Class “A” shareholders by the weighted average number of shares in issue during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There are no ‘unpurchased’ shares to be added to the Class “A” shares outstanding for the purpose of computing a diluted earnings per share.

Basic and diluted earnings per share is calculated as follows:

	2012 \$	2011 \$
Comprehensive loss attributable to shareholders	(16,112)	(2,948,270)
Weighted average number of Class “A” shares in issue	55,652,768	55,817,101
Basic and diluted earnings per share	0.00	(0.05)
Net asset value	78,123,902	79,401,039
Net asset value per Class “A” shares	1.40	1.42

### 20 Commitments

#### Operating lease commitments - where the Fund is the lessee

The future minimum lease payments under operating leases are as follows:

	2012 \$	2011 \$
Not later than 1 year	126,000	80,607
Later than 1 year and not later than 5 years	534,450	322,427
Later than 5 years	1,051,130	80,607

#### Operating lease commitments - where the Fund is the lessor

The future lease payments receivable under operating leases are as follows:

	2012 \$	2011 \$
Not later than 1 year	8,728,260	8,532,731
Later than 1 year and not later than 5 years	28,804,180	32,771,496
Later than 5 years	4,658,925	6,192,224

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2012

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(expressed in Barbados dollars)

### 20 Commitments...continued

Included in the above disclosure are retail leases in which the lessee has the option to cancel the lease with notice prior to the end of the agreed upon lease period. The future minimum lease payments receivable under cancellable operating leases are as follows:

	2012	2011
	\$	\$
Not later than 1 year	\$24,000	—
Later than 1 year and not later than 5 years	\$121,950	239,261
Later than 5 years	—	2,070

### 21 Contingencies

The owners of the Rockley Orange Hill Development, a project completed by the Fund several years ago have made a claim for additional repairs and deficiencies relating to the construction of the units. As negotiations are currently on-going, neither the timing nor the amount of any potential obligation can be measured with sufficient reliability as at this time.





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