

2013 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 investment 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, as well as 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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2013

Fortress Caribbean Property Fund Limited
2013



Investment Objectives & Fund Details

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.

FUND NAME:	Fortress Caribbean Property Fund Limited
FUND TYPE:	Closed-End Fund
LAUNCH DATE:	August 20, 1999
LAUNCH PRICE:	\$1.00 per share
<i>Warrants Exercise Price</i>	\$1.00 per share
<i>Secondary offer price -10/15/2001</i>	\$1.20 per share
<i>Rights Issue Price - 03/10/2005</i>	\$1.40 per share
NO. OF SHARES OUTSTANDING:	55,652,768
NET ASSETS – 9/30/2013	\$75,337,808
NET ASSETS VALUE PER SHARE – 9/30/2013	\$1.35 per share
SHARE PRICE – 9/30/2013	\$0.65 per share
STOCK EXCHANGE LISTINGS:	Barbados Stock Exchange (BSE) Trinidad & Tobago Stock Exchange (TTSE)
MANAGEMENT EXPENSES:	
<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
FUND VALUATIONS:	Monthly
INDEPENDENT PROPERTY APPRAISALS:	Annually & Semi-Annually
NAV QUOTATIONS:	Updated Monthly Internet: www.fortressfund.com

Directors & Administrators

DIRECTORS

Geoffrey Cave, C.B.E., B.C.H., L.L.D. (Hon) - Chairman
Paul Altman B.C.H., L.L.D. (Hon)
Anthony Audain
Senator Sir 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.
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Wilkey Business Park
St. Michael
Barbados

INDEPENDENT AUDITORS

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The Financial Services Centre
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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



| Reports



Directors' Report

The Fortress Caribbean Property Fund had another poor year in 2013 recording a loss of \$1.673 million compared to a loss of \$16,112 in 2012. The Fund's net assets decreased to \$75.337 million from \$78.123 million in the prior year. The net asset value (NAV) is now \$1.35 per share compared to \$1.40 per share at September 30th 2012.

The Fund's loss is primarily due to two main factors: (1) a significant increase in revaluation losses on the Fund's investment properties of \$2.507 million, up from \$0.86 million in the prior year and (2) impairment losses on the Fund's real estate available for re-sale of \$1.449 million, which is down from \$1.954 million in 2012. Together, these non-cash items have resulted in a \$3.955 million charge to the Fund's net income.

The Fund generated cash from its operating activities of \$5.1 million, most of which was used in the repayment of loans and the payment of dividends. The Fund paid a dividend of \$0.02 per share in December 2012 and has declared a dividend of \$0.035 per share on the new Value Fund share which will be paid in December 2013.

The Fund's "Investment Properties" are listed under Note 5 and other than No. 24 Broad Street, all of these assets have recorded further fair value losses in 2013 amounting to \$2.4 million in total.

The Fund's assets that are recorded as "Real Estate available for re-sale" are listed under Note 6 and other than the Lower Estate lands, all of these assets recorded additional impairment losses in 2013 amounting to \$1.45 million. We were able to realize a few more sales of the units at Villas On The Green and the unit at Canmore, the proceeds from which were received after the year-end.

The real estate market conditions locally and in the Eastern Caribbean remain extremely challenging but we are encouraged that the real estate markets in the US and the UK are showing strong recoveries on the back of record low interest rates and very strong stock markets internationally. There are signs of improving sales in the local second-home vacation market but there is still a significant inventory of properties for sale that overhangs the market which at current absorption rates will mean both prices and sales will remain a challenge.

COMMERCIAL PROPERTIES

The commercial property market is becoming more challenging with pressures from both oversupply of space due to the completion of two new office buildings in Warrens and tenants facing financial difficulties due to the very weak business conditions in the local economy.

Our commercial properties in Bridgetown are seeing increased vacancy and efforts to retain existing tenants are pressured by growing vacancy levels across the island.

“There are signs of improving sales in the local second-home vacation market...”

Our BET Building Joint Venture which owns the LIME property in Wildey has three years remaining on the lease. We received notice from LIME Barbados in early December of a phased withdrawal and early termination of the lease effective March 31st, 2014. The triple net lease contract does not provide for an early termination of the lease and therefore the terms under which the termination can proceed will have to be negotiated. The joint venture will be acting under careful guidance from legal counsel on this matter. Every effort will be made to ensure shareholders' rights and interests are protected.

This is the Fund's largest investment and a short-fall in future rental payments, if any, could have a material impact on the future profitability of the Value Fund shares. There has been no adjustment to the appraised value of the property or any provision against future rental payments in these financial statements as it is not possible to determine the value of this, if any, at this time.

We had engaged consultants to prepare a comprehensive redevelopment plan for the site with an aim to starting this plan in 2016. In view of the recent developments, this master plan is now being revisited with an initial focus on the northern part of the site including the potential options for the main building. We expect to have an application into Town Planning Department by the end of the first quarter next year.

The rental income from the CS&C joint venture is facing pressures from both of the head tenants due to underlying pressures within their respective businesses. We were successful in negotiating an extended lease term for the Cave Shepherd Broad Street lease to 2024 with adjustments to the terms and in return we have committed to additional capital expenditure for a renewable energy project and other equipment and infrastructure improvements for the top floor.

FUND CONVERSION TO A SEGREGATED CELL COMPANY

During the year, our Board took a decision, after extensive professional advice, to approach shareholders on a proposal to convert the Fund into a segregated cell company. The purpose of the proposal was to split the Fund's portfolio into two new segregated cells, one which would hold the income producing properties and one which would hold the development assets, with an objective of enhancing shareholder value through a reduced trading discount of the Fund's shares on the Barbados and Trinidad Stock Exchanges.

A “Shareholders' Information Memorandum” was prepared and sent to all shareholders and at a Special Meeting held on the 26th September 2013, the Fund's shareholders voted almost unanimously for the proposal.

The result of that proposal is disclosed in the Subsequent Events note of the consolidated financial statements.

As outlined in the Shareholders' Information Memorandum, the split has no direct financial benefit or loss to the Fund's shareholders, as their value before and after the split is exactly the same as shown below.

Before The Fund Split - Fortress Caribbean Property Fund Ltd

<u>Number of shares</u>	<u>Entity</u>	<u>Net asset value</u> <u>per share</u>	<u>Value</u>
55,652,768	Fortress Caribbean Property Fund Limited	\$1.35*	\$75,337,808



After The Fund Split - Fortress Caribbean Property Fund Limited SCC

<u>Number of shares</u>	<u>Entity</u>	<u>Net asset value per share</u>	<u>Value</u>
55,652,768	FCPF SCC - Value Fund Shares	\$0.80*	\$44,771,240
55,652,768	FCPF SCC - Development Fund Shares	\$0.55*	\$30,566,568
		<u>\$1.35*</u>	<u>\$75,337,808</u>

* net assets values rounded to two points

The purpose of the share split was to try and address the significant discount to which the Fund's shares were trading on the Barbados Stock Exchange. Unfortunately that has not yet happened, at the time of writing, the combined value of the two split shares was a greater discount than it was before the Fund was split. As at November 29th 2013, the trading prices and discounts to NAV were as follows.

	<u>Share Price 11/29/2013</u>	<u>Net asset value 11/30/2013</u>	<u>Discount to Net asset value</u>
FCPF SCC - Value Fund Shares	\$0.40	\$0.80	50%
FCPF SCC - Development Fund Shares	\$0.10	\$0.55	82%
	<u>\$0.50</u>	<u>\$1.35</u>	<u>63%</u>

The Directors believe that at these levels, both the Value Fund Shares and the Development Fund shares are trading at extremely depressed and undervalued levels which are very significant discounts to their underlying net asset values and represent a good investment opportunity for long term investors.

The Fund has a very strong balance sheet with total liabilities of only \$19 million financing \$109 million of gross assets which equates to a debt to asset ratio of only 17%. The Fund has the ability to borrow to re-develop certain assets and it should have no difficulty in rolling over the upcoming bond maturities.

Performance of the Segregated Cell Funds

The table in the Subsequent Events note shows the revenue and expenditure split attributable to what subsequently became the Value Fund and the Development Fund for the year ended September 30th 2013.

	<u>Comprehensive Income For The Year Ended 9/30/2013</u>
	\$
FCPF SCC - Value Fund Shares	2,185,189
FCPF SCC - Development Fund Shares	<u>(3,858,228)</u>
	<u>(1,673,039)</u>

The above table clearly shows how the losses on the Development Fund assets have eliminated the profits on the Value Fund assets resulting in an overall loss to the Fund.

Directors' Report cont'd

Pursuant to Section 13 of the Mutual Funds Act and Section 60 (3) of the Securities Act Section duly amended by the Fourth Schedule of the Money Laundering and Financing of Terrorism (Prevention and Control) Act, the Fund was required to file with the Financial Services Commission a material change disclosure notice within seven (7) days of the occurrence of such change. While every effort was made to comply with all laws, the deadline for this submission was inadvertently missed. The Financial Services Commission has therefore required that the Fund include this disclosure in this year's Annual Report.

DIVIDENDS

The Directors have declared a dividend of \$0.035 on the Value Fund share for the year ended September 30th 2013. The dividend equates to an 8.75% dividend yield based on the trading price of the Value Fund shares of \$0.40 per share as at November 30th 2013.

Consistent with its objective, there was no dividend declared on the Development Fund shares.

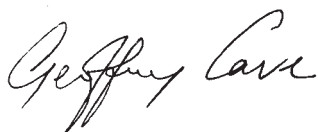
LOOKING FORWARD

The economic challenges facing Barbados have not changed since the start of the global financial crisis in 2008 and there is no economic growth projected through 2015. The Barbados credit rating was recently downgraded two notches to "BB-" by Standards & Poors as the national fiscal and budget deficits continue to grow an already unsustainable debt to GDP ratio. In addition, the country's depleting foreign reserves have fallen sharply in recent months. Against this backdrop, where most of the Fund's real estate assets are located, it is not easy to project encouraging prospects for the Fund.

In spite of this, we are in active discussion on an exciting sale & leaseback opportunity for the Value Fund and we continue to evaluate new potential opportunities.

The BET Joint Venture is the most urgent matter facing the Fund and our Board is actively addressing the various options for the property's use and redevelopment when LIME vacates the property.

Overall, the Fund does have a solid portfolio of assets, split across the Value Fund and Development Fund shares, and we remain very focused on trying to maximize and realize value for shareholders against a back-drop of very difficult trading conditions.



Geoffrey Cave
Chairman



Investment Advisors' Report

The financial year to September 2013 has been a poor one for the Fund which is in keeping with the general decline in the property market. The year under review witnessed many business closures and failures as a result of poor performance and higher taxes in the Barbados economy, where most of the Fund's assets are domiciled.

In last year's annual report we warned of five very difficult years ahead and recessionary headwinds. Indeed the outlook in 2014 is even more bleak. Standard & Poor's has downgraded Barbados further and the country slipped into recession in early 2013. A recent austerity budget has hurt the property sector further. That budget announced a Municipal Solid Waste tax for every property, calculated on the Land tax site value, and this will increase the costs of the Fund.

The year has been characterized by increased vacancy in the commercial sector, increased bank foreclosures, continued pressure on rents, and very poor trading conditions in the residential sector, exhibited by further falls in transaction volume and the consequent effect on prices. That being said, there are signs of a recovery in the vacation home market fuelled by economic recovery in Britain and a strengthening in the value of sterling. Winter season 2013/14 is expected to see increased volume of sales which may not immediately translate into price recovery, but prices are stable.

IMPACT ON PROPERTY VALUES

Local Residential

The volume of lot sales in the low to middle income segment has further declined as buyers have found it difficult to justify or achieve a purchase because of income declines due to increased taxes and higher unemployment. The knock on effect has been reduced mortgage lending. A number of residential subdivisions have been shelved or have gone into some form of bank enforcement. There has been a marked increase in low value mortgage foreclosure.

Median lot prices have fallen from the low 20's to around \$18 - \$20 per square foot. In Barbados, there is no immediate evidence of green shoots.

Luxury Residential

As mentioned earlier, the second half of 2013 showed a marked recovery fuelled by economic recovery in the source markets. This is expected to continue as stock markets are at record levels and the value of sterling is at a two year high. This has already translated into renewed interest at Villas on the Green in St Lucia with two new sales in the last year. We anticipate a modest increase in values in 2014.

Commercial Property

Development of commercial property has continued at a strong pace which has increased supply but there has been a further decline in demand in most of the Caribbean economies and in Barbados in particular. Business closures have increased vacancy and rent receivables. We do not anticipate an improvement in the immediate outlook and expect a further deterioration in this market. Previously reluctant banks have changed their position and have foreclosed on numerous commercial properties. This has had a dampening effect on values and there have also been increases in capitalization and discount rates to recognize the increased risk in holding and renting commercial property. This has had a major impact on the value of the Fund's assets.

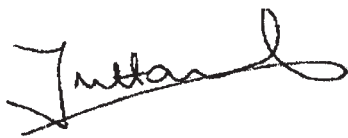
OUTLOOK AND OPPORTUNITIES

The recent agreement of the shareholders to split the Fund into a segregated cell company is a well planned strategy to increase shareholder value by taking advantage of significant cash resources of institutional investors. The split took effect from October 1, 2013. The Fund has successfully been split in to the two cells namely the Fortress Caribbean Property Fund Limited SCC- Value Fund (the Value Fund) and the Fortress Caribbean Property Fund Limited SCC- Development Fund (the Development Fund). The investment advisors are seeking to liquidate the assets in the Development Fund, with some success, notably at Villas on the Green, and are actively seeking new opportunities for the Value Fund.

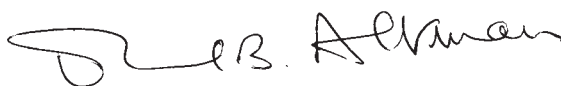
We have reviewed three different distressed assets, one in Grenada and two in Barbados. The Fund recently bid on a portfolio of eight commercial properties and this potential transaction, if successful, would have an important, positive impact on the Value Fund's net asset value. In the other two cases the Investment Committee had concerns about tenant risk. Many more opportunities such as these will arise.

As we predicted last year the planning permission for Rockley was achieved and a new feasibility study is being conducted. The Fund has also started to plan for the redevelopment of the CWBET Building at Wildey and should file a planning application this year.

Further unrealised property write downs occurred in these financial statements but we expect some stabilization of asset values in 2013/14, with the possible exception of the CWBET Wildey Building. It is the intention of the Fund to capitalize on the Fund's split by cautious investing in deep value commercial property assets.



Terry Hanton



Paul Altman



The CWBET Building

Location - Wilkey, Barbados

Fair Market Value - \$34.5 million

Tenantable Space - 84,838 square feet

Property Type - Commercial

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, 2013 The BET Joint Venture earned \$5.0 million (2012 - \$4.8 million) in gross rental.

The independent valuer has reduced the value of the property assuming a reduction in potential rents after the end of the current lease. The valuers have revalued the building at \$34.5 million (2012 - \$34.9 million) resulting in a fair value loss of \$400,000.

The joint venture has made a profit after interest of \$4.3 million compared to \$4.2 million in 2012, after deduction of the fair value losses. This represents an average return on equity of 12.4% in this financial year (2012 - 12%), including fair value losses.

LIME has indicated that they intend to vacate the property during 2014, but understand that they have remaining obligations under the lease.

During the year a consultant team was established to review the future uses of the site after the expiry of the lease and a feasibility study was completed. A total of \$239,604 has been spent in investigating the re-development of the site. During 2014 a planning application will be made for partial redevelopment of the site. The Board is confident that this very attractive site can be a valuable asset beyond the lease but understands that there will be some income interruption during the redevelopment phase. The BET Joint Venture Board will be considering all options going forward, which may include seeking wider equity participation in the property.



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 year 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 Fund received rents of \$0.79 million in rental income in the year under review.

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



Carlisle House

Location - Bridgetown, Barbados

Fair Market Value - \$11.5 million

Tenantable Space - 48,426 square feet

Property Type - Commercial

The property earned \$1.56 million (2012 - \$1.7million) in gross rents and, net income from this property declined to \$0.6 million from \$0.8million in 2012. The valuers reduced the property value by \$0.5 million to \$11.5 million. The main cause of this was an occupancy decline from 78% to 72%. The top floor has proven particularly difficult to rent, although there is presently some interest. In addition some ground floor retailers have gone out of business. Discussions on the sale of the building during the year proved unfruitful and the general increase in office vacancy in Bridgetown has touched this building amongst many others.



Holder's Site

Location - St. James, Barbados

Fair Market Value - \$1.9 million

Size - 158,000 square feet

Property Type - Residential

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 during the year the site was cleared and the tenant in the cottage was given notice in order to prepare the way for demolition. The property was shown for sale on a number of occasions during the year. The adjoining Holders House is now also on the market. The valuers have written down the property value by \$350,000 to \$1.9 million.



Lower Estate Lands

Location - Lower Estate, Barbados

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

Property Type - Undeveloped Commercial Lands

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. The site is 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 actively being marketed for resale. The Fund's interest in the land at September 2013 is \$2.0 million. The first of the subdivided lots is now going to contract and the purchaser intends to build quickly which should help to expose the property to the market.



Carter's Buildings, Cave Shepherd Building

Location - various, Barbados

Fair Market Value - \$60.6 million (entire joint venture)

Property Type - Commercial

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. During the year the Broad Street lease was extended by an additional four years to 2024, with a rent review provision in 2020. The joint venture also committed to investing in major capital projects including a new air conditioning system and a top floor renovation. The lease contains provisions for rent increments commensurate with the capital expenditure. The properties have been valued at \$60.6 million, resulting in a fair value loss of \$2,150,000 in 2013 value (2012 - nil).

During the year ended September 2013, the Fund's proportionate share of the joint venture's net rental income amounted to \$1.4 million (2012 - \$1.4 million) and the Fund recognised \$516,000 in fair value losses (2012 - \$nil) resulting in a profit of \$0.6 million (2012 - \$1.1 million) from our share of the joint venture.

The Fund's interest in the buildings is \$14,544,000.



Chattel Village

Location - Holetown, Barbados
 Fair Market Value - \$1.45 million
 Tenatable 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 \$494,000 (2012 - \$513,000) as the property was fully occupied for most of the year. This property presents well and has been a good success for the Fund.

The property is leased from Sunset Crest Property Owners Inc until August 2026. The valuers substantially upgraded the property in 2012 but downgraded the value by \$310,000 in 2013 primarily as a result of an error in the prior period valuation.



Apes Hill Polo Villa

Location - Waterhall, Barbados
 Fair Market Value - \$1.5 million
 Property type - Residential unit

Since 2008, the Fund has owned a three bedroom villa overlooking the polo field at Waterhall, St. James. Purchased for \$1.7 million, it is furnished, and available for sale.

The unit is being kept for future sale, when the Apes Hill community matures. A six month rental was obtained during the year which helped to defray costs.

The valuers have decreased the value of the property from \$1.7 million to \$1.5 million.



Sunset Mall

Location - Sunset Crest, Barbados

Fair Market Value - \$9.4 million (entire joint venture)

Property type - Commercial building

The Fund invested \$936,000 for 24% of the equity in a joint venture, set up with the CS&C partners for the acquisition of 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.

The building was renovated in 2012 and the partnership receives rent increments of 10% of any costs spent. During the year the joint venture completed the repair of the roof and replaced the waterproofing at a total cost of \$314,000, in readiness for a solar photovoltaic project which should significantly reduce electrical cost for the head tenant. The second phase of the project is underway and will be completed early in 2014.

The property has maintained its value at \$9.4 million resulting in a fair value loss of \$197,093 in relation to the capital works. The Fund's interest in the building is \$2,256,000.

During the year ended September 2013 the Fund earned \$244,753 (2012 - \$208,003) in gross income and recognized \$47,302 in fair value losses (2012 - \$30,595 fair value gains) resulting in \$133,485 (2012 - \$176,239) of profit after expenses from our share of the joint venture.



Apes Hill Land

Location - Apes Hill, Barbados
Fair Market Value - \$1.05 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, but sales at Apes Hill have been slow.

The land is now included at its fair market value. The valuers reduced the value from \$1.1 million to \$1.05 million this year resulting in a \$50,000 fair value loss (2012 - \$150,000).



Wotton Lands

Location - Wotton, Barbados
Carrying Value - \$6.2 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. Planning approval is about to be received for subdivision into six lots.

The asset was tested for value impairment based on a valuation carried out by the independent valuers and as a result the asset has been reduced to \$6.2 million, an impairment loss of \$589,000.



Villas on the Green

Location - Cap Estate, St. Lucia

Carrying Value - \$9.3 million

Property type - Residential development

The Fund acquired an 18 acre site adjacent to the third and seventh hole at the Cap Estate Golf Club in St. Lucia. A master planned 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 eight units sold by September 2013.

During the current financial year another unit was sold for USD\$255,000 resulting in a small book loss of \$36,122. There are now 11 units available. Of these, 10 are rented and lease to purchase offers have been accepted on two of the units, at higher prices.

The development incurred \$340,490 (2012 - \$413,651) in property, maintenance & upgrade, administrative and other holding costs, net of rental income of \$200,042 (2012 - \$105,402). Together with debt service this resulted in a net loss after interest of \$416,842 (2012 - \$478,746) 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 \$0.46 million (2012 - \$1.1 million) being recognised.

The assets carried at \$6.0 million for the townhouses and \$3.3 million for the undeveloped lands.



Rockley Central Area

Location - Rockley, Barbados

Carrying Value - \$2.76 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 acre 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 been received.

During the year \$57,510 (2012 - \$47,755) was spent by each partner of the joint venture on maintenance, property, administrative and other holding costs. Gross rental income of \$46,436 (2012 - \$42,987) 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 realisable value of \$2.76 million, resulting in an impairment loss of \$65,714 (2012 - \$146,218) realised by each partner.

The Fund's interest in the joint venture is \$1.38million.



Rockley Cane Garden

Location - Rockley, Barbados

Carrying Value - \$2.3 million

Property type - Undeveloped lands

The Worthing Great House site is earmarked as Phase II of the Rockley Development, and is to be developed as a new cluster called Cane Garden. Planning permission was recently received for the construction of 26 townhouses and a quantity surveyor has been retained to cost the scheme. The agency community will be invited to comment on market conditions before a decision is taken to proceed. The Fund may look for joint venture partners based on an assessment of the market.

The Rockley Cane Garden development spent \$15,032 (2012 - \$56,863) 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 Garden site value was subsequently adjusted to its net realisable value of \$2.3 million, resulting an impairment loss of \$230,000 (2012 - \$230,000) being recognised.



Lion Castle Lot 21

Location - Lion Castle, Barbados

Fair Market Value - \$0.95 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 decreased the value by \$50,000 (2012 - \$150,000) to \$950,000.



Lime Grove Hillside Villa

Location - Lime Grove, Barbados

Carrying Value - \$1.24 million

Property type - Residential unit

The Fund owns Limegrove Hillside Villa 6 and title will be legally transferred in the coming weeks. The Fund has possession of the unit and it is rented to defray costs. The unit is listed for sale with multiple real estate agents.

At year end an independent valuation was performed on the villa. Based on this value the real estate available for re-sale was adjusted to its net realisable value of \$1.24 million, resulting in a \$103,780 impairment loss (2012 - \$457,000).



Canouan Land

Location - Canouan Island, St. Vincent

Carrying Value - \$8.6 million (entire site)

Property type - Undeveloped residential lands

The Fund holds 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.

October 1, 2013

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 30th 2013. 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* | • Lion Castle Lot 21 |
| • Apes Hill Lot I-4 | • Apes Hill Polo Villa 3*** | |

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

** 24% interest in the Sunset Crest Shopping Plaza

*** Estimated Value includes depreciated cost of furnishings as estimated by The Fund

In our opinion, the market value of the Fortress interest in the above listed properties is **\$78,157,899** as of September 30, 2013.

Sincerely,

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

Andrew W. Mallalieu, MRICS, CPA
Managing Director

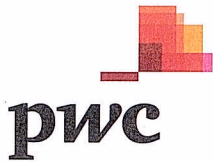
Terra Caribbean (Barbados) Limited

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

Newton House, Battaleys, St. Peter, BB26094, Barbados
Tel: (246) 422-2618 I Fax: (246) 422-5366



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, 2013 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

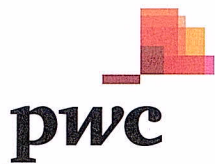
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements 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.



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, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SPL

December 20, 2013
Bridgetown, Barbados

Fortress Caribbean Property Fund Limited

Consolidated Statement of Financial Position

As of September 30, 2013

(expressed in Barbados dollars)

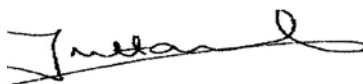
	2013 \$	2012 \$
Assets		
Investment properties (note 5)	78,157,899	82,275,571
Real estate available for re-sale (note 6)	22,409,101	24,355,688
Investment in associated company (note 9)	2,999,625	2,999,625
Investments (note 10)	633,910	581,090
Accounts receivable and prepaid expenses (note 13)	2,232,527	850,231
Short term deposits (note 11)	49,200	49,200
Cash and cash equivalents (note 12)	2,476,993	2,359,338
Total assets	108,959,255	113,470,743
Liabilities		
Loans payable (note 15)	15,915,747	17,550,931
Accounts payable and accrued expenses (note 14)	1,651,087	1,293,836
Security and advance deposits	1,275,606	1,267,708
Total liabilities	18,842,440	20,112,475
Total assets less liabilities	90,116,815	93,358,268
Equity		
Capital and reserves attributable to the Fund shareholders		
Share capital (note 20)	66,522,072	66,522,072
Retained earnings	8,815,736	11,601,830
Total shareholders' funds	75,337,808	78,123,902
Non-controlling interests	14,779,007	15,234,366
	90,116,815	93,358,268
Net asset value per share (note 21)	1.35	1.40

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

Approved by the Board of Directors on December 20, 2013



Director



Director

Fortress Caribbean Property Fund Limited

Consolidated Statement of Changes in Equity

For the year ended September 30, 2013

(expressed in Barbados dollars)

	Attributable to Fund shareholders		Non- controlling interests	Total
	Share capital \$	Retained earnings \$	\$	\$
Balance - September 30, 2011	66,718,500	12,682,539	15,445,950	94,846,989
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
Balance - September 30, 2012	66,522,072	11,601,830	15,234,366	93,358,268
Dividends declared (2.0 cents per share)	—	(1,113,055)	—	(1,113,055)
Distributions to non-controlling interests	—	—	(2,322,000)	(2,322,000)
Total comprehensive (loss)/income for the year	—	(1,673,039)	1,866,641	193,602
Balance - September 30, 2013	66,522,072	8,815,736	14,779,007	90,116,815

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, 2013

(expressed in Barbados dollars)

	2013 \$	2012 \$
Revenue		
Net rental income (note 17)	7,832,060	8,195,495
Fair value losses on investment property (note 5)	(2,507,210)	(857,479)
Net gain on financial assets at fair value through profit or loss (note 10)	52,820	76,765
Interest income	47,031	28,859
Dividend income	189	261
Other income	1,504	3,967
Total investment income	5,426,394	7,447,868
Expenses		
Impairment loss on real estate available for re-sale (note 6)	1,448,889	1,954,368
Interest expense	1,151,449	1,288,353
Fund management fees (note 19)	586,700	595,465
Investment advisor fees (note 19)	586,700	595,465
Net carrying costs of real estate available for re-sale (note 18)	497,711	484,365
Professional fees	482,926	295,686
Impairment charge for receivables (note 13)	141,000	—
Net loss on sale of real estate available for re-sale (note 18)	236,122	—
Net loss on sale of investment property (note 5)	16,326	—
Directors and subcommittee fees (note 19)	46,000	46,000
Office and administrative expenses	38,969	16,362
Lease premium expense	—	400,000
Operating expenditure	5,232,792	5,676,064
Total comprehensive income for the year	193,602	1,771,804
Attributable to:		
Class "A" common property fund shareholders	(1,673,039)	(16,112)
Non- controlling interests	1,866,641	1,787,916
Total comprehensive income for the year	193,602	1,771,804
Earnings per share - basic and diluted (note 21)	(0.03)	0.00

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, 2013

(expressed in Barbados dollars)

	2013 \$	2012 \$
Cash flows from operating activities		
Total comprehensive income for the year	193,602	1,771,804
Adjustments for:		
Fair value losses on investment property	2,507,210	857,479
Net loss on sale of real estate available for re-sale	236,122	—
Net loss on sale of investment property	16,326	—
Impairment loss on real estate available for re-sale	1,448,889	1,954,368
Impairment charge for receivables	141,000	—
Net gain on financial assets at fair value through profit or loss	(52,820)	(76,765)
Interest income	(47,031)	(28,859)
Dividend income	(189)	(261)
Interest expense	1,151,449	1,288,353
Operating income before working capital changes	5,594,558	5,766,119
Net increase in accounts receivable and prepaid expenses	(1,517,369)	(336,600)
Net increase/(decrease) in accounts payable and accrued expenses	390,992	(661,137)
Net increase/ (decrease) in security and advance deposits	7,898	(15,244)
Additions to investment properties	(47,302)	(160,323)
Net proceeds from sale of investment property	1,641,438	—
Purchases/additions to real estate available for re-sale	(6,722)	(17,698)
Net proceeds from sale of real estate available for re-sale	268,298	—
Proceeds on sale of investments	—	1,150,516
Cash generated from operations	6,331,791	5,725,633
Interest received	41,104	30,457
Interest paid	(1,234,565)	(1,335,632)
Dividends received	189	261
Net cash generated from operating activities	5,138,519	4,420,719
Cash flows from investing activities		
Decrease in short-term deposits	—	192,000
Net cash generated from investing activities	—	192,000
Cash flows from financing activities		
Distributions to non-controlling interests	(2,322,000)	(1,999,500)
Repurchase of shares	—	(144,683)
Dividends paid	(1,113,055)	(1,116,342)
Loan advances received	3,108,750	144,000
Repayment of loans	(4,694,559)	(1,748,530)
Net cash used in financing activities	(5,020,864)	(4,865,055)

Fortress Caribbean Property Fund Limited

Consolidated Statement of Cash Flows

For the year ended September 30, 2013

(expressed in Barbados dollars)

	2013 \$	2012 \$
Net increase/(decrease) in cash and cash equivalents	117,655	(252,336)
Cash and cash equivalents - beginning of year	<u>2,359,338</u>	<u>2,611,674</u>
Cash and cash equivalents - end of year	<u>2,476,993</u>	<u>2,359,338</u>

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, 2013

(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 1st 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 effective in 2013

- Amendment to IAS 1, ‘Financial statement presentation’ regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. This amendment did not have any impact on the consolidated financial statements.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(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

- 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.
- 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 accounts 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.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(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

- 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 Fund is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

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 the entity 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 consolidated 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 consolidated statement of comprehensive income as part of the fair value gain and loss.

c) Investments

Financial assets at fair value through profit or loss

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.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

c) Investments...continued

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.

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 consolidated 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 consolidated 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 consolidated 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 consolidated statement of comprehensive income. Changes in the fair value of investment property related to foreign currency translation are also recognised in the consolidated statement of comprehensive income.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

e) Investment properties...continued

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

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 the lower of cost or net realisable value. 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 consolidated 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) Accounts receivables

Accounts receivables are amounts due from customers for services performed in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

i) Accounts payable and accrued expenses

Accounts payable and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable and accrued expenses are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

j) 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.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

k) 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.

l) 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.

m) Revenue recognition

Interest income is recognised in the consolidated 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.

n) 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.

o) Expenses

Expenses are accounted for on an accrual basis. Expenses are charged to the consolidated 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.

p) 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

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

p) Management and advisor fees...continued

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.

q) 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 Fund. They are deconsolidated from the date that control ceases.

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.

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:

	2013	2012
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%

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

r) 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 consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

s) 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.

t) 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.

u) 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 consolidated 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's policies surrounding these estimates and assumptions are disclosed in note 2e and 5.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

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, 2013 is disclosed in note 10.

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 \$
September 30, 2013		
Listed on Caribbean stock exchanges and markets	9,272	927
Mutual funds	624,638	62,464
	633,910	63,391
	Carrying value \$	Effect of 10% change \$
September 30, 2012		
Listed on Caribbean stock exchanges and markets	9,272	927
Mutual funds	571,818	57,182
	581,090	58,109

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

4 Financial risk management...continued

Market risk...continued

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 15. 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.

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 \$
September 30, 2013					
Financial assets					
Investments	—	—	—	633,910	633,910
Accounts receivable	—	—	—	2,052,006	2,052,006
Short term deposits	49,200	—	—	—	49,200
Cash and cash equivalents	300,000	—	—	2,176,993	2,476,993
Total financial assets	349,200	—	—	4,862,909	5,212,109
Financial liabilities					
Loans payable	767,950	7,804,243	7,111,188	232,366	15,915,747
Accounts payable and accrued expenses	—	—	—	1,651,087	1,651,087
Security and advance deposits	—	—	—	1,275,606	1,275,606
Total financial liabilities	767,950	7,804,243	7,111,188	3,159,059	18,842,440

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(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 \$
September 30, 2012					
Financial assets					
Investments	—	—	—	581,090	581,090
Accounts receivable	—	—	—	644,463	644,463
Short term deposits	49,200	—	—	—	49,200
Cash and cash equivalents	473,395	—	—	1,885,943	2,359,338
Total financial assets	522,595	—	—	3,111,496	3,634,091
Financial liabilities					
Loans payable	766,092	3,689,902	12,813,194	281,743	17,550,931
Accounts payable and accrued expenses	—	—	—	1,293,836	1,293,836
Security and advance deposits	—	—	900,000	367,708	1,267,708
Total financial liabilities	766,092	3,689,902	13,713,194	1,943,287	20,112,475

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 2013 \$	Effect on total comprehensive income 2012 \$
Change in interest rate:		
-2%	38,191	42,003
2%	(38,191)	(42,003)

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(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:

	2013	2012
	\$	\$
Accounts receivable	2,052,006	644,463
Short term deposits	49,200	49,200
Cash and cash equivalents	2,476,993	2,359,338
Total financial assets	4,578,199	3,053,001

Accounts receivable comprise mainly of amounts due from the tenants of investment properties and proceeds from the sale of 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:

	2013	2012
	\$	\$
Cash and cash equivalents		
CIBC FirstCaribbean International Bank (un-rated)	1,452,371	1,353,454

The Fund's past due or impaired financial assets are disclosed in note 13.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(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 \$
September 30, 2013				
Loans payable	1,023,438	8,505,442	7,466,957	130,689
Accounts payable and accrued expenses	1,451,087	200,000	—	—
Security and advance deposits	1,079,651	67,314	105,880	22,761
Total financial liabilities	3,554,176	8,772,756	7,572,837	153,450
	0 - 3 months \$	4 months to 1 year \$	1 - 5 years \$	Over 5 years \$
September 30, 2012				
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	1,073,553	—
Total financial liabilities	2,444,851	4,565,863	14,591,729	499,302

Of the \$9,528,880 disclosed in the 2013 borrowings time band of between 0 and 1 year, the Fund intends to refinance \$7,324,750 in the 2014 financial year.

The future operating lease commitments where the Fund is the lessee is also disclosed in note 22. Note 22 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, 2013

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation

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 \$	Level 3 \$	Total \$
September 30, 2013				
Financial assets at fair value through profit or loss				
Listed equity securities	1,272	8,000	—	9,272
Mutual funds	—	624,638	—	624,638
	1,272	632,638	—	633,910

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation ...continued

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
September 30, 2012				
Financial assets at fair value through profit or loss				
Listed equity securities	1,272	8,000	—	9,272
Mutual funds	—	571,818	—	571,818
	1,272	579,818	—	581,090

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.

There were no transfers between levels for the year ended September 30, 2013.

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

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(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:

			Fair value losses		
	Fair value	Additions/	Foreign	Revaluation	Fair value
	b/fwd	(Disposals)	exchange	losses	c/fwd
	\$	\$	loss	\$	\$
The CWBET Building	34,900,000	—	—	(400,000)	34,500,000
The CS&C Joint Venture - buildings	15,060,000	—	—	(516,000)	14,544,000
Carlisle House	12,000,000	—	—	(500,000)	11,500,000
No. 24 Broad Street	8,500,000	—	—	—	8,500,000
Holdings Cottage	2,250,000	—	—	(350,000)	1,900,000
The Chattel Village	1,760,000	—	—	(310,000)	1,450,000
Alanridge Canmore Villa	1,741,672	(1,657,764)	(83,908)	—	—
The Sunset Mall	2,256,000	47,302	—	(47,302)	2,256,000
Lion Castle land	1,000,000	—	—	(50,000)	950,000
Apes Hill land	1,100,000	—	—	(50,000)	1,050,000
Apes Hill Polo Villa	1,707,899	—	—	(200,000)	1,507,899
	82,275,571	(1,610,462)	(83,908)	(2,423,302)	78,157,899

During the year the investment properties were appraised by an independent valuer at \$78,157,899 (2012 - 82,275,571). The decrease of this current valuation over the previous valuation amounting to \$2,423,302 (2012 - \$914,211) has been recorded as fair value losses in the consolidated statement of comprehensive income.

Valuations are performed as of the financial position date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the consolidated financial statements. Due to the nature of the process, valuations may differ from between professional valuers. The effect on net income of an across the board 10% appreciation/depreciation in the fair value of the Fund's investments property would amount to \$7,815,790 (2012 - \$8,227,557).

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

5 Investment properties...continued

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.

During the year the Alanridge Canmore Villa was sold for \$1,641,438 generating a loss of \$16,326.

6 Real estate available for re-sale

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

	Cost b/fwd \$	Additions/ (Disposals) \$	Impairment Losses \$	Cost c/fwd \$
Developed properties:				
Villas on the Green villas	6,756,169	(504,420)	(276,670)	5,975,079
Lime Grove Hillside Villa	1,345,780	—	(103,780)	1,242,000
Land and properties under development:				
Wotton lands	6,792,578	6,722	(589,300)	6,210,000
Rockley- Cane Gardens lands	2,530,000	—	(230,000)	2,300,000
Rockley- Central area lands	1,445,714	—	(65,714)	1,380,000
The CS&C Joint Venture lands	2,000,372	—	—	2,000,372
Villas on the Green lands	3,485,075	—	(183,425)	3,301,650
	24,355,688	(497,698)	(1,448,889)	22,409,101

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, Wotton lands and Rockley properties were subsequently adjusted to their net realisable values resulting in impairment losses of \$1,448,889 (2012- \$4,173,249) being recognised.

Valuations performed by professional valuers are utilised in the process of determining the net realisable value of the real estate available for re-sale. Due to the nature of the valuation process, valuations may differ from between professional valuers. The effect on net income of an across the board 10% depreciation in the net realisable value of the Fund's real estate available for re-sale would amount to \$2,040,873 (2012 - \$2,235,532).

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

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 Wildey 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).

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.

Net rental income arising on properties held by the joint venture amounted to \$1,607,032 (2012-\$1,702,005).

9 Investment in associated company

The Fund has 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
	\$	\$	\$	\$	
September 30, 2013					
Contonou Shores Ltd	2,999,625	—	—	—	35%

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

10 Investments

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

	2013		2012	
	Cost	Market value	Cost	Market value
	\$	\$	\$	\$
Listed on Caribbean stock exchanges and markets	2,646	9,272	2,646	9,272
Caribbean mutual funds	81,601	87,064	81,601	84,526
International mutual funds	99,960	537,574	99,960	487,292
Total financial assets at fair value through profit or loss	184,207	633,910	184,207	581,090

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

	2013	2012
	\$	\$
Realised gain	—	11,172
Unrealised gain	52,820	65,593
Net gain on financial assets at fair value through profit or loss	52,820	76,765

11 Short term deposits

Short term deposits of \$49,200 (2012 - \$49,200) 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 2.50% (2012 – 2.50%).

12 Cash and cash equivalents

	2013	2012
	\$	\$
Cash at bank	2,176,993	1,904,338
Deposits	300,000	455,000
Cash and cash equivalents	2,476,993	2,359,338

Cash and cash equivalents are placed with leading regional commercial banks. The effective yield on cash and cash equivalents is 0.45% (2012 - 0.62%).

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

13 Accounts receivable and prepaid expenses

	2013 \$	2012 \$
Rent receivable from tenants	272,528	360,803
Less: provision for impairment of receivables	(141,000)	–
	<u>131,528</u>	<u>360,803</u>
Other receivables	1,920,478	283,659
Prepaid expenses	<u>180,521</u>	<u>205,769</u>
Accounts receivables, net of provision for impairment	<u>2,232,527</u>	<u>850,231</u>

The estimated fair values of receivables are the discounted amounts of the estimated future cash flows expected to be received and approximate their carrying amounts.

All receivables are due within one year from the end of the reporting period. As of September 30, 2013, accounts receivables of \$227,517 (2012 - \$272,489) were past due but not impaired. The Fund has recognised a loss of \$141,000 (2012- nil) relating to the impairment of its receivables.

The individually impaired receivables are over three months past due and mainly relate to certain tenants of commercial buildings. A provision is recognised for amounts not expected to be recovered.

14 Accounts payable and accrued expenses

	2013 \$	2012 \$
Accounts payable	1,303,664	967,805
Accrued expenses	<u>347,423</u>	<u>326,031</u>
	<u>1,651,087</u>	<u>1,293,836</u>

The estimated fair values of the above financial liabilities are the discounted amounts of the estimated future cash flows expected to be received and approximate their carrying amounts.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

15 Loans payable

	2013 \$	2012 \$
Bond payable		
Series 1 - 2015	3,035,000	3,035,000
Series 2 - 2013	—	3,036,250
Series 3 - 2014	4,050,000	4,050,000
RBTT Merchant Bank Limited		
The CS&C Joint Venture	3,201,637	4,197,391
The Sunset Joint Venture	651,151	786,200
CIBC FirstCaribbean International Bank		
Fortress (St. Lucia) Limited	715,522	1,319,724
Fortress Mutual Fund Limited		
Fortress (St. Lucia) Limited	905,256	910,366
Fortress Caribbean High Interest Fund		
Fortress Caribbean Property Fund Limited	3,139,837	—
The Sunset Joint Venture	217,344	216,000
	15,915,747	17,550,931

The current portion due of loans payable, amounts to \$8,804,558 (2012 - \$4,774,564).

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 carried an interest rate of 7.25%, maturing July 31, 2013 with an option to rollover for a further 4 years. Series 2 was not rolled over and was repaid during the financial year. 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 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% (2012 - 7.19%) and is repayable by April 2018.

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% (2012 - 5.50%).

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

15 Loans payable ...continued

The CIBC 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 3.11% (2012 - 3.21%).

The loan due to Fortress Mutual Fund Limited relating to Fortress (St. Lucia) Limited bears interest at year end at a rate of 2.99 % (2012 - 3.21%) per annum. The loan is subordinated to the CIBC 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 bears interest at a rate of 6% per annum. This is an unsecured short term loan, repayable on July 31, 2014.

The loan due to Fortress Caribbean High Interest Fund relating to The Sunset Joint Venture 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.

16 Dividend payable

A dividend of \$0.02 per share was declared during the financial year and paid on December 21, 2012. This amounted to a dividend totaling \$1,113,055 (2012- \$1,116,342).

17 Net rental income

Rental income is shown net of direct property expenses of \$1,872,703 (2012 - \$1,421,470) incurred in managing the properties.

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

The Villas on The Green development incurred net carrying costs of \$340,490 (2012- \$413,651) which comprise of property, administrative and other holding costs and is shown net of \$200,042 (2012- \$105,402) of rental income. During the year one unit was sold for net proceeds of \$468,298, generating a loss of \$36,122.

The Rockley Central facilities incurred net carrying costs of \$11,174 (2012 - \$4,768) which comprise of property, administrative and other holding costs and is shown net of \$46,436 (2012 - \$42,988) of rental income.

The Rockley Cane Gardens incurred \$13,466 (2012 - \$56,863) in professional fees as well as property and other holding costs.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

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

The carrying costs also include \$132,581 (2012-\$9,083) in professional fees and property administration from other available for re-sale properties.

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. A memorandum of understanding was reached between the Rockley Joint Venture and the owners and a final settlement of \$400,000 was agreed upon. The Fund's share of 50% of this cost has been recognised in the consolidated statement of comprehensive income with the net loss on sale of real estate available for resale.

19 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 \$586,700 (2012 - \$595,465) were paid to Fortress Fund Managers Limited and investment advisor fees amounting to \$586,700 (2012 - \$595,465) were paid to Altman Real Estate (see note 2p).

The CS&C Joint Venture holds 203,686 (2012 - 203,686) shares in the Fortress Caribbean High Interest Fund, of which 24% is reflected in the consolidated financial statements. Gains on the total shareholding amounted to \$2,537 (2012 - \$13,116). Management fees of nil (2012- \$2,183) 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 loans payable is \$2,060,000 (2012-\$2,060,000) due to Fortress Caribbean High Interest Fund for the Series 3 bond payable. Interest expense of \$153,250 (2012-\$153,250) relating to this loan was recognised in the consolidated statement of comprehensive income.

Included in the loan payable is \$3,139,837 (2012- nil) due to Fortress Caribbean High Interest Fund bears interest at a rate of 6% per annum. This is an unsecured short term loan, repayable on July 31, 2014. Interest expense of \$31,087 (2012-nil) relating to this loan was recognised in the consolidated statement of comprehensive income.

Included in the accounts payable is \$46,923 (2012-\$1,712) due to Fortress Fund Managers Limited and \$7,771 (2012 - \$70,803) due to Altman Real Estate and its subsidiaries.

Included in the loans payable is \$905,256 (2012-\$910,366) due to Fortress Mutual Fund Limited with respect to Fortress (St. Lucia) Limited. Interest expense of \$27,660 (2012 - \$25,470) relating to this loan was recognised in the consolidated statement of comprehensive income.

Included in the loans payable is \$217,344 (2012-\$216,000) due to Fortress Caribbean High Interest Fund Limited with respect to The Sunset Joint Venture. Interest expense of \$11,438 (2012 - \$11,438) relating to this loan was recognised in the consolidated statement of comprehensive income.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

19 Related party transactions...continued

Included in net rental income is an amount of \$2,028,124 (2012 - \$2,151,242) earned from an affiliated company.

Property management fees of \$94,830 (2012 - \$92,713) were paid to Altman Real Estate and its subsidiary Property Consultancy Services during the year.

During the year, commissions of \$7,814 (2012 - \$10,124) were charged on property rentals and paid to Altman Real Estate and its subsidiaries.

Directors and subcommittee fees of \$46,000 (2012 - \$46,000) were paid during the year. Directors' interest (including beneficial interests) in class "A" common property fund shares are as follows:

	2013	2012
Geoffrey Cave		
Number of shares held at September 30	<u>32,000</u>	<u>32,000</u>
Paul Altman		
Number of shares held at September 30	<u>659,920</u>	<u>659,920</u>
Anthony Audain		
Number of shares held at September 30	<u>26,000</u>	<u>26,000</u>
Sir Trevor Carmichael		
Number of shares held at September 30	<u>26,333</u>	<u>26,333</u>
Maureen Davis		
Number of shares held at September 30	<u>21,506</u>	<u>21,506</u>
Terry Hanton		
Number of shares held at September 30	<u>7,200</u>	<u>7,200</u>
John Williams		
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, 2013

(expressed in Barbados dollars)

20 Share capital

	2013		2012	
	Number of shares	\$	Number of shares	\$
a) Class “B” shares				
Authorised				
A maximum of 10 Class “B” shares				
Issued and outstanding	10	10	10	10
b) Class “A” common property fund shares				
Authorised				
An unlimited number of Class “A” shares of no par value				
Issued and outstanding	55,652,768	66,522,062	55,652,768	66,522,062
Total share capital	55,652,778	66,522,072	55,652,778	66,522,072

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

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, 2013

(expressed in Barbados dollars)

21 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 diluted earnings per share.

Basic and diluted earnings per share are calculated as follows:

	2013 \$	2012 \$
Comprehensive loss attributable to shareholders	(1,673,039)	(16,112)
Weighted average number of Class “A” shares in issue	55,652,768	55,652,768
Basic and diluted earnings per share	(0.03)	0.00
Net asset value	75,337,808	78,123,902
Net asset value per Class “A” shares	1.35	1.40

22 Commitments

Operating lease commitments - where the Fund is the lessee

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

	2013 \$	2012 \$
Not later than 1 year	126,000	126,000
Later than 1 year and not later than 5 years	534,450	534,450
Later than 5 years	1,100,253	1,238,853

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

22 Commitments...continued

Operating lease commitments - where the Fund is the lessor

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

	2013	2012
	\$	\$
Not later than 1 year	8,781,291	8,327,500
Later than 1 year and not later than 5 years	20,945,954	27,511,311
Later than 5 years	7,677,272	4,658,925

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:

	2013	2012
	\$	\$
Not later than 1 year	941,763	722,354
Later than 1 year and not later than 5 years	1,076,389	975,994
Later than 5 years	—	—

23 Contingencies

The tenant of the Sunset Mall has made a claim for damages incurred during the roof renovation project. 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.

24 Subsequent events

On September 24th, 2013, at a special meeting of the shareholders of the Class “A” shares, the proposal to divide the Fund into a segregated cell company was approved. As a result, effective October 1, 2013, the Fund was converted in a segregated cell company namely Fortress Caribbean Property Fund Limited SCC (the Company). The Company is divided into two cells, Fortress Caribbean Property Fund- Value Fund (the Value Fund) and Fortress Caribbean Property Fund -Development Fund (the Development Fund). Each share previously owned by the Class “A” shareholders has been replaced by one share in the Value Fund and one share in the Development Fund.

The split of the Fund into the two cells is currently reflected on the Barbados Stock Exchange, the Company’s primary exchange listing. Trading on the Trinidad and Tobago Stock Exchange has been suspended. Each share will trade independently.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

24 Subsequent events...continued

The table below shows the partitioning of the assets and liabilities as at September 30, 2013 into the two segregated cells:

	Value Fund \$	Development Fund \$	Total \$
Assets			
Investment properties	72,750,000	5,407,899	78,157,899
Real estate available for re-sale	—	22,409,101	22,409,101
Investment in associated company	—	2,999,625	2,999,625
Investments	633,910	—	633,910
Other assets	411,117	1,870,610	2,281,727
Cash and cash equivalents	1,289,111	1,187,882	2,476,993
Total assets	75,084,138	33,875,117	108,959,255
Liabilities			
Loans payable	14,299,000	1,616,747	15,915,747
Accounts payable and accrued expenses	859,285	791,802	1,651,087
Security and advance deposits	375,606	900,000	1,275,606
Total liabilities	15,533,891	3,308,549	18,842,440
Total assets less liabilities	59,550,247	30,566,568	90,116,815
Equity			
Total shareholders' funds	44,771,240	30,566,568	75,337,808
Non- controlling interests	14,779,007	—	14,779,007
	59,550,247	30,566,568	90,116,815
Net asset value per share	0.80	0.55	1.35
Number of shares in issue	55,652,768	55,652,768	111,305,536

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

24 Subsequent events...continued

The table below shows the partitioning of the comprehensive income as at September 30, 2013 into the two segregated cells:

	Value Fund \$	Development Fund \$	Total \$
Revenue			
Net rental income	7,941,060	(109,000)	7,832,060
Fair value losses on investment property	(1,773,302)	(733,908)	(2,507,210)
Net gain on financial assets at fair value through profit or loss	29,545	23,275	52,820
Other income	27,255	21,469	48,724
Total investment income	6,224,558	(798,164)	5,426,394
Expenses			
Impairment loss on real estate available for re-sale	–	1,448,889	1,448,889
Interest expense	1,057,724	93,725	1,151,449
Fund management fees	328,174	258,526	586,700
Investment advisor fees	328,174	258,526	586,700
Net carrying costs of real estate available for re-sale	–	497,711	497,711
Professional fees	270,128	212,798	482,926
Impairment charge for receivables	141,000	–	141,000
Net loss on sale of real estate available for re-sale	–	236,122	236,122
Net loss on sale of investment property	–	16,326	16,326
Directors and subcommittee fees	25,730	20,270	46,000
Office and administrative expenses	21,798	17,171	38,969
Operating expenditure	2,172,728	3,060,064	5,232,792
Total comprehensive income for the year	4,051,830	(3,858,228)	193,602
Attributable to:			
Class “A” common property fund shareholders	2,185,189	(3,858,228)	(1,673,039)
Non- controlling interests	1,866,641	–	1,866,641
Total comprehensive income for the year	4,051,830	(3,858,228)	193,602
Earnings per share - basic and diluted	0.04	(0.07)	(0.03)

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2013

(expressed in Barbados dollars)

24 Subsequent events...*continued*

Subsequent to the year end, LIME Barbados has indicated a phased withdrawal and early termination of the triple net lease of the Wildey property owned by the BET Joint Venture. There is no provision in the lease contract for early termination and the terms under which such termination can occur have not been agreed and therefore the impact, if any, on the property's appraised value and the timing and amount of future lease payments and related costs cannot be determined at this time. The BET Joint Venture will be acting under careful guidance from legal counsel on this matter. Every effort will be made to ensure shareholders' rights and interests are protected.

Subsequent to year end, on December 13, 2013, a dividend of \$0.035 per share was declared for the holders of the Fortress Caribbean Property Fund Ltd SCC- Value Fund shares. This dividend is due to be paid on December 31, 2013.



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