

2011

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

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

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

Fortress Fund Managers Limited
First Floor, Carlisle House
Hincks Street
Bridgetown
Barbados
BB11144
Tel (246) 431 2198
Fax (246) 431 0514
Toll free (US & Canada) 1-800-450-6461
invest@fortressfund.com
www.fortressfund.com



Your Future. Our Business.

2011

FORTRESS
Caribbean Property Fund
2011

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 20th 1999
LAUNCH PRICE:	\$1.00 per share
<i>Warrants Exercise Price:</i>	\$1.00 per share
<i>Rights Issue Price:</i>	\$1.40 per share
NO. OF SHARES OUTSTANDING:	55,817,101
NET ASSETS – 30/9/2011:	\$79,401,039
NET ASSET VALUE PER SHARE – 30/9/2011:	\$1.42 per share
SHARE PRICE – 30/9/2011:	\$1.05 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

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

BANKER

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

ATTORNEYS-AT-LAW

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

INDEPENDENT AUDITORS

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

INVESTMENT ADVISOR

Altman Real Estate
Property Consultancy Services Inc
Derricks
St. James
Barbados
Tel: 246-432-0840
Fax: 246-432-2147
Internet: www.aaaltman.com
E-mail: altman@caribsurf.com

PROPERTY MANAGER

Altman Real Estate
Property Consultancy Services Inc
Derricks
St. James
Barbados
Tel: 246-432-0840
Fax: 246-432-2147
E-mail: pcsi@caribsurf.com

INDEPENDENT VALUER

Terra Caribbean
Somerley
Worthing
Christ Church
Barbados

INVESTMENT COMMITTEE

John Williams
Algernon Leacock
Roger Cave

AUDIT COMMITTEE

Anthony Audain
Algernon Leacock
John Williams

GOVERNANCE COMMITTEE

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

FUND MANAGER & SECRETARY

Fortress Fund Managers Limited
First Floor Carlisle House
Hincks Street
Bridgetown
Barbados
Tel: (246) 431 2198
Fax: (246) 431 0514
Internet: www.fortressfund.com
Email: invest@fortressfund.com

| Reports

Directors' Report



“The Fund generated cash from its operating activities of \$2.5 million and \$4.4 million from investing activities ...”

The Fortress Caribbean Property Fund had a very disappointing year in 2011 recording a loss of \$2.9 million compared to a profit of \$2.4 million in 2010. The Fund's net assets decreased to \$79.4 million from \$84 million in the prior year. The net asset value (NAV) is now \$1.42 per share compared to \$1.51 per share.

The Fund's loss is primarily due to two main factors (1) revaluation losses on the Fund's investment properties of \$2.3 million and (2) impairment losses on the Fund's real estate available for re-sale of \$4.2 million. Together, these non-cash items have resulted in a \$6.5 million charge to the Fund's net income.

The Fund generated cash from its operating activities of \$2.6 million and \$4.4 million from investing activities, of which \$5 million was used to repay loans and to pay a dividend to shareholders in December of 2010. We are pleased to advise that the Directors have declared a dividend of \$0.02 per share with a payment date of December 20th, 2011.

The impact of the weak and jobless recovery in the international markets of the developed world is being harshly felt in Barbados and several of the other tourism dependent islands in the Caribbean. This impact is seen through decreased earnings by companies and individuals, higher levels of unemployment and noticeably higher delinquencies and loan loss ratios at commercial banks. Taken together, these factors are now having a negative impact on real estate markets in the Caribbean with decreases in the value of land, residential and commercial properties.

Many of the Fund's properties have shown declines in their appraised values for the year ended September 30th 2011 and the details of these can be seen in Notes 5 and 6 of the audited financial statements. While painful, the Directors are of the view that the Fund's values reflect closely the reality of the market conditions that we find ourselves in, and while we all hope for a speedy recovery in market conditions, the future still looks quite uncertain.

The ongoing debt crisis in Europe has so far proven very difficult to resolve and the risks appear to be increasing because the delays in implementing effective solutions by the leadership in the European Union has allowed the contagion to now spread to the larger countries of Italy & Spain, whose debt sizes are simply “too big” to be bailed out.

It now appears inevitable that many of the European Banks will need to be re-capitalized. It remains to be seen if it is going to be achieved in an orderly fashion or not and who is going to foot the bill. History has shown that financial markets are often not patient in these matters and we can only hope that actions are taken swiftly before the crisis spreads deeper within Europe and then into other parts of the world.

The government debt dynamics for some countries in the Caribbean are not vastly different to those facing difficulties in Europe and while there isn't a debt crisis yet in the region, challenges could increase if recessionary conditions continue and/or countries are unable to contain their fiscal deficits and rising debt to GDP ratios.

In the local real estate segment, land prices have started to decline but still with few transactions as it is certainly a “buyers” market and forced sellers are taking discounts to get their properties moved.

The commercial property segment has held up best so far particularly for those properties with long-term lease contracts with agreed rent increases. Vacancy rates are increasing now in the “B” class office segment and when the two new buildings in Warrens open in the coming months, there will be further pressure in this segment of the commercial property market.

FINANCIAL REVIEW

Total investment income was \$6.3 million compared \$9.2 million in the prior year (a decrease of 32%) due to the fair value losses of \$2.3 million. Excluding the fair value losses and gains, the decrease would have been 7.5%.

Total expenses increased to \$7.6 million, up from \$5.1 million in the prior year. The majority of this increase is due to impairment losses on real estate available for resale of \$4.2 million. Excluding this non-cash charge, operating expenses amount to \$3.4 million, a decrease of 12% on the prior year.

The Statement of Financial Position remains very strong with total assets of \$117 million and total liabilities of only \$22.4 million, down from \$24.9 million in the prior year. The Fund's overall debt situation continues to improve as the loans on the LIME BET Building subsequent to year end have been fully repaid and will result in much higher annual cash flows to the Fund. Series 1 repayment \$3 million of the Fund's bond issue is due in July of 2012 and this may be rolled over for a further two years at the option of those bond holders. The Fund's other loan repayments are related to commercial properties which are well covered by lease payments.

Directors' Report Cont.

PROPERTY HIGHLIGHTS

The Fund is not in a position of being a forced seller to dispose of properties to cover loans. We do however expect to become more focused on converting some the Fund's non-income producing properties into cash that can be re-invested into better opportunities. The Directors have identified Villas On The Green as one of those assets that has had disappointing sales and the medium term prospects and holding costs do not support continuing to hold these units in the long term given the weak economic outlook. It is expected that we will become more aggressive in our pricing in seeking to move some of these units in the coming year. The Fund has taken an impairment charge of \$3.5 million (24%) against this development during this financial year.

During the year, the Fund completed the purchase of the remaining 50% interest in the Rockley Cane Garden land for \$1.8 million and the Fund took a further impairment charge of \$678,716 on this property. This purchase agreement was entered before the start of the financial crisis but the closing on the transaction was delayed due to legal issues. The Directors remain confident in the long term potential for the development of this Rockley site as and when market conditions improve.

The Fund recorded a fair value gain of \$192,000 on the CS&C Joint Venture properties due to rental increments associated with long term lease contracts. These investments have been the solid performers for the Fund through these difficult economic times. However these investments may come under pressure as trading conditions for these head tenants remain very soft and while inflation rates are significantly above the annual increases in the lease agreements, the market conditions will ultimately dictate sustainability.

The infrastructure works on the CS&C 13 acre site in Lower Estate were substantially completed during the year at a cost of \$1 million. This development consists of 16 commercial lots in area which has great highway access and is seeing steady commercial development. This project is expected to produce significant cash inflows for the Joint Venture in the coming years as the lots are sold.

Considerable progress has been made on plans for a commercial development on the six acre site at Wotton. If successful, we hope to proceed with a significant joint venture commercial project on this site towards the end of next year.

Our CWBET Building Joint Venture continues to perform very well with five years remaining on the lease with LIME. We remain hopeful that agreement can be reached with LIME to continue the lease for another term.

LOOKING FORWARD

Overall, the market conditions in Barbados, the Caribbean and the developed countries of the US, UK & Europe remain very difficult. The debt crisis in Europe is yet to be resolved and may result in the world going back into recession. Many of the Caribbean's governments have seen their debt situations worsen and while there has been some improvement and growth in tourism, it has not been enough to improve fiscal balances and employment levels. The region has been too slow in adjusting government expenditure levels to compensate for the loss in revenues and foreign investment. We believe that very tough times lie ahead for the region.

The Fund is currently trading at \$1.00 per share, a 29.6% discount to the Fund's Net Asset Value (NAV) of \$1.42 per share. We plan to be more aggressive in realizing cash from some of the non-income producing properties which will put the Fund in a better position to either purchase properties which are available at distressed prices or to consider buying back shares in the market thus providing liquidity to those shareholders who wish to sell.



Geoffrey Cave
Chairman

Investment Advisors' Report



“In the Caribbean economic recovery has been modest...”

Last year we reported that the Caribbean had experienced a “very weak real estate market”. This remains the situation in 2011, and in some subsectors the situation has deteriorated. The property market tends to be a marker of economic well being and in Europe, North America and the Caribbean that well being is not so “well”.

The financial outlook in those economies is markedly impacted by concerns over:

- Dwindling growth rates and the threat of a new recession
- Increasing unemployment
- Tight credit markets
- The threat of contagion of the European debt crisis
- Continuing uncertainty in the political landscape of the middle east

The knock on effect for property investments is characterized by reduced domestic demand, thereby creating pressure on rents and returns, and prolonged risk aversion on the part of the commercial banks. In addition increasing utility costs have hit landlords and tenants alike and have reduced property yields.

In the Caribbean economic recovery has been modest, whilst the ratio of government debt to GDP has risen markedly. Much of the debt has been raised domestically and has been supported by purchases by government pension agencies. So there are grave concerns about the Caribbean economies generally.

IMPACT ON PROPERTY VALUES

The scenario outlined above has had several impacts on the outlook for the property market. These include:

- Dampened demand for residential property
- Stagnant or declining income producing property profits
- Increasing vacancy in income producing properties

Investment Advisors' Report Cont.

The Fund's valuers have taken account these impacts by estimating reduced prices and longer sales periods of the residential holdings and increasing the discount factor for their income models, thereby reducing the value of Fund's investment properties. Valuers should generally not take account of short term trends, but the anticipated recovery from the recession of 2008/9 has not come about and their values now suggest that they consider some of the short term trends to be longer term in nature.

It is our opinion that we are now paying the price for overly optimistic values of past years. The reductions in value in this financial year of nearly \$6.5million exceeded the trading profit for the year, and represent a decline of over 5.6% of the gross value of the Fund's assets. This is a bitter pill to swallow, and will leave many shareholders bemused, but the Investment Advisors consider it was the right and proper thing to do rather than carry assets at unrealistic values. Indeed there may be further declines in future years unless there is an economic recovery in the Caribbean.

LUXURY RESIDENTIAL

In Barbados there has been limited recovery in the volume of luxury residential sales, largely driven by the increase in wealth in the UK, due to the recovery of the equity markets. However prices remain depressed. A number of residential condominiums and developments have marked down prices to stimulate demand.

In St Lucia, Tobago and Grenada, recovery has been slower, and we have seen many examples of developers having to turn to long term rentals to cover costs, as the Fund has done at Villas on the Green. St Kitts has been a minor success story principally because of its economic citizenship program, but too many of the Windward and Leeward islands make the purchase of a second home by a non national a cumbersome and expensive process.

OTHER RESIDENTIAL

Sales of lots and low to middle income houses have declined in volume very significantly, because of loss of purchasing power of potential buyers, and general caution. Developments which had been modestly successful in 2010 are finding it very difficult to sell homes in 2011.

Rental rates for good quality residential developments have declined 15 – 20% as landlords try to stimulate a relatively static demand curve.

COMMERCIAL PROPERTY SALES AND RENTALS

Sales

In Barbados and the eastern Caribbean there have been very few transactions in commercial buildings. This is despite the fact that market values are now significantly lower than replacement cost. In Barbados, the construction of new commercial buildings in Warrens, Holetown and the suburbs of Bridgetown have increased vacancy in older buildings. The demise of CLICO throughout the Caribbean has left a number of

new commercial buildings unfinished or with substantial vacancy. In one case in Barbados the building is likely to sell at around or less than 50% of the build cost.

Rentals

Rental rates have remained relatively static over the last twelve months, and are buoyant in some areas. However in Bridgetown, increased vacancy has led to reduced rates. There has been limited recovery in duty free retail, which has held retail rental rates static.

TRANSACTIONS

During the year the Fund disposed of its Coral Cove unit. This was a wise decision given the oversupply of condominiums in Barbados. An acquisition of an interest in prime land in Canouan was made. The development in Canouan has received a major new investor and the resort is being redeveloped and repositioned at the very top end of the market.

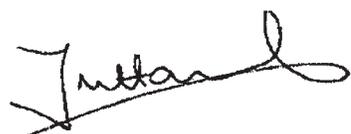
During the year the Fund bought out its partner in the Rockley Cane Garden development. This is a prime residential opportunity which is now 100% controlled by the Fund. The Investment Advisors view is that Rockley is a safe investment over time. A new planning permission has been sought which is more suited to market conditions.

OUTLOOK AND OPPORTUNITIES

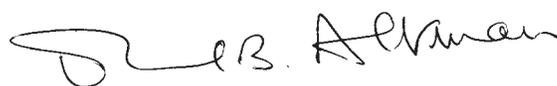
Last year we reported that the next five years would be challenging. In fact the outlook has become more challenging than we thought, as explained in the opening paragraph. In many of the Caribbean territories domestic demand has been poor and although tourism arrivals have shown modest recovery this has not been the case for tourism revenues which show a decline. The outlook for the cruise industry is bleak.

Our view is that the Caribbean economies are in for a rough ride over the next few years and the Fund needs to be very cautious with its investment strategy. The Fund turns down many opportunities to acquire assets in risky projects and must continue to do so. Further investment in residential will be discouraged.

The emphasis must be to continue to manage the performance of the Fund's existing assets, and liquidate those which are underperforming. The Fund should seek joint venture opportunities with others wherever the returns are expected to be good. Over time the income producing assets of the Fund should be increased whilst reducing assets available for resale, in order to improve the trading performance of the Fund and thereby net asset value.



Terry Hanton



Paul Altman

Property Report



The CWBET Building

Location - Wildey, Barbados
Fair Market Value - \$35.5 million
Tenantable Space - 84,838 square feet

The Fund owns a 57% share in The BET Joint Venture that owns this property. Cable & Wireless has leased back the building for a fifteen year term, ending in October 2016, with annual rental increments of 5%, with the market rent value to be determined as at November 2011.

During the twelve months ended September 30, 2011 The BET Joint Venture earned \$4.8 million (2010 - \$4.6 million) in gross rental income and the valuers have revalued the building at \$35.5 million (2010 - \$36.4 million) resulting in fair value loss of \$850,000. The joint venture has made a profit after interest of \$3.8 million compared to \$3.9 million in 2010. This represents a return on equity of 38% in this financial year (2010 - 39%), including fair value losses.

The independent valuer has reduced the value of the property assuming a reduction in future rents. Discussions are on-going with LIME about the potential renewal of their lease beyond 2016. The building is ideally located and the Board is also reviewing redevelopment opportunities for the site after the lease ends.



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. A new lease was signed for seven years ended August 2016. Under the new lease payments will increase an average of 3% per annum. Additional rent is also payable in respect of any cost incurred by the developer for building upgrades. The façade of the building was re-done during the year at a cost of \$295,143.

The valuers have valued the property at \$8.5 million with \$295,143 in additions resulting in fair value loss of \$295,143 (2010 - \$500,000 fair value gain).

Property Report Cont.



Carlisle House

Location - Bridgetown, Barbados
Fair Market Value - \$12.4 million
Tenantable Space - 48,426 square feet
Property Type - Commercial

The property earned \$1.7 million in gross rents, which is a decline from the \$1.8m earned in 2010. However despite a reduction in expenses net income from this property decreased to \$0.8 million from \$1.1 million in 2010. In 2010 there was a fair value gain of \$400,000 whereas in 2011 there was no fair value adjustment.

The occupancy level at Carlisle House fell from 98% to the current level of 78% as a result of the closure of Liat's region-wide ticketing offices as well as the re-location of some government departments to the Warrens area. 9,846 sq. ft. of space is currently available.

The valuers have maintained the value of the property at \$12.4 million.



Holder's site

Location - St. James, Barbados
Fair Market Value - \$2.5 million
Size - 158,000 square feet
Property Type - Residential Type

This 3 ½ acre site has expansive views over Holder's Polo Field, the Sandy Lane Green Monkey golf course and the west coast. The Fund has no immediate plans for the property.

The valuers have re-valued the property at \$2.5 million (2010 - \$3.0 million) resulting in a fair value loss of \$500,000 (2010 - nil).



Carter's & Cave Shepherd Buildings

Location – various
Fair Market Value - \$62.8 million (entire joint venture)

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

Four of the locations are leased to major retailers in Barbados on long term leases and the four properties have been valued at \$62.8 million, resulting in fair value gains of \$800,000 (2010 - \$650,000).

During the year ended September 2011 the Fund earned \$1.4 million in gross rental income and recognised \$192,000 in fair value gains (2010 - \$156,000 in fair value gains) resulting in a profit of \$1.2 million (2010 - \$1.05 million) from our share of the joint venture.



Lower Estate Lands

Location – Lower Estate
Carrying Value - \$8.3 million (entire joint venture)

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

The Lands are included in real estate available for re-sale at adjusted costs as the lots are being actively being marketed for resale. The Fund's interest in the land at September 2011 is \$2 million (2010- \$1.7 million).

Property Report Cont.



Alanridge Canmore Villa – Unit #5

Location - Alberta, Canada
Fair Market Value - CDN\$950,000
Tenantable Space - 2,436 square feet
Property Type - Residential Property

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

It is now valued at CDN\$0.95 million (2010 - CDN\$0.97 million) and is included in the books at BDS\$1.9 million (2010- BDS\$1.9 million). The gross rental income amounted to \$59,530 (2010 - \$28,814). The Fund has recorded a fair value loss of \$55,189 (2010 - \$86,725 gain) including foreign exchange loss.



Chattel Village

Location - Holetown, Barbados
Fair Market Value - \$0.9 million
Tenantable Space - 8,000 square feet
Property Type - Commercial

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

The gross rental income has remained constant at \$490,000 as the property was fully occupied for the year. As with prior years, the value has been decreased by \$260,000 (2010 - \$195,000) to \$870,000.

In order to maintain the high standard of appearance for which the property is known, we have seen some increases in the operating cost for the Village. However in an effort to control some of these costs, we have gone to tender for the provision of sewage disposal services which were required more than usual, as a result of higher than usual rainfall during the year.



Sunset Mall

Location – Sunset Crest, St. James
Fair Market Value - \$8.6 million (entire joint venture)
Property Type – Commercial building

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

The original purchase included plans for a \$2 million renovation. This has been executed in phases. Works are presently being done to improve the façade of the building and the car park works will be done next year. The partnership receives rent increments of 10% of any costs spent.

The property has been valued at \$8.6 million, resulting in fair value loss of \$52,894 (2010 - \$200,000 gain).

During the year ended September 2011 the Fund earned \$204,157 (2010 - \$190,944) in gross income and recognized \$12,695 in fair value losses (2010 - \$48,000) resulting in \$138,145 (2010 - \$102,214) of profit after expenses from our share of the joint venture.



Lion Castle Lot 21

Location - St. Thomas
Fair Market Value - \$1.2 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 re-valued the property at \$1.2 million (2010 - \$1.4 million) resulting in fair value loss of \$225,000 (2010 - \$94,816).

Property Report Cont.



Apes Hill Polo Villa

Location - Waterhall, St. Thomas
Fair Market Value - \$1.8 million
Property Type - Residential Unit

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

The unit is being kept for future sale, when the Apes Hill community matures. In the mean time it is available for rent. Since, the Villa is being kept for indeterminate future use it was transferred from real estate available for re-sale to investment property in 2010 in accordance with IAS 40.

The valuers have maintained the value of the property at \$1.8 million.



Apes Hill Land

Location - Apes Hill, St. Thomas
Fair Market Value - \$1.3 million
Property Type - Undeveloped Residential Lands

This 20,800 square foot lot is located next to the sixth tee at the new 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 Fund intends to offer this property for sale off plan when the market recovers.

The land is now included at its fair market value of \$1.25 million resulting in \$310,000 fair value loss (2010 - \$402,994 fair value gain).



Villas on the Green

Location - Cap Estate, St. Lucia

Carrying Value - \$11.4 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 plan community was approved for 72 homes and the Fund has developed 20 townhouses in Phase I of this plan. The 20 townhouses were completed in 2008 with seven units sold, and one additional sale not yet complete (a purchase and sale agreement has been signed for that unit).

There were no units sold during the year. A deposit of \$331,090 on the unit previously under contact for sale was forfeited as the client failed to complete after several years. The 13 unsold units remain available for sale, however four of the unsold units are rented short term in order to mitigate holding costs. The development incurred \$235,207 (2010 - \$479,302) in property administrative and other holding costs, net of \$132,807 (2010 - \$78,523) in rental income. Without any sales, and excluding the forfeiture and the impairment, this resulted in a net loss after interest of \$315,003 (2010 - \$566,172) 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 \$3.5 million (2010 - \$330,338) being recognised.

The prices of the villas have been marked down to stimulate sales activity. The Board proposes to obtain planning approval for the sub-division of the remaining lands into golf frontage lots for re-sale. It is anticipated that the approval will be obtained early in the new year.

Property Report Cont.



Wotton Lands

Location - Wotton, Christ Church

Carrying Value - \$6.8 million

Property Type - Undeveloped commercial lands

In 2008 the Fund completed the purchase of 6.2 acres of land on the ABC Highway with permission for offices. A sub division plan has been prepared and we are soliciting comments from the agency community on the draft plan. The property offers an excellent joint venture opportunity. Discussions are underway with a potential partner who wishes to develop a retail complex.



Rockley Central Area

Location- Rockley, Barbados

Carrying Value - \$3.2 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 during the year).

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

During the year \$49,254 (2010 - \$24,917) was spent by each partner of the joint venture on maintenance, property, administrative and other holding costs (net of \$40,219 in rental income each) in relation to the central facilities.



Lime Grove Hillside Villa

Location – Lime Grove, St. James
Carrying Value - \$1.8 million
Property Type – Residential Unit

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



Rockley Cane Gardens

Location- Rockley, Barbados
Carrying Value - \$2.8 million
Property Type – Undeveloped lands

The Fund purchased the remaining fifty percent of the Worthing Great House site from its joint venture partner during the year. Worthing Great House site is ear marked as Phase II and is to be developed as a new cluster called Cane Garden.

Since the Fund's commitment to purchase Cane Gardens, \$100,717 was spent on professional fees in relation to the planned development, as well as property, administrative and other holding costs.

Real estate available for re-sale is carried at lower of cost or net realisable value. At year end an independent valuation was performed on the land. Based on this value the Cane Gardens site value was subsequently adjusted to its net realisable value of \$2.76 million, resulting an impairment loss of \$678,716 being recognised.

Property Report Cont.



Canouan

Location - Canouan Island, St. Vincent & the Grenadines

Carrying Value - \$3.0 million

Property Type - Undeveloped residential lands

The Fund purchased a 35% interest in this 3.92 acre site with spectacular views of the Grenadines. The Fund's portion of the cost is \$3.0 million.

October 1, 2011

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 2011. 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
- Holders Cottage
- Carter & Co; (3 Locations)*
- Apes Hill Lot 1-4
- Chattel Village
- No. 24 Broad Street
- Cave Shepherd, Broad Street*
- Apes Hill Polo Villa 3
- Sunset Crest Plaza**
- BET Building
- Canmore Property***
- Lion Castle Lot 21

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

** 24% interest in the Sunset Crest Shopping Plaza

*** Reviewed the appraisal completed in Canada

In our opinion, the market value of the Fortress interest in the above listed properties is **\$82,839,746** as of September 30, 2011.

Sincerely,



Andrew W. Mallalieu, MRICS
Managing Director

Terra Caribbean (Barbados) Limited

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

Holetown, St. James, BB24045, Barbados
Tel: (246) 419-3600 | Fax: (246) 419-3605



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, 2011 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SP

December 23, 2011
Bridgetown, Barbados

Fortress Caribbean Property Fund Limited

Consolidated Statement of Financial Position

As of September 30, 2011

(expressed in Barbados dollars)

	2011	2010
	\$	\$
Assets		
Investment properties (note 5)	82,972,727	84,883,834
Real estate available for re-sale (note 6)	26,292,358	30,822,484
Investment in associated company (note 9)	2,999,625	–
Investments (note 10)	1,654,841	508,931
Accounts receivable and prepaid expenses	515,228	1,263,091
Short term deposits (note 11)	241,200	4,718,870
Cash and cash equivalents (note 12)	2,611,674	1,560,467
Total assets	117,287,653	123,757,677
Liabilities		
Loans payables (note 13)	19,173,635	22,578,843
Accounts payable and accrued expenses	1,921,232	1,195,515
Security and advance deposits	1,345,797	1,204,436
Total liabilities	22,440,664	24,978,794
Total assets less liabilities	94,846,989	98,778,883
Equity		
Capital and reserves attributable to the Fund shareholders		
Share capital (note 18)	66,718,500	66,718,500
Retained earnings	12,682,539	17,305,322
Total shareholders' funds	79,401,039	84,023,822
Non-controlling interests	15,445,950	14,755,061
	94,846,989	98,778,883
Net asset value per share (note 19)	1.42	1.51

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

Approved by the Board of Directors on December 23, 2011



Director



Director

Fortress Caribbean Property Fund Limited

Consolidated Statement of Changes in Equity

For the year ended September 30, 2011

(expressed in Barbados dollars)

	Attributable to Fund shareholders			
	Share capital \$	Retained earnings \$	Non- controlling interests \$	Total \$
Balance - September 30, 2009	66,718,500	14,942,642	13,945,909	95,607,051
Distributions to non-controlling interests	–	–	(881,500)	(881,500)
Total comprehensive income for the year	–	2,362,680	1,690,652	4,053,332
Balance - September 30, 2010	66,718,500	17,305,322	14,755,061	98,778,883
Dividends declared (3.0cents per share)	–	(1,674,513)	–	(1,674,513)
Distributions to non-controlling interests	–	–	(924,500)	(924,500)
Total comprehensive (loss)/income for the year	–	(2,948,270)	1,615,389	(1,332,881)
Balance - September 30, 2011	66,718,500	12,682,539	15,445,950	94,846,989

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, 2011

(expressed in Barbados dollars)

	2011	2010
	\$	\$
Revenue		
Net rental income (note 15)	7,934,420	7,622,807
Fair value (losses) /gains on investment property (note 5)	(2,316,027)	1,183,734
Net gain on sale of real estate available for re-sale (note 16)	262,593	–
Net gain on financial assets at fair value through profit or loss (note 10)	(31,532)	112,396
Interest income	80,547	239,887
Dividend income	367	340
Other income	331,118	1,815
	<hr/>	<hr/>
Total investment income	6,261,486	9,160,979
	<hr/>	<hr/>
Expenses		
Interest expense	1,471,504	1,740,548
Impairment loss on real estate available for re-sale (note 6)	4,173,249	1,198,586
Fund management fees (note 17)	630,862	624,555
Investment advisor fees (note 17)	630,862	624,555
Net carrying costs of real estate available for re-sale (note 16)	308,200	496,511
Professional fees	317,143	371,510
Directors and subcommittee fees	46,000	46,000
Office and administrative expenses	16,547	5,382
	<hr/>	<hr/>
Operating expenditure	7,594,367	5,107,647
	<hr/>	<hr/>
Total comprehensive (loss)/income for the year	(1,332,881)	4,053,332
	<hr/>	<hr/>
Attributable to:		
Class “A” common property fund shareholders	(2,948,270)	2,362,680
Non- controlling interests	1,615,389	1,690,652
	<hr/>	<hr/>
	(1,332,881)	4,053,332
	<hr/>	<hr/>
Earnings per share - basic and diluted (note 19)	(0.05)	0.04
	<hr/>	<hr/>

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, 2011

(expressed in Barbados dollars)

	2011	2010
	\$	\$
Cash flows from operating activities		
Total comprehensive (loss)/income for the year	(1,332,881)	4,053,332
Adjustments for:		
Fair value losses/(gains) on investment property	2,316,027	(1,183,734)
Net gain on sale of real estate available for re-sale	(262,593)	–
Impairment loss on real estate available for re-sale	4,173,249	1,198,586
Net loss/ (gain) on financial assets at fair value through profit or loss	31,532	(112,396)
Interest income	(80,547)	(239,887)
Dividend income	(367)	(340)
Interest expense	1,471,504	1,740,548
Operating income before working capital changes	6,315,924	5,456,109
Net decrease /(increase) in accounts receivable and prepaid expenses	749,460	(447,257)
Net increase in accounts payable and accrued expenses	725,717	481
Net increase in security and advance deposits	78,516	58,475
Additions to investment properties	(404,920)	–
Purchases/additions to real estate available for re-sale	(2,244,358)	(38,256)
Net proceeds from sale of real estate available for re-sale	2,863,828	–
Increase in real estate available for re-sale deposits	–	(260,000)
Increase in investment in associated company	(2,999,625)	–
Purchase of investments	(2,431,600)	–
Proceeds on sale of investments	1,254,158	143,000
Cash generated from operations	3,907,100	4,912,552
Interest received	154,410	189,362
Interest paid	(1,474,967)	(1,839,743)
Dividends received	367	340
Net cash generated from operating activities	2,586,910	3,262,511
Cash flows from investing activities		
Decrease/(increase) in short-term deposits	4,402,210	(937,029)
Net cash generated from/(used in) investing activities	4,402,210	(937,029)
Cash flows from financing activities		
Distributions to non-controlling interests	(924,500)	(881,500)
Dividends paid	(1,674,513)	–
Loan advances received	72,000	958,266
Repayment of loans	(3,410,900)	(4,192,279)
Net cash used in financing activities	(5,937,913)	(4,115,513)
Net increase/(decrease) in cash and cash equivalents- carried forward	1,051,207	(1,790,031)

Fortress Caribbean Property Fund Limited

Consolidated Statement of Cash Flows

For the year ended September 30, 2011

(expressed in Barbados dollars)

	2011 \$	2010 \$
Net increase/(decrease) in cash and cash equivalents- brought forward	1,051,207	(1,790,031)
Cash and cash equivalents - beginning of year	<u>1,560,467</u>	<u>3,350,498</u>
Cash and cash equivalents - end of year	<u>2,611,674</u>	<u>1,560,467</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, 2011

(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 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. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Fund is yet to assess IFRS 10’s full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

2 Summary of significant accounting policies ...continued

a) Basis of preparation ...continued

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

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. 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 2013.
- 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. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to net assets of the arrangements and hence equity account for its interest. Proportional consolidation of joint ventures is no longer allowed. The Fund is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Fund is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 13, 'Fair value measurement', issued in May 2011. The standard explains how to measure fair value for financial reporting and introduces significantly enhanced disclosure about fair values. It does not address or change the requirements on when fair values should be used. IFRS 13 has been issued to provide a single source of guidance for all fair value measurements and to clarify the definition of fair value. The standard is not applicable until 1 January 2013, but is available for early adoption. The adoption is not expected to have a significant impact on the financial statements.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

b) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

c) Investments

i) Classification

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

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

ii) Recognition, derecognition and measurement

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

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

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

c) Investments...continued

ii) Recognition, derecognition and measurement...continued

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

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

d) Accounting for leases

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

e) Investment properties

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

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

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

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

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

f) Real estate available for re-sale

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

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

g) Cash and cash equivalents

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

h) Share capital

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

i) Net asset value per share and earnings per share

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

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

j) Dividends payable

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

k) Revenue recognition

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

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

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

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

l) Taxation

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

m) Expenses

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

n) Management and advisor fees

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

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

o) Subsidiary, associated undertakings and joint ventures

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

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

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

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

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

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

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

The Fund's holdings are set out as below:

	2011	2010
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%	–
Joint Ventures:		
The CS&C Joint Venture	24%	24%
Rockley Joint Venture	50%	50%
The Sunset Joint Venture	24%	24%

p) Loan note payable

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

q) Segment reporting

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

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

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

r) Security and advance deposits

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

s) Transaction costs

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

3 Critical accounting estimates and assumptions

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

4 Financial risk management

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

Market risk

i) Price risk

The Fund is exposed to market price risk arising from changes in the prices of its financial assets at fair value through profit or loss. To manage the risk the Fund holds a diversified portfolio of investments in accordance with its investment policy. A summary of the overall balance sheet market exposures at September 30, 2011 is disclosed in note 10.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

4 Financial risk management ...continued

Market risk ...continued

i) Price risk...continued

Sensitivity

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

Financial assets at fair value through profit or loss

	Carrying value \$	Effect of 10% change \$
September 30, 2011		
Listed on Caribbean stock exchanges and markets	9,802	980
Mutual funds	1,645,039	164,504
	1,654,841	165,484
September 30, 2010		
Listed on Caribbean stock exchanges and markets	9,748	974
Mutual funds	499,183	49,918
	508,931	50,892

ii) Interest rate risk

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

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

4 Financial risk management ...continued

Market risk ...continued

ii) Interest rate risk ...continued

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

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

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(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, 2010					
Financial assets					
Investments	–	–	–	508,931	508,931
Accounts receivable	–	–	–	1,075,851	1,075,851
Short term deposits	4,487,411	156,000	–	75,459	4,718,870
Cash and cash equivalents	1,483,421	–	–	77,046	1,560,467
Total financial assets	5,970,832	156,000	–	1,737,287	7,864,119
Financial liabilities					
Loans payable	1,411,068	3,873,463	16,610,092	684,220	22,578,843
Accounts payable and accrued expenses	–	–	–	1,195,515	1,195,515
Security and advance deposit	–	–	450,000	754,436	1,204,436
Total financial Liabilities	1,411,068	3,873,463	17,060,092	2,634,171	24,978,794

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 2011 \$	Effect on total comprehensive income 2010 \$
Change in interest rate:		
-2%	49,547	53,322
2%	(49,547)	(53,322)

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(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:

	2011	2010
	\$	\$
Accounts receivable	515,228	1,263,091
Short term deposits	241,200	4,718,870
Cash and cash equivalents	2,611,674	1,560,467
	<hr/>	<hr/>
Total financial assets	3,368,102	7,542,428

Accounts receivable is comprised mainly of amounts due from the tenants of investment properties. As part of the lease agreements tenants provide a security deposit. The property manager also 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:

	2011	2010
	\$	\$
Cash and cash equivalents		
FirstCaribbean International Bank (un-rated)	1,950,145	1,363,420
Signia Financial Group (un-rated)	—	1,503,174
Government of Barbados (BBB- by Standard & Poor's)	—	2,598,643

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

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(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, 2011				
Loans payable	1,749,927	4,505,726	14,858,940	761,288
Accounts payable and accrued expenses	1,921,232	—	—	—
Security and advance deposits	138,879	170,133	1,124,645	2,140
Total financial liabilities	3,810,038	4,675,859	15,983,585	763,428
	0 - 3 months \$	4 months to 1 year \$	1 - 5 years \$	Over 5 years \$
September 30, 2010				
Loans payable	1,759,888	4,904,575	19,022,169	775,755
Accounts payable and accrued expenses	1,195,515	—	—	—
Security and advance deposits	81,884	595,455	423,064	104,032
Total financial liabilities	3,037,287	5,500,030	19,445,233	879,787

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

4 Financial risk management ...continued

Liquidity risk ...continued

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

Fair value estimation

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

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

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

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

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

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation ...continued

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

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

	Level 1	Level 2	Total
	\$	\$	\$
September 30, 2010			
Financial assets at fair value through profit or loss			
Listed equity securities	9,748	–	9,748
Mutual funds	–	499,183	499,183
	9,748	499,183	508,931

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, 2011.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

5 Investment properties

The detailed portfolio of investment properties is as follows:

	Fair value b/fwd \$	Additions \$	Fair value gains/(losses)		Fair value c/fwd \$
			Foreign exchange loss \$	Revaluation gains/(losses) \$	
The CWBET Building	36,350,000	—	—	(850,000)	35,500,000
The CS&C Joint Venture - buildings	14,868,000	—	—	192,000	15,060,000
Carlisle House	12,400,000	—	—	—	12,400,000
No. 24 Broad Street	8,500,000	295,143	—	(295,143)	8,500,000
Holdings Cottage	3,000,000	—	—	(500,000)	2,500,000
The Chattel Village	1,130,000	—	—	(260,000)	870,000
Alanridge Canmore Villa	1,924,935	—	(16,457)	(38,732)	1,869,746
The Sunset Mall	1,968,000	109,777	—	(12,695)	2,065,082
Lion Castle land	1,375,000	—	—	(225,000)	1,150,000
Apes Hill land	1,560,000	—	—	(310,000)	1,250,000
Apes Hill Polo Villa	1,807,899	—	—	—	1,807,899
	84,883,834	404,920	(16,457)	(2,299,570)	82,972,727

During the year the investment properties were appraised by an independent valuer at \$82,972,727 (2010 - \$84,883,834). The decrease of this current valuation over the previous valuation amounting to \$2,316,027 (2010 – gains \$1,183,734) has been recorded as fair value losses in the statement of comprehensive income.

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

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

6 Real estate available for re-sale

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

	Cost b/fwd \$	Transfers \$	Additions/ (Sales) \$	Impairment Loss \$	Cost c/fwd \$
Developed properties:					
Villas on the Green villas	10,616,266	–	113,382	(3,035,970)	7,693,678
Villas on the Green lands	4,127,063	–	–	(458,563)	3,668,500
Coral Cove Unit	2,601,235	–	(2,601,235)	–	–
Land and properties under development:					
Wotton lands	6,784,869	–	3,511	–	6,788,380
Rockley- Cane Gardens lands		1,610,000	1,828,718	(678,716)	2,760,002
Rockley- Central area lands	2,941,932	(1,350,000)	–	–	1,591,932
The CS&C Joint Venture lands	1,728,000	–	258,872	–	1,986,872
Lime Grove Hillside Villa	–	1,763,119	39,875	–	1,802,994
Deposits:					
Lime Grove Hillside Villa	1,763,119	(1,763,119)	–	–	–
Rockley	260,000	(260,000)	–	–	–
	30,822,484	–	(356,877)	(4,173,249)	26,292,358

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 and Rockley properties were subsequently adjusted to their net realisable values resulting in impairment losses of \$3,494,533 (2010- \$330,337) and \$678,716 (2010-\$868,249) respectively on each property being recognised.

7 Investment in subsidiaries

The Fund owns a 57% interest in The BET Building Joint Venture which was registered in Barbados on October 12, 2001. The joint venture owns The CWBET Building in 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).

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

8 Joint ventures

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

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

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

Rental income arising on properties held by the joint venture amounted to \$1,667,988 (2010-\$1,639,851).

9 Investment in associated company

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

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

	Assets	Liabilities	Revenues	Profit/(Loss)	%Interest held
	\$	\$	\$	\$	
September 30, 2011					
Contonou Shores Ltd	2,999,625	—	—	—	35%

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

10 Investments

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

	2011		2010	
	Cost \$	Market value \$	Cost \$	Market value \$
Listed on Caribbean stock exchanges and markets	2,646	9,802	2,646	9,748
Caribbean mutual funds	1,231,600	1,221,925	42,944	46,974
International mutual funds	99,960	423,114	99,960	452,209
Total financial assets at fair value through profit or loss	1,334,206	1,654,841	145,550	508,931

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

	2011 \$	2010 \$
Realised gain	7,185	3,990
Unrealised (loss)/gain	(38,717)	108,406
Net (loss)/gain on financial assets at fair value through profit or loss	(31,532)	112,396

11 Short term deposits

Short term deposits of \$241,200 (2010 - \$4,718,870) 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% (2010 - 3.38%).

12 Cash and cash equivalents

	2011 \$	2010 \$
Cash at bank	2,371,674	1,440,105
Deposits	240,000	120,362
Cash and cash equivalents	2,611,674	1,560,467

Cash and cash equivalents are placed with leading regional commercial banks. The effective yield on cash and cash equivalents is 0.24% (2010 - 1.42 %).

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

13 Loans payable

	2011	2010
	\$	\$
Bond payable		
Series 1 - 2012	3,035,000	3,035,000
Series 2 - 2013	3,036,250	3,036,250
Series 3 - 2014	4,050,000	4,050,000
RBTT Merchant Bank Limited		
BET Building Joint Venture	542,891	2,715,115
The CS&C Joint Venture	5,178,550	6,172,653
The Sunset Joint Venture	844,011	963,028
FirstCaribbean International Bank		
Fortress (St. Lucia) Limited	1,511,794	1,703,658
Fortress Mutual Fund Limited		
Fortress (St. Lucia) Limited	903,139	903,139
Fortress Caribbean High Interest Fund		
The Sunset Joint Venture	72,000	-
	<u>19,173,635</u>	<u>22,578,843</u>

The current portion due of loans payable, amounts to \$5,183,738 (2010 - \$5,284,531).

The Fund has outstanding a bond payable issued in three series. Series 1 carries an interest rate of 7% maturing July 31, 2012 with an option to rollover for a further 3 years. Series 2 carries an interest rate of 7.25%, maturing July 31, 2013 with an option to rollover for a further 4 years. Series 3 carries an interest rate of 7.50% maturing July 31, 2014. Interest is payable semi-annually in arrears and principal will be fully repaid on maturity. The collateral security on the bond is Carlisle House, Hincks Street, Bridgetown and No.24 Broad Street, Bridgetown.

The RBTT Merchant Bank loan related to The BET Building Joint Venture and is secured by a first mortgage over the CWBET building at Wildey, St Michael and an assignment of the lease payments due to the BET Building Joint Venture from Cable and Wireless (Barbados) Limited. Interest is payable quarterly in arrears at a rate of 8.85% per annum. The remaining principal is repayable in one (1) quarterly installment of \$535,000.

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 % (2010 - 7.19%) and is repayable by April 2018.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

13 Loans payable ...continued

The RBTT Merchant Bank loan related to The Sunset Joint Venture is a demand loan with a fixed rate for the first two years and variable thereafter. It is secured by a charge over property at Sunset Crest #2, St. James as well as a charge on the fixed and floating assets of The Sunset Joint Venture. The loan is repayable by March 2019. At year end the effective interest rate on the loan was 5.50% (2010-5.50%).

The FirstCaribbean International Bank loan related to Fortress (St. Lucia) is a registered demand debenture mortgage. It is secured by a first charge stamped to cover \$8.8million (USD \$4.4million) over land and buildings on 16.6 acres of land at Villas on the Green Cap Estate St. Lucia, plus a first floating charge over all of the assets of Fortress (St. Lucia) Limited. The loan is repayable quarterly in arrears from 80% of the net sales proceeds of each town house for a period not exceeding 5 years starting September 23, 2009. Total undisbursed funds amounted to nil (2010 - \$0.1 million) at the end of September 30, 2011. Interest is payable quarterly at US 3 month LIBOR plus 2.75%. At year end the effective interest rate of the loan was 3.12% (2010 - 3.14%).

The loan due to Fortress Mutual Fund Limited relating to Fortress (St. Lucia) Limited bear interest at year end at a rate of 3.12% (2010 - 3.14%) per annum. The loan is subordinated to the FirstCaribbean International Bank loan. The total amount committed to be loaned is the equivalent of US\$1.4 million. The loan is repayable from net sales proceeds on the sale of town houses or by guarantee from the Fund in 5 years. Interest is payable quarterly at US 3 month LIBOR plus 2.75%.

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

14 Dividend payable

A dividend of \$0.03 per share was declared during the current financial year and was paid on December 15, 2010. This amounted to a dividend totaling \$1,674,513.

15 Net rental income

Rental income is shown net of direct property expenses of \$1,541,877 (2010 - \$1,536,178) incurred in managing the properties.

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

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

The Villas on The Green development incurred net carrying costs of \$235,207 (2010- \$479,302) which comprise of property, administrative and other holding costs and is shown net of \$132,807 (2010- \$78,523) within rental income.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

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

The Rockley Joint Venture incurred net carrying costs of \$109,752 (2010 - \$17,209) which comprise of property, administrative and other holding costs and is shown net of \$40,219 (2010 - \$55,675) of rental income.

The carrying costs also are also shown net of \$36,759 of rental income from other available for sale properties.

17 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

During the year, fund management fees amounting to \$630,862 (2010 - \$624,555) were paid to Fortress Fund Managers Limited and investment advisor fees amounting to \$630,862 (2010 - \$624,555) were paid to Altman Real Estate (see note 2n).

The Fund holds 674,447 (2010- 28,459) shares in the Fortress Caribbean High Interest Fund. The CS&C Joint Venture holds 203,686 shares in the Fortress Caribbean High Interest Fund, of which 24% is reflected in the financial statements. Losses on the total shareholding amounted to \$2,491 (2010 - \$6,500). Management fees of \$517 (2010- \$731) were refunded by Fortress Fund Managers Limited being 0.75% of the net asset values of Fortress Caribbean High Interest Fund shares held by the Fund during the year. This is to avoid double charging of management fees on assets invested in related Funds which have the same Manager. This figure is included in other income.

Included in the accounts payable is \$119,691 (2010-\$nil) due to Fortress Fund Managers Limited and \$70,803 (2010 - \$nil) due to Altman Real Estate and its subsidiaries.

Included in the loans payable is \$2,045,250 (2010-\$2,045,250) due to Fortress Caribbean High Interest Fund for the Series 3 bond payable. Interest expense of \$151,500 (2010-\$151,500) relating to this loan was recognised in the statement of comprehensive income.

Included in the loans payable is \$903,139 (2010-\$903,139) due to Fortress Mutual Fund Limited with respect to Fortress (St. Lucia) Limited. Interest expense of \$27,706 (2010 - \$28,364) relating to this loan was recognised in the statement of comprehensive income.

Included in net rental income is an amount of \$1,916,691 (2010 - \$1,788,995) earned from an affiliated company.

Property management fees of \$98,794 (2010 - \$100,013) were paid to Altman Real Estate and its subsidiary Property Consultancy Services during the year.

During the year, commissions of \$11,996 (2010 - \$26,289) were charged on property rentals were paid to Altman Real Estate and its subsidiaries.

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

17 Related party transactions ...continued

Directors and subcommittee fees of \$46,000 (2010 - \$46,000) were paid during the year. Directors' interest (including beneficial interests) in class "A" common property fund shares are as follows:

	2011	2010
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>
Dr. 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>43,676</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, 2011

(expressed in Barbados dollars)

18 Share capital

	2011		2010	
	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	55,817,101	66,718,490	55,817,101	66,718,490
Total share capital	55,817,111	66,718,500	55,817,111	66,718,500

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, 2011

(expressed in Barbados dollars)

19 Earnings per share and net asset value

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

Basic and diluted earnings per share is calculated as follows:

	2011	2010
	\$	\$
Comprehensive (loss) /income attributable to shareholders	(2,948,270)	2,362,680
Weighted average number of Class “A” shares in issue	55,817,101	55,817,101
Basic and diluted earnings per share	(0.05)	0.04
Net asset value	79,401,039	84,023,822
Net asset value per Class “A” shares	1.42	1.51

20 Commitments

Operating lease commitments - where the Fund is the lessee

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

	2011	2010
	\$	\$
Not later than 1 year	80,607	80,607
Later than 1 year and not later than 5 years	322,427	322,427
Later than 5 years	80,607	161,214

Operating lease commitments - where the Fund is the lessor

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

	2011	2010
	\$	\$
Not later than 1 year	8,532,731	8,262,363
Later than 1 year and not later than 5 years	32,771,496	33,556,100
Later than 5 years	6,192,224	15,227,553

Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2011

(expressed in Barbados dollars)

20 Commitments...continued

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

	2011	2010
	\$	\$
Not later than 1 year	—	—
Later than 1 year and not later than 5 years	239,261	64,800
Later than 5 years	2,070	—



FORTRESS FUND MANAGERS LIMITED
FIRST FLOOR, CARLISLE HOUSE, HINCKS STREET, BRIDGETOWN, BB11144, BARBADOS
TEL: (246) 431-2198 FAX: (246) 431-0514 • invest@fortressfund.com • www.fortressfund.com