

# 2010 ANNUAL REPORT

CARIBBEAN  
PROPERTY FUND

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

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

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

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Your Future. Our Business.



**FORTRESS**  
Caribbean Property Fund  
2010



# Invitation

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December 24th, 2010

Dear Fund Shareholders,

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

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

On this basis, the Fund Shareholders are cordially invited to meet with the Board to review and discuss the performance of the Fund during the preceding year, on Thursday, the 27th day of January, 2011 at 5:00pm at the Lloyd Erskine Sandiford Centre, Two Mile Hill, St. Michael.

With Best Wishes for the Season.



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

# Investment Objectives & Fund Details

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

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

<b>FUND NAME:</b>	Fortress Caribbean Property Fund Limited
<b>FUND TYPE:</b>	Closed-End Fund
<b>LAUNCH DATE:</b>	August 20th 1999
<b>LAUNCH PRICE:</b>	\$1.00 per share
<i>Warrants Exercise Price:</i>	\$1.00 per share
<i>Rights Issue Price:</i>	\$1.40 per share
<b>NO. OF SHARES OUTSTANDING:</b>	55,817,101
<b>NET ASSETS – 30/9/2010:</b>	\$84,023,822
<b>NET ASSET VALUE PER SHARE – 30/9/2010:</b>	\$1.51 per share
<b>SHARE PRICE - 30/9/2010:</b>	\$1.15 per share
<b>STOCK EXCHANGE LISTINGS:</b>	Barbados Stock Exchange (BSE) Trinidad & Tobago Stock Exchange (TTSE)
<b>MANAGEMENT EXPENSES:</b>	
<i>Manager:</i>	0.75% per annum of the net assets of the Fund
<i>Investment Advisor:</i>	0.75% per annum of the net assets of the Fund
<b>FUND VALUATIONS:</b>	Monthly
<b>INDEPENDENT PROPERTY APPRAISALS:</b>	Annually & Semi-Annually
<b>NAV QUOTATIONS:</b>	Updated Monthly Internet: <a href="http://www.fortressfund.com">www.fortressfund.com</a>

# Directors & Administrators

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## **DIRECTORS**

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

## **BANKER**

FirstCaribbean International Bank  
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  
The Financial Services Centre  
Bishop's Court Hill  
St. Michael  
Barbados

## **INVESTMENT ADVISOR**

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## **INDEPENDENT VALUER**

Terra Caribbean  
Somerley  
Worthing  
Christ Church  
Barbados

## **INVESTMENT COMMITTEE**

John Williams  
Algernon Leacock  
Roger Cave

## **AUDIT COMMITTEE**

Anthony Audain  
Algernon Leacock  
John Williams

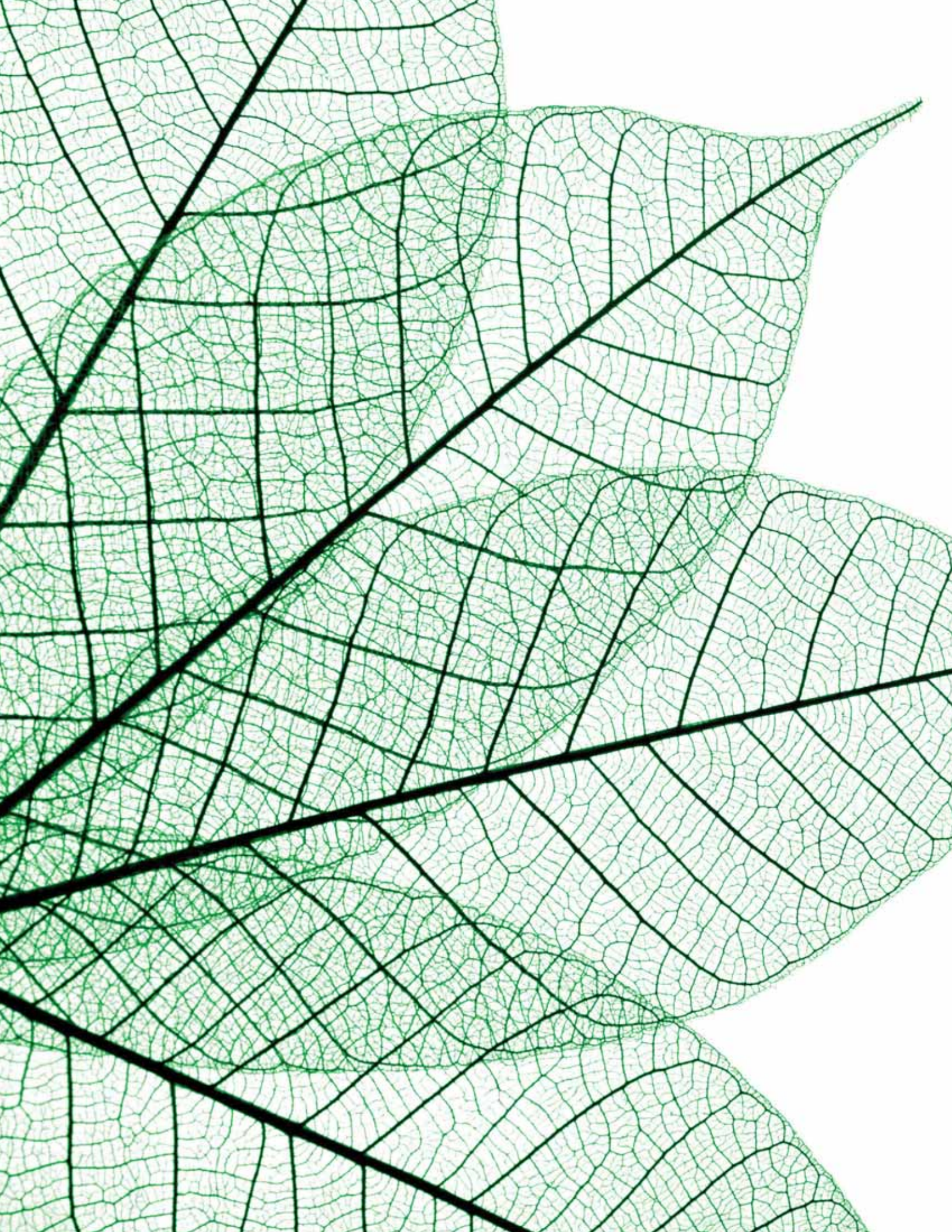
## **GOVERNANCE COMMITTEE**

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

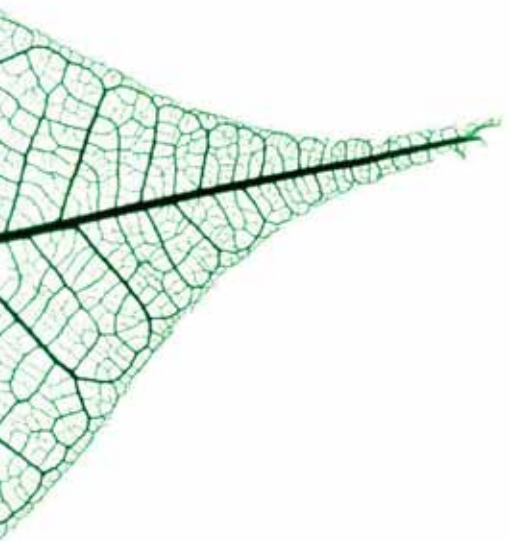
## **FUND MANAGER & SECRETARY**

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# Directors' Report

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*“The Fund’s net assets increased to \$84 million from \$81.7 million in the prior year...”*

The Fortress Caribbean Property Fund had an improved year in 2010 where the net profits increased to \$2.4 million from \$785,480 in 2009. The Fund’s net assets increased to \$84 million from \$81.7 million in the prior year. The net asset value (NAV) is now \$1.51 per share compared to \$1.46 per share. We are pleased to advise that the Directors have declared a dividend of \$0.03 per share which was paid on December 15th 2010.

## **LOCAL REAL ESTATE MARKET**

The economic recession in Barbados and the wider Caribbean continued throughout the financial year under review and its effect is certainly being felt in all areas of the real estate market to varying degrees. The second-home luxury-villa and condominium market has experienced a significant decline in sales and excess supply is having a negative impact on prices.

In the local real estate segment, land prices have held up reasonably well so far but there have been few transactions of existing homes as reduced bid prices are not finding favour with reluctant sellers. The residential rental market has certainly declined from previous highs and current rental yields are not supportive of existing carrying values or replacement costs, an indication that the market is unlikely to improve in the near term and will more than likely decline.

The commercial property segment has held up best so far particularly for those properties with long-term lease contracts but signs are emerging of increased vacancy rates in both Class ‘A’ and Class ‘B’ commercial properties and it is likely that challenges may start to emerge in this area as well.

## **FINANCIAL REVIEW**

Total investment income was \$9.2million compared to \$6.6 million in 2009 due primarily to \$1.2 million in fair value gains compared to \$2.1 million in fair value losses in the prior year. Total expenses increased to \$5.1 million from \$4.4 million in 2009, with the increase resulting mainly from an impairment loss on the Villas On The Green and Rockley properties amounting to \$1.2 million.

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The balance sheet remains very strong with total assets of \$124 million and total liabilities of \$25 million, down from \$28.3 million in the prior year. Cash flows from operations were down from the prior year primarily due to reduced sales of real estate available for sale. The Fund continues to pay down its loans on the commercial properties with \$4.2 million being repaid in 2010. There were no changes on the share capital account during the year.

#### **PROPERTY HIGHLIGHTS**

Our Villas On The Green project in St Lucia continues to be a challenge for the Fund and with the St. Lucia real estate market in a similar if not worse state to ours in Barbados, there were no sales recorded during the year. The property and sales management is now being done by Sotheby's and with the prices of the units now reduced and a few more units being rented, it is hoped that we may sell more units in the upcoming winter season. This project is being carried in our books at cost and we recorded an impairment loss of \$330,337 in our financial statements this year.

Our project at Rockley remains on hold as we believe that market conditions have not yet recovered sufficiently to progress this development. The Fund agreed to purchase the other 50% interest in the Rockley Cane Garden site from our partner there, an agreement that was made in late 2009. Unfortunately the transaction has not yet closed due to some legal issues and the decline in market conditions has resulted in us taking an impairment loss of \$868,249 on this property. We still believe that the long-term future for Rockley is sound and plans for the development of the Cane Garden site and the Central facilities area are continuing while we wait for the market conditions to improve.

The Fund's investment properties recorded a net fair value gain of \$1.04 million, with gains on the Carlisle House and No 24 Broad Street properties of \$400,000 and \$500,000 respectively. There were fair value losses on the CWBET Building and Chattel Village properties and a fair value gain on the Apes Hill lot of \$402,994. The Apes Hill lot was one of three properties that were re-classified as "Investment Properties" from "Available For Re-sale". These three properties will now be carried at fair market value rather than at cost.

Our commercial properties continue to be solid performers for the Fund particularly the CS&C and CWBET Buildings where the rental incomes continue as expected under the lease contracts and the properties generally held their values. We were not able to start the redevelopment of the Sunset Crest Property because the projected costs were much higher than anticipated and hence the plans need to be revised. It is expected that this will now be done after the winter season in 2011.

The rental agreement for the CWBET Buildings is up for review in 2011 and the lease has five more years until expiry in 2016. LIME has the option to extend the lease for a further five years.

Carter & Co have agreed to extend the lease on the Barbarees Hill Property for another seven years.

## Directors' Report Cont.

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The sub-division of the CS&C Joint Venture's 13 acres of land at Lower Estate was started in November 2010 and we expect this to be a very profitable project for the Fund. We have also started to market the 6.2 acre site at Wotton which has generated several expressions of interest from potential purchasers.

### **LOOKING FORWARD**

Overall, the market conditions remain very tough for most businesses in Barbados and the Caribbean and the Fund is facing similar challenges. It appears that it will be some time before conditions return to normal, whatever that new normal turns out to be. We are happy that the Fund's commercial properties have continued to perform well and we expect to focus more of our time and energy on more of these types of projects and we have a few interesting prospects before us.

In a world with extremely low interest rates, lackluster equity markets, concerns over bonds because of potential credit downgrades and risks to rising interest rates, a portfolio of solid commercial property investments with attractive yields, sound tenants and long-term leases remains an attractive component of any long-term portfolio.

The Fund is currently trading at \$1.15 per share, a 24% discount to the Fund's Net Asset Value (NAV). If the Fund is able to realize cash from some of the non-income producing properties, the potential exists to buy-back shares at these levels which would boost the Fund's NAV to the benefit of all shareholders.

Looking forward, we remain cautiously optimistic on renewed growth in the Caribbean economies. However until that happens we expect tough conditions to prevail in the regions real estate markets.



Geoffrey Cave  
Chairman



# Investment Advisors' Report

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*"The Fund's performance improved markedly..."*

The international and regional property markets have undergone another very challenging year. The Fund's performance improved markedly but this is attributable to relatively neutral fair value changes and impairment losses for 2010, compared to the fair value losses and high carrying costs at Villas on the Green in 2009.

The Caribbean has experienced a very weak real estate market over the last two years. Both in 2009 and 2010 trading volume has been low and achieved prices have reduced from the peaks of 2007/8. Contributing causes for this have been:

- general uncertainty about the length and depth of the recession
- tighter credit markets
- a weak pound and in 2010 a weak euro
- a general loss of wealth in investments and loss of equity in real estate
- oversupply in some segments of the market

## Market Analysis & Commentary

### **LUXURY RESIDENTIAL – (SALES TO NON RESIDENTS)**

In the early 2000's this market was of huge significance to the Caribbean economy, in job creation, economic activity and in foreign inflows which peaked in 2007. The economic impact of this sector is not well measured but in many years it has been greater than the offshore sector and second only to tourism. In late 2008 trading volumes started to decline and the average value of transaction began to fall as a result of the recession and the weak pound. The combined loss of purchasing power due to loss of wealth and currency for the British buyer exceeded 50% by late 2008.

In some of the islands which have relied in the past on "off plan" sales, such as Grenada and St Lucia, the impact has been most dramatic. Oversupply in the condominium subsector has been compounded by growth in the secondary market, driven by vendors seeking to eliminate carrying costs or take advantage of currency gains.

## Investment Advisors' Report Cont.

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In Barbados, west coast condominium prices are 16% down and on the south coast 8% down from their 2007/8 peaks. Volumes are even more significantly off and luxury housing stock will take a few years to be fully absorbed. On the positive side a number of planned developments have been delayed which should bring demand and supply back into equilibrium. Similar tales apply in the second home markets in most Caribbean territories.

### **OTHER RESIDENTIAL**

Despite tighter mortgage terms the reduction in prices in this market has only been of the order of 10% and the market for well appointed lots and properties has remained strong, as savings rates have declined and investments in other asset classes have underperformed. Many new residential subdivisions have done quite well, and recent mortgage rate reductions in many of the islands should shore up this segment of the market.

We still feel there is a need for a price correction in new home sales and lot prices, as the new home on a small lot remains beyond the pocket of many families, even those with multiple incomes.

### **COMMERCIAL PROPERTY SALES AND RENTALS**

#### *Sales*

Sales of commercial properties have slowed due to poor trading conditions, extremely tight credit terms, reduced bank deal flow and general uncertainty. The strength in the offshore sector continues to be a major stimulus, particularly in Barbados, however sales have been affected by dampened expectations of rental yield increments (in some cases increment holidays). In addition capitalization rates have increased to 10% or above because of economic uncertainty. However it is still hard to find distress opportunities as the banks have been reluctant to foreclose and vendors reluctant to reduce prices to levels where the Fund's risk would be minimized.

#### *Rentals*

Tenant migration from lower grade to A class office space continues across the region. In Barbados several A class buildings are under construction and two of these will accommodate government departments, which may increase vacancy in lower grade buildings particularly in Bridgetown.

Rental rates are generally holding firm except in the retail sector where the rent reductions of 2009 are still working through. It is expected that the impact of the recession on trading conditions will dampen growth in rental yields in the short term.

Retail demand remains strong as evidenced by the pre letting of several new tourism focused retail complexes but in older malls and buildings rents have remained relatively static. Although the cruise volumes have increased across the region, per head spend in island destinations has declined. Long stay tourism has been stabilized by rate reductions but there are forward signs of strong recovery in 2011.

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## Outlook & Opportunities

### MID TERM OUTLOOK

The next 3 to 5 years will probably be challenging in the real estate sector. The luxury residential market should recover as optimism and economic growth in our major demand market, the UK continues, however it will take some while for oversupply to work through and there is unlikely to be much capital appreciation because of this.

Sales of residential lots and houses in the local market should also recover some volume losses because there is still good liquidity, but prices may decline further in the low to middle income sector because the developer/buyer economics had become unrealistic in recent years. Buyers will be looking for better value.

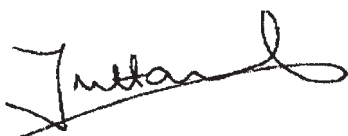
Demand for commercial space is rapidly being met with new developments and may cause static yields in the mid term.

### FORTRESS OPPORTUNITIES

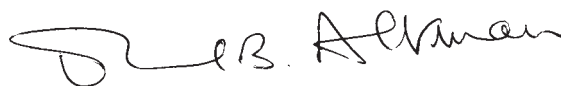
Fortress should seek to meet the needs of the niches in the market which have excess demand. One area is development of mid price range housing in good locations. Rockley fits the bill. A planning permission is being sought for all the remaining lands and it will be developed in phases thereafter. The acquisition of some of the joint venture partner's investment, set for completion in the next few weeks, will allow Fortress to dictate the pace of such development. The Lower Estate commercial subdivision which has just begun should do well because the carrying cost is low.

The Fund continues to look to acquire high quality commercial buildings with good tenancies or lease backs and is in active negotiation on some of these opportunities. The partnerships with NIS, Sagicor, BS&T pension fund, Cave Shepherd, and Banks pension fund have worked well and the Fund is always open to discuss ownership structures which allow vendors to release some capital and take on a partner, and some of the opportunities under discussion will require such structures.

Overall the prospects are better than a year ago but it is important to be aware of the continuing weakness of the regional economies.



Terry Hanton



Paul Altman

# Property Report



## The CWBET Building

Location - Wildey, Barbados

Fair Market Value - \$36.4 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%, and a market rent review in November 2011. Under International Financial Reporting Standards, this joint venture investment is consolidated in the Fund's financial statements, and therefore the investment property and the bank loan are included at full value. The National Insurance Board and Sagikor Life Inc. interests are shown as minority interests.

During the twelve months ended September 30, 2010 The BET Joint Venture earned \$4.6 million (2009 - \$4.3 million) in gross rental income and the valuers have revalued the building at \$36.4 million (2009 - \$36.6 million) resulting in fair value loss of \$250,000. The joint venture has made a profit after interest of \$3.9 million compared to \$3.3 million in 2009. This represents a return on equity of 39% in this financial year (2009 - 33%), including fair value losses.

A rent review, benchmarked against market rents, is due in 2011 and the independent valuer has reduced the value of the property assuming a reduction in future rents. The building is ideally located and the Board is 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. The Fund had offers on this property during the year but declined to sell it.

The valuers have increased their valuation to \$8.5 million resulting in fair value gains of \$500,000 (2009 - \$200,000 fair value losses).





### Carlisle House

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

The property earned \$1.8 million in gross rents, which is the same as 2009. However there was a reduction in expenses and net property income increased to \$1.1 million from \$889,000 in 2009.

Carlisle House achieved an actual occupancy of over 98% during the year and despite the turnover of tenants, at present less than 935 sq. ft. remains available. The former Sagicor space comprising 3,265 sq. ft which was converted to retail spaces has been successfully re-tenanted.

The valuers have increased their valuation to \$12.4 million giving rise to \$400,000 in fair value gains in 2010 (2009 - \$300,000 in fair value losses).



### Holder's site

Location - St. James, Barbados  
 Fair Market Value - \$3.0 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 continues to work on its plans to develop this property as a luxury single family home and will consider development through a joint venture or offer it for sale off plan.

The valuers have made no change to the value of \$3.0 million resulting in no fair value gains (2009 - \$300,000 in fair value losses).

# Property Report Cont.



Carter's & Cave Shepherd Buildings

Location – various  
Fair Market Value - \$61.95 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 million, resulting in fair value gains of \$650,000 (2009 - \$326,810 in fair value losses).

During the year ended September 2010 the Fund earned \$1.4 million in gross rental income and recognised \$156,000 in fair value gains (2009 - \$78,434 in fair value losses) resulting in a profit of \$1.05 million (2009 - \$715,988) from our share of the joint venture.



Lower Estate Lands

Location – Lower Estate  
Carrying Value - \$7.2 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. The roads and services contract commenced in November 2010.

The CS&C Joint Venture Lands were transferred from investment property to real estate available for re-sale as the lands are being actively being developed for resale. The fair market value of the Funds interest in the land, of \$1.7 million, at August 2009 has been utilised as the deemed cost.



### Alanridge Canmore Villa – Unit #5

Location - Alberta, Canada

Fair Market Value - CDN\$970,000

Tenantable Space - 2,436 square feet

Property Type - Residential Property

The Fund purchased this four 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 been valued at CDN\$0.97 million (2009 CDN\$1.0 million) and is included in the books at BDS\$1.9 million. The gross rental income amounted to \$28,814 (2009 - \$44,267). The Fund has recorded a fair value gain of \$86,723 (2009 - \$541,236 loss) including exchange gains or losses.



### Chattel Village

Location - Holetown, Barbados

Fair Market Value - \$1.1 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 increased to \$492,000 as the property was fully occupied for the year. As with prior years, the value has been decreased by \$195,000 (2009 - \$135,000) to \$1.1 million.

## Property Report Cont.

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### Sunset Mall

Location – Sunset Crest, St. James

Fair Market Value - \$8.2 million (entire joint venture)

Property Type – Commercial building

The Fund invested \$936,000 for 24% of the equity in The Sunset 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. There are plans to renovate the property next year.

The property has been valued at \$8.2 million, resulting in fair value gain of \$200,000 (2009 - \$247,000 loss).

During the year ended September 2010 the Fund earned \$190,944 (2009 - \$124,800) in gross income and recognized \$48,000 in fair value gains (2009- \$59,311 in fair value losses) resulting in \$102,214 (2009 - \$10,924) of profit from our share of the joint venture.



### Coral Cove Unit

Location - Paynes Bay, St. James

Carrying Value - \$5.2 million (entire unit)

Property Type - Residential Unit

The Fund and Cave Shepherd & Company Ltd has jointly purchased Unit 15 at Coral Cove for US\$2.6 million (being a 30% discount off list). The unit has been listed for sale in 2008 with all major agencies. The unit is available for sale and an offer has been received, subject to contract. The unit is rented to an offshore tenant on a month by month lease, in order to mitigate holding costs.





### 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. It is rented to an offshore tenant on a 12-month lease, in order to mitigate holding costs. Since, the Villa is being kept for undetermined future use it was transferred from real estate available for re-sale to investment property in accordance with IAS 40.

The unit is now included at its fair market value of \$1.8 million giving rise to a \$59,799 fair value loss.



### Apes Hill Land

Location - Apes Hill, St. Thomas

Fair Market Value - \$1.6 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 which is presently under construction. 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 re-bounds.

The land is now included at its fair market value of \$1.6 million giving rise to a \$402,994 fair value gain.

# Property Report Cont.



## Villas on the Green

Location - Cap Estate, St. Lucia  
Carrying Value - \$14.7 million  
Property Type - Residential Development

The Fund acquired an 18 acres site adjacent to the third and seventh hole at the Cap Estate Golf Club in St. Lucia. A master plan community was approved for 72 homes and the Fund has developed 20 townhouses in Phase I of this plan. The 20 townhouses were completed in 2008 with seven units sold, 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. The 12 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 \$504,000 (2009 - \$813,000) in property administrative and other holding costs (net of \$78,523 in rental income). Without any sales, this resulted in a net loss after interest of \$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 impairment tests on the carrying value was performed. Based on this test the Villas on the Green property was subsequently adjusted to its net realisable value resulting an impairment loss of \$330,337 being recognised.



## 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.

Real estate available for re-sale is carried at lower of cost which is lower than its net realisable value.



### Rockley Development

Location- Rockley, Barbados

Carrying Value - \$ 5.9 million (entire joint venture, remaining lands)

Property Type – Undeveloped lands

The Rockley Joint Venture is a 50:50 joint venture with Dowding Estates and Trading Company Ltd. The joint venture presently owns the central facilities site and the Worthing Great House site. An agreement has been reached with our joint venture partner for Fortress to buy them out of the Worthing Great House site. The Worthing Great House site is earmarked as Phase II and is to be developed as a new cluster called Cane Garden. The two and a half acres site, formerly the central facilities location, remains undeveloped and is earmarked as Phase III of the development. The date for the commencement of this phase has not yet been determined.

During the year \$24,917 (2009 - \$163,000) was spent by each partner of the joint venture on professional fees in relation to the planned development. Additionally, \$17,209 (2009 - \$45,000 net) was spent by each partner on completion of snags for Phase 1 as well as maintenance, property, administrative and other holding costs (net of \$111,350 in rental income) in relation to the central facilities. Real estate available for re-sale is carried at lower of cost or net realisable value. At year end an impairment tests on the carrying value was performed. Based on this test the Rockley property was subsequently adjusted to its net realisable value resulting an impairment loss of \$868,249 being recognised.



### Lion Castle Lot 21

Location - St. Thomas

Fair Market Value - \$1.4 million

Property Type - Undeveloped Residential lands

Two lots were acquired at the Lion Castle Polo Development in 2005. These lots overlook the northern polo goal and sit on top of a coral stone escarpment with panoramic views of the south coast. During the year 2009, the Fund sold Lot 22 for \$1.4 million resulting in a profit of \$77,000 after closing costs.

Plans have been developed for the remaining lot and a planning application has been made. The Board has not taken a decision as to when to begin development however the undeveloped lot remains available for sale. The land is now included at its fair market value of \$1.4 million giving rise to a \$94,816 fair value gain.

## Property Report Cont.

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### Lime Grove Hillside Villa

Location – Lime Grove, St. James

Carrying Value - \$ 1.8 million

Property Type – Deposit on Residential unit

The Board took the decision to convert its equity into the purchase of a three bedroom hillside villa in Limegrove in 2007. The Fund has selected a unit and has signed a purchase and sale agreement. The construction is completed and title will be legally transferred in the near future.



October 1, 2010

The Board of Directors  
Fortress Caribbean Property Fund  
Carlisle House  
Bridgetown

Dear Members of the Board,

As instructed we have conducted appraisals of the properties of the Fortress Caribbean Property Fund and we have formed an opinion of their market value as of September 30<sup>th</sup> 2010. In accordance with the International Valuation Standards Council (2007), market value is defined as:

*The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein 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 Manager representing the Fund is accurate and this information has been included in our report. Our opinion is subject to the limiting conditions attached to the detailed reports.

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

The properties appraised were:

- |                           |                                |                        |
|---------------------------|--------------------------------|------------------------|
| • Carlisle House          | • Chattel Village              | • Sunset Crest Plaza** |
| • Holders Cottage         | • No. 24 Broad Street          | • BET Building         |
| • Carter & Co. Locations* | • Cave Shepherd, Broad Street* | • Canmore Property***  |
| • Apes Hill Lot I-4       | • Apes Hill Polo Villa 3       | • 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 **\$84,883,834** as of September 30, 2010.

Sincerely,

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

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 AUDITORS' 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, 2010, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

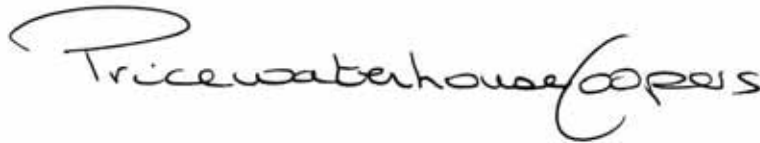
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditors' 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 auditors consider 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, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants  
December 24, 2010  
Bridgetown, Barbados

# Fortress Caribbean Property Fund Limited

## Consolidated Statement of Financial Position

As of September 30, 2010

(expressed in Barbados dollars)

	2010 \$	2009 \$
<b>Assets</b>		
Investment properties (note 5)	84,883,834	81,123,212
Real estate available for re-sale (note 6)	30,822,484	34,299,702
Investments (note 9)	508,931	539,535
Accounts receivable and prepaid expenses	1,263,091	815,834
Short term deposits (note 10)	4,718,870	3,731,316
Cash and cash equivalents (note 11)	1,560,467	3,350,498
<b>Total assets</b>	<b>123,757,677</b>	<b>123,860,097</b>
<b>Liabilities</b>		
Loans payables (note 12)	22,578,843	25,912,051
Accounts payable and accrued expenses	1,195,515	1,195,034
Security and advance deposits	1,204,436	1,145,961
<b>Total liabilities</b>	<b>24,978,794</b>	<b>28,253,046</b>
<b>Total assets less liabilities</b>	<b>98,778,883</b>	<b>95,607,051</b>
<b>Equity</b>		
<b>Capital and reserves attributable to the Fund shareholders</b>		
Share capital (note 17)	66,718,500	66,718,500
Retained earnings	17,305,322	14,942,642
<b>Total shareholders' funds</b>	<b>84,023,822</b>	<b>81,661,142</b>
<b>Non-controlling interests</b>	<b>14,755,061</b>	<b>13,945,909</b>
	<b>98,778,883</b>	<b>95,607,051</b>
<b>Net asset value per share (note 18)</b>	<b>1.51</b>	<b>1.46</b>

Approved by the Board of Directors on December 24, 2010



Director



Director



# Fortress Caribbean Property Fund Limited

## Consolidated Statement of Changes in Equity

For the year ended September 30, 2010

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(expressed in Barbados dollars)

	Attributable to Fund shareholders		Non- controlling interests	Total
	Share capital \$	Retained earnings \$	\$	\$
<b>Balance - September 30, 2008</b>	<b>66,718,500</b>	<b>14,157,162</b>	<b>13,290,445</b>	<b>94,166,107</b>
Distributions to non-controlling interests	—	—	(752,500)	(752,500)
Total comprehensive income for the year	—	785,480	1,407,964	2,193,444
<b>Balance - September 30, 2009</b>	<b>66,718,500</b>	<b>14,942,642</b>	<b>13,945,909</b>	<b>95,607,051</b>
Distributions to non-controlling interests	—	—	(881,500)	(881,500)
Total comprehensive income for the year	—	2,362,680	1,690,652	4,053,332
<b>Balance - September 30, 2010</b>	<b>66,718,500</b>	<b>17,305,322</b>	<b>14,755,061</b>	<b>98,778,883</b>

# Fortress Caribbean Property Fund Limited

## Consolidated Statement of Comprehensive Income

For the year ended September 30, 2010

(expressed in Barbados dollars)

	2010 \$	2009 \$
<b>Revenue</b>		
Net rental income (note 14)	7,622,807	7,534,688
Fair value gains/ (losses) on investment property (note 5)	1,183,734	(2,113,981)
Net gain on sale of real estate available for re-sale (note 15)	–	1,055,814
Net gain on financial assets at fair value through profit or loss (note 9)	112,396	28,993
Interest income	239,887	98,163
Dividend income	340	555
Other income	1,815	1,211
<b>Total investment income</b>	<b>9,160,979</b>	<b>6,605,443</b>
<b>Expenses</b>		
Interest expense	1,740,548	1,859,512
Impairment loss on real estate available for re-sale (note 6)	1,198,586	–
Fund management fees (note 16)	624,555	610,000
Investment advisor fees (note 16)	624,555	610,000
Net carrying costs of real estate available for re-sale (note 15)	496,511	966,009
Professional fees	371,510	260,498
Finance costs and bank charges	–	48,670
Directors and subcommittee fees	46,000	44,500
Office and administrative expenses	5,382	12,810
<b>Operating expenditure</b>	<b>5,107,647</b>	<b>4,411,999</b>
<b>Total comprehensive income for the year</b>	<b>4,053,332</b>	<b>2,193,444</b>
<b>Attributable to:</b>		
Class “A” common property fund shareholders	2,362,680	785,480
Non- controlling interests	1,690,652	1,407,964
	<b>4,053,332</b>	<b>2,193,444</b>
<b>Earnings per share - basic and diluted (note 18)</b>	<b>0.04</b>	<b>0.01</b>

# Fortress Caribbean Property Fund Limited

## Consolidated Statement of Cash Flows

For the year ended September 30, 2010

(expressed in Barbados dollars)

	2010 \$	2009 \$
<b>Cash flows from operating activities</b>		
Net income for the year	4,053,332	2,193,444
Adjustments for:		
Fair value (gains)/losses	(1,183,734)	2,113,981
Net gain on sale of real estate available for re-sale	—	(1,055,814)
Impairment loss on real estate available for re-sale	1,198,586	—
Net gain on financial assets at fair value through profit or loss	(112,396)	(28,993)
Interest income	(239,887)	(98,163)
Dividend income	(340)	(555)
Interest expense	1,740,548	1,859,512
Operating income before working capital changes	5,456,109	4,983,412
Net (increase)/decrease in accounts receivable and prepaid expenses	(447,257)	36,364
Net increase/(decrease) in accounts payable and accrued expenses	481	(128,900)
Net increase/(decrease) in security and advance deposits	58,475	(441,642)
Purchases/additions to investment properties	—	(1,265,745)
Purchases/additions to real estate available for re-sale	(38,256)	(432,974)
Net proceeds from sale of real estate available for re-sale	—	6,007,552
(Increase)/decrease in real estate available for re-sale deposits	(260,000)	288,000
Purchase of investments	—	(469,136)
Proceeds on sale of investments	143,000	291,485
Increase in short-term deposits	(937,029)	(2,997,930)
Cash generated from operations	3,975,523	5,870,486
Interest received	189,362	81,651
Interest paid	(1,839,743)	(1,763,291)
Dividends received	340	555
<b>Net cash generated from operating activities</b>	<b>2,325,482</b>	<b>4,189,401</b>
<b>Cash flows from financing activities</b>		
Distributions to non-controlling interests	(881,500)	(752,500)
Dividends paid	—	(3,349,026)
Loan advances received	958,266	10,999,345
Repayment of loans	(4,192,279)	(10,613,929)
<b>Net cash used in financing activities</b>	<b>(4,115,513)</b>	<b>(3,716,110)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1,790,031)</b>	<b>473,291</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>3,350,498</b>	<b>2,877,207</b>
<b>Cash and cash equivalents - end of year</b>	<b>1,560,467</b>	<b>3,350,498</b>

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

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(expressed in Barbados dollars)

### 1 Incorporation and principal activities

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

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

### 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these 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.

#### *Standard and amendments to existing standards effective for the 2010 reporting year*

- IAS 1 (revised), ‘Presentation of financial statements’. The revised standard prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period. The Fund has applied IAS 1 (revised) from October 1, 2009, and has elected to present solely a statement of comprehensive income. The adoption of this revised standard has not resulted in a significant change to the presentation of the Fund’s performance statement, as the Fund has no elements of other comprehensive income.

# Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

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(expressed in Barbados dollars)

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

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

#### *Standards and amendments to existing standards effective for the 2010 reporting year ...continued*

- IFRS 7 'Financial instruments - Disclosures' (amendment) - effective January 1, 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact in the Fund's financial position or performance.
- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'. The amendment was part of the IASB/s annual improvements project published in May 2008. The definition of a financial asset or financial liability at fair value through profit or loss as it relates to items that are held or trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. Adoption did not have a significant impact on the Fund's financial statements.
- IAS 32 (amendment), 'Financial instruments: presentation', and IAS 1 (amendment), 'Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation'. The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinates to all other instruments have identical features. Adoption of this amendment did not impact the Fund's financial statements.
- IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The Fund will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from October 1, 2009.
- IAS 23, 'Borrowing costs' A revised version was issued in March 2007. Under the revised standard, an entity is required to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs was removed. The capitalisation is required for qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Adoption did not have a significant impact on the Fund's financial statements.



# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

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(expressed in Barbados dollars)

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

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

##### *Standards and amendments to existing standards effective for the 2010 reporting year...continued*

- IFRS 8, 'Operating segments' was effective from 1 January 2009. IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segment information is therefore reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The Fund has determined that the business has a single operating segment as disclosed in note 2q.
- IAS 40, 'Investment property', amendment (and consequential amendment to IAS 16, 'Property, plant and equipment'). The amendments are part of the IASB's annual improvements project published in May 2008 and are effective from 1 January 2009. Property that is under construction or development for future use as investment property is brought within the scope of IAS 40. Where the fair value model is applied, such property is measured at fair value. However, where fair value of investment property under construction is not reliably determinable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

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

- IFRS 9 Financial Instruments – effective January 1, 2013. This standard deals with the classification and measurement of financial instruments, and replaces sections of IAS 39 – 'Financial Instruments; Recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets. Adoption will not have a significant impact on the Fund's financial statements.

#### 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.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

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(expressed in Barbados dollars)

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

#### b) Foreign currency translation ...continued

##### *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.

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.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

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(expressed in Barbados dollars)

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

#### 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.

#### 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.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

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(expressed in Barbados dollars)

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

#### h) Share capital

The Fund's Class "B" and Class "A" common property fund shares with discretionary dividends 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 ordinary 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.

#### 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.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

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(expressed in Barbados dollars)

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

#### 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

Subsidiary undertakings are entities over which the Fund has an interest of more than one half the voting rights, or otherwise has power to exercise control over the operations. Subsidiaries are fully consolidated from the date on which control is transferred to the Fund.

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. The entities are initially recognised at cost and are subsequently accounted for using the equity method.

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 accounted for using the proportionate consolidation method.

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:

	2010	2009
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%
Joint Ventures:		
The CS&C Joint Venture	24%	24%
Rockley Joint Venture	50%	50%
The Sunset Joint Venture	24%	24%



# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

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(expressed in Barbados dollars)

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

#### 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.

#### 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

### 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, 2010 is disclosed in note 9.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

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(expressed in Barbados dollars)

### 4 Financial risk management...continued

#### Market risk...continued

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

###### Sensitivity

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

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

	Carrying value \$	Effect of 10% change \$
<b>September 30, 2010</b>		
Listed on Caribbean stock exchanges and markets	9,748	974
Mutual funds	499,183	49,918
	<b>508,931</b>	<b>50,892</b>
<b>September 30, 2009</b>		
Listed on Caribbean stock exchanges and markets	9,952	995
Mutual funds	529,583	52,958
	<b>539,535</b>	<b>53,953</b>

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

##### 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 12. 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 11.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Market risk ...continued

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

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

	0 - 3 months \$	4 months to 1 year \$	Over 1 year \$	Non- interest bearing \$	Total \$
<b>September 30, 2010</b>					
<b>Financial assets</b>					
Investments	—	—	—	508,931	<b>508,931</b>
Accounts receivable and prepaid expenses	—	—	—	1,263,091	<b>1,263,091</b>
Short term deposits	4,487,411	156,000	—	75,459	<b>4,718,870</b>
Cash and cash equivalents	1,483,421	—	—	77,046	<b>1,560,467</b>
<b>Total financial assets</b>	<b>5,970,832</b>	<b>156,000</b>	<b>—</b>	<b>1,924,527</b>	<b>8,051,359</b>
<b>Financial liabilities</b>					
Loans payable	1,411,068	3,873,463	16,610,092	684,220	<b>22,578,843</b>
Accounts payable and accrued expenses	—	—	—	1,195,515	<b>1,195,515</b>
Security deposits	—	—	—	1,204,436	<b>1,204,436</b>
<b>Total financial liabilities</b>	<b>1,411,068</b>	<b>3,873,463</b>	<b>16,610,092</b>	<b>3,084,171</b>	<b>24,978,794</b>

# Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

(expressed in Barbados dollars)

## 4 Financial risk management ...continued

### Market risk ...continued

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

	0 - 3 months \$	4 months to 1 year \$	Over 1 year \$	Non- interest bearing \$	Total \$
<b>As at September 30, 2009</b>					
<b>Financial assets</b>					
Financial assets at fair value through profit or loss	—	—	—	539,535	539,535
Accounts receivable and prepaid expenses	—	—	—	815,834	815,834
Short term deposits	3,731,316	—	—	—	3,731,316
Cash and cash equivalents	1,805,328	—	—	1,545,170	3,350,498
<b>Total financial assets</b>	<b>5,536,644</b>	<b>—</b>	<b>—</b>	<b>2,900,539</b>	<b>8,437,183</b>
<b>Financial liabilities</b>					
Loans payable	1,295,815	5,096,454	19,519,782	—	25,912,051
Accounts payable and accrued expenses	—	—	—	1,195,034	1,195,034
Security deposits	—	—	—	1,145,961	1,145,961
<b>Total financial liabilities</b>	<b>1,295,815</b>	<b>5,096,454</b>	<b>19,519,782</b>	<b>2,340,995</b>	<b>28,253,046</b>

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

	Effect on net income 2010 \$	Effect on net income 2009 \$
<b>Change in interest rate:</b>		
-2%	53,322	77,171
2%	(53,322)	(77,171)

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

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(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Market risk ...continued

##### iii) 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 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:

	2010 \$	2009 \$
Accounts receivable	1,263,091	815,834
Short term deposits	4,718,870	3,731,316
Cash and cash equivalents	1,560,467	3,350,498
Total financial assets	<b>7,542,428</b>	<b>7,897,648</b>

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:

	2010 \$	2009 \$
<b>Cash and cash equivalents</b>		
FirstCaribbean International Bank (un-rated)	<b>1,363,420</b>	1,426,946
Signia Financial Group (un-rated)	<b>1,503,174</b>	1,805,328
Government of Barbados (BBB- by Standard & Poor's)	<b>2,598,643</b>	2,990,900

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, 2010

(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Liquidity risk

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

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

	0 - 3 months \$	4 months to 1 year \$	1 - 5 years \$	Over 5 years \$
<b>September 30, 2010</b>				
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
<b>Total financial liabilities</b>	<b>3,037,287</b>	<b>5,500,030</b>	<b>19,445,233</b>	<b>879,787</b>

	0 - 3 months \$	4 months to 1 year \$	1 - 5 years \$	Over 5 years \$
<b>September 30, 2009</b>				
Loans payable	1,716,215	6,269,284	20,819,392	2,296,333
Accounts payable and accrued expenses	1,195,034	—	—	—
Security and advance deposits	23,197	520,023	513,564	89,177
<b>Total financial liabilities</b>	<b>2,934,446</b>	<b>6,789,307</b>	<b>21,332,956</b>	<b>2,385,510</b>

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

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(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 19. Note 19 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.

The following table analyses within the fair value hierarchy the Fund's financial assets and liabilities (by class) measured at fair value at September 30, 2010:

	Level 1 \$	Level 2 \$	Total \$
<b>Financial assets at fair value through profit or loss</b>			
Listed equity securities	9,748	—	9,748
Mutual funds	—	499,183	499,183
	<b>9,748</b>	<b>499,183</b>	<b>508,931</b>

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Fair value estimation ...continued

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, 2010.

### 5 Investment properties

The detailed portfolio of investment properties is as follows:

	Fair value gains/(losses)				
	Fair value b/fwd \$	Transfers \$	Foreign exchange gain \$	Revaluation gains/(losses) \$	Fair value c/fwd \$
The CWBET Building	36,600,000	—	—	(250,000)	36,350,000
The CS&C Joint Venture - buildings	14,712,000	—	—	156,000	14,868,000
The CS&C Joint Venture - lands	1,728,000	(1,728,000)	—	—	—
Carlisle House	12,000,000	—	—	400,000	12,400,000
No. 24 Broad Street	8,000,000	—	—	500,000	8,500,000
Holders Cottage	3,000,000	—	—	—	3,000,000
The Chattel Village	1,325,000	—	—	(195,000)	1,130,000
Alanridge Canmore Villa	1,838,212	—	144,253	(57,530)	1,924,935
The Sunset Mall	1,920,000	—	—	48,000	1,968,000
Lion Castle	—	1,280,184	—	94,816	1,375,000
Apes Hill land	—	1,157,006	—	402,994	1,560,000
Apes Hill Polo Villa	—	1,867,698	—	(59,799)	1,807,899
	81,123,212	2,576,888	144,253	1,039,481	84,883,834

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

(expressed in Barbados dollars)

### 5 Investment properties...continued

During the year the investment properties were appraised by an independent valuer at \$84,883,834 (2009 - \$81,123,212). The increase of this current valuation over the previous valuation amounting to \$1,183,734 (2009 - losses \$2,113,981) has been recorded as fair value gain 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.

The Lion Castle lands, Apes Hill lands and the Apes Hill Polo Villa are being kept for undetermined future use and were transferred from real estate available for re-sale to investment property in accordance with IAS 40.

### 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 \$	Impairment Loss \$	Cost c/fwd \$
<b>Developed properties:</b>					
Coral Cove Unit	2,601,235	—	—	—	2,601,235
Apes Hill Polo Villa	1,867,698	(1,867,698)	—	—	—
Villas on the Green- villas	10,900,024	—	8,333	(292,091)	10,616,266
Villas on the Green- lands	4,165,309	—	—	(38,246)	4,127,063
<b>Land and properties under development:</b>					
Rockley- Cane Gardens	3,785,264	—	24,917	(868,249)	2,941,932
Lion Castle	1,280,184	(1,280,184)	—	—	—
Wotton Lands	6,779,863	—	5,006	—	6,784,869
Apes Hill land	1,157,006	(1,157,006)	—	—	—
The CS&C Joint Venture - lands	—	1,728,000	—	—	1,728,000
<b>Deposits:</b>					
Lime Grove Hillside Villa	1,763,119	—	—	—	1,763,119
Rockley	—	—	260,000	—	260,000
	<b>34,299,702</b>	<b>(2,576,888)</b>	<b>298,256</b>	<b>(1,198,586)</b>	<b>30,822,484</b>

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

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(expressed in Barbados dollars)

### 6 Real estate available for re-sale...continued

The CS&C Joint Venture lands were transferred from investment property to real estate available for re-sale as the lands are being actively developed for resale.

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 \$330,337 and \$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 Hill House which has been included in investment properties (note 5).

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

### 8 Joint ventures

The Fund has a 50% interest in a joint venture partnership called the Rockley Joint Venture. The partnership was formed to facilitate the purchase of land and buildings at Rockley. This property 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 at fair value (note 5). 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 \$1,639, 851 (2009-\$1,520,382).

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

(expressed in Barbados dollars)

### 9 Investments

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

	<b>2010</b>		<b>2009</b>	
	<b>Cost</b>	<b>Market value</b>	<b>Cost</b>	<b>Market value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Listed on Caribbean stock exchanges and markets	2,646	9,748	2,646	9,952
Caribbean mutual funds	42,944	46,974	178,400	183,082
International mutual funds	99,960	452,209	99,960	346,501
<b>Total financial assets at fair value through profit or loss</b>	<b>145,550</b>	<b>508,931</b>	<b>281,006</b>	<b>539,535</b>

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

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Realised gain	3,990	749
Unrealised gain	108,406	28,244
<b>Net gain on financial assets at fair value through profit or loss</b>	<b>112,396</b>	<b>28,993</b>

### 10 Short term deposits

Short term deposits of \$4,718,870 (2009 - \$3,731,316) 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 3.38% (2009 - 3.57%).

### 11 Cash and cash equivalents

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Cash at bank	1,440,105	1,545,170
Deposits	120,362	1,805,328
<b>Cash and cash equivalents</b>	<b>1,560,467</b>	<b>3,350,498</b>

Cash and cash equivalents are placed with leading regional commercial banks. The effective yield on cash and cash equivalents is 1.42 % (2009 - 1.97%)



# Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

(expressed in Barbados dollars)

## 12 Loans payable

	2010 \$	2009 \$
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	2,715,115	4,887,205
The CS&C Joint Venture	6,172,653	7,064,338
The Sunset Joint Venture	963,028	—
FirstCaribbean International Bank		
Fortress (St. Lucia) Limited	1,703,658	1,919,525
Fortress Mutual Fund Limited		
Fortress (St. Lucia) Limited	903,139	903,139
Fortress Caribbean High Interest Fund		
The Sunset Joint Venture	—	1,016,594
	<b>22,578,843</b>	<b>25,912,051</b>

The current portion due of loans payable, amounts to \$5,284,531 (2009 - \$6,392,269).

During the prior year the Fund issued a bond payable 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 five (5) quarterly installments 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 % (2009 - 7.19%) and is repayable in April 2018.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

**For the year ended September 30, 2010**

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(expressed in Barbados dollars)

### **12 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 Sunset Joint Venture. The loan is repayable in September 2017. At year end the effective interest rate on the loan was 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 \$0.1 million (2009 - \$0.1 million) at the end of September 30, 2010. Interest is payable quarterly at US 3 month LIBOR plus 2.75%. At year end the effective interest rate of the loan was 3.14 % (2009 - 3.14%).

The loan due to Fortress Mutual Fund Limited relating to Fortress (St. Lucia) Limited bears interest at a rate of 3.14% (2009 - 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%.

### **13 Dividend payable**

Subsequent to year end a dividend of \$0.03 per share was declared and paid on December 15, 2011.

### **14 Net rental income**

Rental income is shown net of direct property expenses of \$1,536,178 (2009 - \$1,538,772) incurred in managing the properties.

### **15 Net gain on sale of real estate available for re-sale**

There were no sales of units during the financial year September 30, 2010.

During the prior year 2 units at Villas on the Green were sold for \$2,870,219 generating a profit of \$659,761.

The Villas on The Green development incurred net carrying costs of \$479,302 (2009- \$831,124) which comprise of property, administrative and other holding costs and is shown net of \$78,523 (2009- \$101,046) of rental income.

During the prior year the Tobago Plantations Villa was sold for \$2.25M and Lot 22 Lion Castle for \$1.4M. The Fund realised a gain of nil (2009- \$281,050) in the statement of comprehensive income being nil (2009- \$204,153) and nil (2009-\$76,897) from the sale of the villa and the lot respectively.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

**For the year ended September 30, 2010**

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(expressed in Barbados dollars)

### **15 Net gain on sale of real estate available for re-sale...continued**

The Rockley Joint Venture incurred net carrying costs of \$17,209 (2009 - \$45,405) which comprise of property, administrative and other holding costs and is shown net of \$55,675 (2009 - \$109,781) of rental income.

### **16 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 \$624,555 (2009 - \$610,000) were paid to Fortress Fund Managers Limited and investment advisor fees amounting to \$624,555 (2009 - \$610,000) were paid to Altman Real Estate (see note 2n).

The Fund holds 28,459 (2009 - 118,224) shares in the Fortress Caribbean High Interest Fund. Gains on the total shareholding amounted to \$6,500 (2009 - \$5,431). Management fees of \$731 (2009 - \$1,211) were refunded by Fortress Fund Managers Limited being 0.75% of the net asset values of Fortress Caribbean High Interest Fund shares held by the Fund during the year. This is to avoid double charging of management fees on assets invested in related Funds which have the same Manager. This figure is included in other income.

Included in the loans payable is \$2,045,250 (2009-\$2,045,250) due to Fortress Caribbean High Interest Fund for the Series 3 bond payable. Interest expense of \$25,250 (2009-\$25,250) relating to this loan was recognised in the statement of comprehensive income.

Included in the loans payable is \$903,139 (2009-\$903,139) due to Fortress Mutual Fund Limited with respect to Fortress (St. Lucia) Limited. Interest expense of \$28,364 (2009 - \$50,954) relating to this loan was recognised in the statement of comprehensive income.

Included in net rental income is an amount of \$1,788,995 (2009 - \$1,971,600) earned from an affiliated company.

Property management fees of \$100,013 (2009 - \$105,095) were paid to Altman Real Estate and its subsidiary Property Consultancy Services during the year.

During the year, commissions of \$26,289 (2009 - \$226,923) were charged on property rentals were paid to Altman Real Estate and its subsidiary Altman Caribbean Inc.

# Fortress Caribbean Property Fund Limited

## Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

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(expressed in Barbados dollars)

### 16 Related party transactions ...continued

Directors and subcommittee fees of \$46,000 (2009 - \$44,500) were paid during the year. Directors' interest (including beneficial interests) in class "A" common property fund shares are as follows:

	2010	2009
<b>Geoffrey Cave</b>		
Number of shares held at September 30	<u>32,000</u>	<u>32,000</u>
<b>Paul Altman</b>		
Number of shares held at September 30	<u>659,920</u>	<u>659,920</u>
<b>Anthony Audain</b>		
Number of shares held at September 30	<u>26,000</u>	<u>26,000</u>
<b>Dr. Trevor Carmichael</b>		
Number of shares held at September 30	<u>26,333</u>	<u>26,333</u>
<b>Maureen Davis</b>		
Number of shares held at September 30	<u>43,676</u>	<u>43,676</u>
<b>Terry Hanton</b>		
Number of shares held at September 30	<u>7,200</u>	<u>7,200</u>
<b>John Williams</b>		
Number of shares held at September 30	<u>17,000</u>	<u>17,000</u>

# Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2010

(expressed in Barbados dollars)

## 17 Share capital

	2010		2009	
	Number of shares	\$	Number of shares	\$
<b>a) Class “B” shares</b>				
Authorised				
A maximum of 10 Class “B” shares				
Issued and outstanding	10	10	10	10
<b>b) Class “A” common property fund shares</b>				
Authorised				
An unlimited number of Class “A” shares of no par value				
Issued and outstanding	55,817,101	66,718,490	55,817,101	66,718,490
<b>Total share capital</b>	<b>55,817,111</b>	<b>66,718,500</b>	<b>55,817,111</b>	<b>66,718,500</b>

### Class “B” shares

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

### Class “A” common property fund shares

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, 2010

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(expressed in Barbados dollars)

### 18 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:

	2010 \$	2009 \$
Comprehensive income attributable to shareholders	2,362,680	785,480
Weighted average number of Class “A” shares in issue	55,817,101	55,817,101
Basic and diluted earnings per share	0.04	0.01
Net asset value	84,023,822	81,661,142
Net asset value per Class “A” shares	1.51	1.46

### 19 Commitments

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

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

	2010 \$	2009 \$
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	161,214	161,214

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

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

	2010 \$	2009 \$
Not later than 1 year	8,262,363	8,434,319
Later than 1 year and not later than 5 years	33,556,100	31,807,674
Later than 5 years	15,227,553	22,700,687



# Fortress Caribbean Property Fund Limited

Notes to the Consolidated Financial Statements

**For the year ended September 30, 2010**

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(expressed in Barbados dollars)

## **19 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. Therefore while the disclosure above related to these leases is not in accordance with IAS 17, the amounts are immaterial to the financial statements of the Fund.







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