

**PREMIER COMMERCIAL REAL ESTATE  
INVESTMENT CORPORATION LIMITED**

**Financial Statements For The Year  
Ended September 30, 2010, And  
Independent Auditors' Report**

**PREMIER COMMERCIAL REAL ESTATE INVESTMENT  
CORPORATION LIMITED**

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Premier Commercial Real Estate Investment Corporation Limited:

We have audited the consolidated financial statements of Premier Commercial Real Estate Investment Corporation Limited (the "Fund") which comprise the consolidated statement of financial position as of September 30, 2010, and the related consolidated statements of comprehensive income, net assets attributable to participating shareholders and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund 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.

*Deloitte & Touche*

January 25, 2011

**PREMIER COMMERCIAL REAL ESTATE INVESTMENT  
CORPORATION LIMITED**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF SEPTEMBER 30, 2010**  
*(Expressed in Bahamian dollars)*

	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 63,734	\$ 359,956
Due from property manager (Notes 4 and 13)	37,218	13,454
Rents and recharges receivable (Note 13)	<u>57,029</u>	<u>25,320</u>
Total current assets	<u>157,981</u>	<u>398,730</u>
NON-CURRENT ASSETS:		
Equipment	-	38,964
Investment properties, at value (Note 5)	16,480,000	15,650,000
Other assets	<u>9,638</u>	<u>5,000</u>
Total non-current assets	<u>16,489,638</u>	<u>15,693,964</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 16,647,619</b></u>	<u><b>\$ 16,092,694</b></u>

*(Continued)*

See notes to consolidated financial statements.

**PREMIER COMMERCIAL REAL ESTATE INVESTMENT  
CORPORATION LIMITED**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF SEPTEMBER 30, 2010**  
*(Expressed in Bahamian dollars)*

	<b>2010</b>	<b>2009</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accrued expenses and other payables (Note 13)	\$ 96,688	\$ 53,473
Security deposits from tenants (Note 7)	72,830	85,983
Current portion long-term debt (Note 8)	<u>417,428</u>	<u>417,428</u>
Total current liabilities	<u>586,946</u>	<u>556,884</u>
<b>NON-CURRENT LIABILITIES:</b>		
Long-term debt (Note 8)	<u>2,542,989</u>	<u>2,892,018</u>
<b>EQUITY:</b>		
Net assets attributable to participating shareholders	<u>13,517,684</u>	<u>12,643,792</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u><b>\$ 16,647,619</b></u>	<u><b>\$ 16,092,694</b></u>
<b>NET ASSET VALUE PER SHARE (NOTE 6)</b>		
Attributable to participating ordinary shares (based on 1,082,885 shares outstanding; (2009: 1,082,885))	<u>\$ 12.48</u>	<u>\$ 11.68</u>

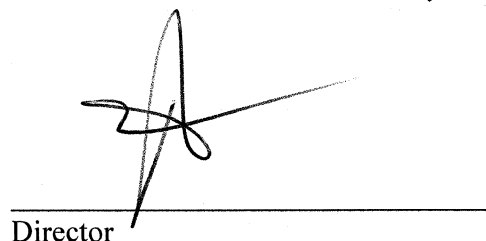
*(Concluded)*

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on January 25, 2011 and are signed on its behalf by:



Director



Director

**PREMIER COMMERCIAL REAL ESTATE INVESTMENT  
CORPORATION LIMITED**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
YEAR ENDED SEPTEMBER 30, 2010**

*(Expressed in Bahamian dollars)*

	<b>2010</b>	<b>2009</b>
<b>INCOME:</b>		
Rental (Note 13)	\$ 1,409,623	\$ 1,403,037
Less: Common area maintenance expense	(505,873)	(415,862)
Interest	179	687
Total income	<u>903,929</u>	<u>987,862</u>
<b>EXPENSES:</b>		
Consulting, legal and advisory (Note 13)	85,790	31,179
Property management fee (Notes 4 and 13)	76,648	36,000
Interest and bank charges (Note 8)	70,220	127,363
Administration fees (Notes 9 and 13)	40,300	38,150
Depreciation	38,964	17,473
Other	35,446	10,142
Directors' fees (Note 13)	32,350	27,708
Professional fees	25,875	24,500
Licenses and permits	21,290	30,599
Total expenses	<u>426,883</u>	<u>343,114</u>
Net investment income	<u>477,046</u>	<u>644,748</u>
<b>OTHER INCOME (EXPENSES):</b>		
Other income	-	30,553
Net gain (loss) on fair value adjustment of investment properties (Note 5)	<u>830,000</u>	<u>(800,000)</u>
<b>NET AND COMPREHENSIVE INCOME</b>	<u><b>\$ 1,307,046</b></u>	<u><b>\$ (124,699)</b></u>

See notes to consolidated financial statements.

**PREMIER COMMERCIAL REAL ESTATE INVESTMENT  
CORPORATION LIMITED**

**CONSOLIDATED STATEMENT OF NET ASSETS ATTRIBUTABLE TO HOLDERS OF  
REDEEMABLE PARTICIPATING SHAREHOLDERS  
YEAR ENDED SEPTEMBER 30, 2010**

*(Expressed in Bahamian dollars)*

	<b>2010</b>	<b>2009</b>
Net assets at beginning of year	\$ 12,643,792	\$ 14,067,960
Net increase (decrease) in net assets from operations attributable to holders of redeemable participating ordinary shares:		
Net operating income	477,046	644,748
Net other income	-	30,553
Net gain (loss) on fair value adjustment of investment properties	<u>830,000</u>	<u>(800,000)</u>
Net increase (decrease) in net assets from operations	1,307,046	(124,699)
Dividends paid	<u>(433,154)</u>	<u>(1,299,469)</u>
Net increase (decrease) in net assets	873,892	(1,424,168)
Net assets attributable to shareholders at end of year	<u>\$ 13,517,684</u>	<u>\$ 12,643,792</u>

See notes to consolidated financial statements.



**PREMIER COMMERCIAL REAL ESTATE INVESTMENT  
CORPORATION LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2010**

*(Expressed in Bahamian dollars)*

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net and comprehensive income (loss)	\$ 1,307,046	\$ (124,699)
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (gain) loss on fair value adjustment	(830,000)	800,000
Depreciation	<u>38,964</u>	<u>17,473</u>
	516,010	692,774
Changes in operating assets and liabilities:		
(Increase) decrease in rents and recharges receivable	(31,709)	13,349
(Increase) decrease in due from property manager	(23,764)	80,787
Decrease in other receivables	-	11,749
(Increase) decrease in other assets	(4,638)	14,401
Increase (decrease) in accrued expenses and other payables	43,215	(13,704)
Decrease in security deposits	<u>(13,153)</u>	<u>-</u>
Net cash from operating activities	<u>485,961</u>	<u>799,356</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of loan principal	(349,029)	(313,615)
Dividends paid	<u>(433,154)</u>	<u>(1,299,469)</u>
Net cash used in financing activities	<u>(782,183)</u>	<u>(1,613,084)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(296,222)</b>	<b>(813,728)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>359,956</u></b>	<b><u>1,173,684</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 63,734</u></b>	<b><u>\$ 359,956</u></b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash received as interest during the year	<u>\$ 179</u>	<u>\$ 900</u>
Cash paid for interest during the year	<u>\$ 69,205</u>	<u>\$ 119,291</u>

See notes to consolidated financial statements.

# PREMIER COMMERCIAL REAL ESTATE INVESTMENT CORPORATION LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2010

*(Expressed in Bahamian dollars)*

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### 1. GENERAL

Premier Commercial Real Estate Investment Corporation Limited (the "Fund") was incorporated on February 4, 2003 under the laws of the Commonwealth of The Bahamas and commenced operations on September 9, 2003. On February 10, 2003, the Fund was granted a Mutual Fund license under the Investment Fund Act, 2003 which supersedes the Mutual Funds Act, 1995. The Fund operates as a closed-end investment fund. On July 9, 2003, the Fund was given approval for listing on The Bahamas International Securities Exchange (BISX). The investment objective of the Fund is to spread its risk by investing in a diverse portfolio of commercial real estate properties in The Bahamas with long-term triple net leases and first class tenants.

The Fund's registered office is located at Equity Trust (Bahamas) Limited, de la Plaine House #28 Parliament Street, Nassau, Bahamas. The Fund had no employees at September 30, 2010, but instead engages service agents to carry out its operational and administrative services.

### 2. ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERNATIONAL ACCOUNTING STANDARDS (IAS)

#### *a. Standards and Interpretations effective in the current period*

In the current year, the Fund has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on or after October 1, 2009.

IFRS 7	(Amended) Financial Instruments: Disclosures
IAS 1	(Revised 2007) Presentation of Financial Statements
IAS 32	(Revised 2008) Financial Instruments: Presentation
IAS 39	(Amended) Financial Instruments: Recognition and Measurement

The Standards above affect the presentation and disclosure related to these financial statements and have resulted in changes to the titles of the financial statements and increased disclosures, as well as a reclassification of participating shares from liabilities to equity.

**b. *Standards and Interpretations effective but not affecting the reported results or financial position***

IFRS 1/IAS 27	(Amended) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2	(Amended) Share-based Payments - Vesting Conditions and Cancellations
IFRS 8	Operating Segments
IAS 23	(Revised 2007) Borrowing Costs
IAS 28	(Amended) Investments in Associates
IAS 32/IAS 1	(Amended) Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 38	(Amended) Intangible Assets
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

The above Standards and Interpretations have not led to changes in the financial position of the Fund during the current year.

**c. *Standards in issue but not yet effective***

IFRS 3	(Revised 2007) Business Combinations
IFRS 5	(Amended) Non-current Assets Held-for-Sale and Discontinued Operations
IFRS 9	Financial Instruments
IAS 7	(Amended) Statement of Cash Flows
IAS 24	(Revised 2009) Related Party Disclosure
IAS 27	(Revised 2008) Consolidated and Separate Financial Statements

Management has not assessed whether the relevant adoption of these Standards in future periods will have a material impact on the financial statements of the Fund.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a historical cost basis, except for investments classified as at fair value through profit or loss and other financial assets and financial liabilities that have been measured at fair value. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from those estimates.

- a. ***Basis of consolidation*** - These consolidated financial statements comprise the financial statements of the Fund and its subsidiaries as at September 30, 2010. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Fund and cease to be consolidated from the date on which control is transferred out of the Fund. All intercompany balances and transactions have been fully eliminated.
- b. ***Cash and cash equivalents***- The Fund considers all cash and short-term deposits with a maturity of three months or less to be cash and cash equivalents. Such amounts are valued at cost which approximates market value.
- c. ***Participating shares*** - International Accounting Standard 32 Financial Instruments: Presentation (“IAS 32”) requires entities that issue financial instruments to classify such instruments as liabilities or equity in accordance with the substance of the contractual arrangement and the definitions contained within IAS 32 of a financial liability and equity instrument. In this regard, IAS 32 requires that financial instruments that give the holder the right to put the instrument back to the issuer for cash or another financial asset be classified as liability of the issuer.

The participating shares issued by the Fund provide the participating shareholders with the right to redeem their shares for cash equal to their proportionate share of the net asset value of the Fund. Within the context of IAS 32, the existence of the option for the participating shareholders to put the shares back to the Fund in exchange for cash requires the Fund to classify the participating shares as a financial liability.

Amendments to IAS 32 and IAS 1 on puttable instruments provide an exception to the definition of a financial liability when certain strict criteria are met. Those criteria include: the puttable instruments must entitle the holder to a pro-rata share of net assets; the puttable instruments must be the most subordinated class and the class features must be identical; there must be no contractual obligation to deliver cash or another financial asset other than the obligation on the issuer to repurchase; and the total expected cash flows from the puttable instrument over its life must be based substantially on the profit or loss of the issuer.

As such, participating shares are presented as equity in the statement of financial position which is determined based on the residual assets of the Fund after deducting the Fund's liabilities and management share capital. The amendments have been applied retrospectively.

**d. *Financial instruments*** - On initial recognition, a financial asset or liability is measured at its fair value plus transaction costs directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition, financial assets are classified as either financial assets at fair value through profit or loss (FVTPL); held-to-maturity investments; loans and receivables; or available-for-sale; and are measured at their fair values without any deduction for transaction costs, except for the following financial assets:

- i. receivables and held-to-maturity financial instruments are measured at amortized cost using the effective interest rate method;
- ii. investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

After initial recognition financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities which are measured at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value.

Term deposits maturing three months after the statement of financial position date are classified as held-to-maturity financial instruments. They have fixed or determinable payments and fixed maturity dates, and the Fund has the intent and ability to hold them to maturity.

Other assets that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables and are carried at cost, which equates to amortized cost. Accounts payable and other liabilities are financial liabilities, which are carried at cost.

**e. *Investment Properties*** - All investment properties are initially recognized at cost, being the fair value of the consideration given, including transaction costs. After initial recognition, investment properties are measured at fair value. Gains and losses arising from the changes in the fair value of the investment properties are included in the consolidated statement of comprehensive income in the period in which they arise.

Investment properties are derecognized when they have either been disposed of or when the property is permanently withdrawn from use and no further benefit is expected from its disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use.

Investments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 - Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Fund's investments are considered Level 3.

*f. Revenue recognition* - Rental income is accounted for on the accrual basis based on rental amounts established in the tenants' lease agreements and is reported net of the Fund's portion of common area maintenance expense. Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease terms.

*g. Accounts receivable* - Accounts receivable, which generally have 30 day terms, are recognized and carried at the original invoice amount less an allowance for uncollectible accounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

*h. Bank loans* - All bank loans are initially recognized at cost, being the fair value of the consideration received. After initial recognition, interest-bearing loans are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the consolidated statement of operations when the liabilities are derecognized as well as through the amortization process.

*i. Borrowing costs* - Borrowing costs are recognized as an expense when incurred in accordance with the benchmark accounting treatment under IAS 23.

*j. Accounts payable and accrued liabilities* - Accounts payable and accrued liabilities, which are normally settled on the 30 to 90 day term, are carried at cost which is the fair value of the consideration to be paid in the future for services received, whether or not billed to the Fund.

**k. *Derecognition of financial assets and liabilities*** - A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass through” arrangement; or
- The Fund has transferred its rights to received cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Fund derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

**l. *Impairment of non-financial assets*** - The Fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Fund estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash generating unit’s (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

**m. *Leases*** - Leases where the lesser retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Operating lease payments are recognized as income in the consolidated statement of operations on a straight line basis over the lease term.

**n. *Income taxes*** - There are no income taxes imposed on the Fund in The Commonwealth of The Bahamas.

#### 4. PROPERTY MANAGER

The Fund has a contract with Commercial Domicile Management for the provision of property management services to include tenant billing and the collection of rent for all properties. For their services, Commercial Domicile Management earns a fee of \$55,650 per annum the property manager is also paid an additional \$20,998 for commissions. The Fund employed another property manager in the prior year, who was paid \$36,000.

#### 5. INVESTMENT PROPERTIES

	2010	2009
First Commercial Centre	\$ 9,500,000	\$ 9,500,000
Caribbean Bottling Co. Nassau	6,180,000	5,400,000
Caribbean Bottling Co. Freeport	<u>800,000</u>	<u>750,000</u>
	<u>\$ 16,480,000</u>	<u>\$ 15,650,000</u>

Investment properties are stated at fair value, which have been determined based on valuations performed by H.G. Christie Ltd., utilizing both the cost approach and income capitalization approach, as of December 3, 2010 (Nassau property) and December 7, 2010 (Freeport properties). H.G Christie Ltd. is a company incorporated under the laws of the Commonwealth of The Bahamas, and an industry specialist in valuing these types of investment properties; the company and its shareholders are independent of the Fund.

The appraisals conform to international valuation standards, and were arrived at on the basis of open market value, being defined as the "AS IS" Market Value of the Fee Simple Interest. Market value represents the best price at which interest in a property might reasonably be expected to be sold by private treaty at the date of valuation assuming a willing buyer and seller in a non-forced sale. In determining the market value, the appraisers considered the cost approach and the income capitalization approach.

The cost approach is based on an analysis of the fee simple value of the land, the value of the site improvements and the cost to construct the building at current construction rates. Physical depreciation is then deducted from the construction cost. Functional obsolescence and economic depreciation are also factored in if applicable.

The income capitalization approach is considered a preferable approach when sufficient data are available for the consideration of comparable rentals in the market area. Analysis is performed of market leases which qualify as arm's-length transactions between willing and knowledgeable lessors and lessees, and used to identify price trends from which value parameters may be extracted. The income capitalization approach produces an estimate of value for real estate by capitalizing one year's net income expectancy at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment.



## 6. NET ASSETS

The Fund's authorized share capital is \$300,000, comprised of 30,000,000 voting participating ordinary shares (the Shares) of \$0.01 par value each. The Shares of the Fund are closely held.

The initial offering price of the Shares was \$10, and thereafter the Shares are available for subscription at dates to be determined by the directors. The minimum initial subscription is \$100,000 with minimum additional increments of \$50,000. The Board of Directors may, in their absolute discretion, by giving not less than ten business days notice to any holder of shares, effect the compulsory redemption of all (but not some) of the same shares.

Total shares issued and outstanding at September 30, 2010 and 2009 totaled \$1,082,885. There were no subscriptions or compulsory redemptions during the year.

During the year ended September 30, 2010, the Fund declared and paid dividends of \$433,154 (\$0.40 per share 2009: \$1,299,469 or \$1.20 per share).

**Capital management** - As a result of the ability to issue, repurchase and resell shares, the capital of the Fund can vary depending on subscriptions to the Fund and repurchases by the Fund. The Fund is not subject to externally imposed capital requirements and has no restrictions on the issue, repurchase and resale of ordinary shares. The Fund's objectives for managing capital are:

- a. To invest the capital in investments meeting the description, risk exposure and expected return indicated in its prospectus.
- b. To maintain sufficient liquidity to meet the expenses of the Fund and to repurchase shares.
- c. To maintain sufficient size to make the operation of the Fund cost efficient.

## 7. SECURITY DEPOSITS

The Fund holds the following security deposits on behalf of its two subsidiaries at September 30:

	2010	2009
Oakesco	\$ 47,127	\$ 62,781
FCCL	<u>25,703</u>	<u>23,202</u>
	<u>\$ 72,830</u>	<u>\$ 85,983</u>

These amounts are to be returned to the tenants upon the termination of their rental agreements.

## 8. CREDIT FACILITIES

The Fund has a credit facility (the Facility) with FirstCaribbean International Bank (FCIB) which provides for borrowings up to \$5,800,000 in United States or Bahamian dollars which is collateralized by the investment properties held by the Fund. The carrying values of the loan as of September 30 are as follows:

Loan	Terms	2010	2009
US Dollar loan	LIBOR plus 1.75% per annum due August 1, 2018		
Current portion		\$ 417,428	\$ 417,428
Long term portion		<u>2,542,989</u>	<u>2,892,018</u>
		<u>\$ 2,960,417</u>	<u>\$ 3,309,446</u>

The loan is due within 108 months or 9 years and bears interest at US \$ LIBOR rate + 1.75%, effective rate at September 30, 2010 (3 month LIBOR .298 + 1.75%) = 2.048%.

Total interest paid and charged to income amounted to \$69,205 and \$127,363 for the years ended September 30, 2010 and 2009, respectively. Such amounts are included in interest and bank charges on the consolidated statement of comprehensive income.

## 9. ADMINISTRATION

The Fund has contracted Equity Trust Company (Bahamas) Limited a Bahamian unrestricted investment administrator incorporated and organized under the laws of The Commonwealth of The Bahamas, for the provision of registered office, administrative and registrar and transfer agency services. For their services, the administrator receives an annual fee of \$38,200.

## 10. OPERATING LEASES

The Fund has entered into commercial property leases on its investment property portfolio. These non-cancelable leases have remaining non-cancelable lease terms of between 2 and 20 years. All leases include a clause to enable upward or downward revision of the rent charge on an annual basis based on prevailing market conditions.

Future minimum rental income receivable under non-cancelable operating lease is as follows at September 30:

	2010	2009
Within one year	\$ 1,275,864	\$ 1,343,295
After one year but not more than five years	<u>3,171,727</u>	<u>2,686,590</u>
	<u>\$ 4,447,591</u>	<u>\$ 4,029,885</u>

## 11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Fund's activities expose it to a variety of financial risks; interest rate risk, price risk, credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance.

**Interest rate risk** - Interest rate risk arises from the possibility that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest.

The Fund's exposure to the risk of changes in the market interest rates relates primarily to the Fund's loan payable. The Fund's bank loan has a floating rate of interest and is based on the US LIBOR rate.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates with all other variables held constant of the Fund's profits.

	<b>Increase/decrease in basis points</b>	<b>Effect on Profit</b>
2010	+1%	\$ (29,604)
2010	-1%	\$ 29,604
2009	+1%	\$ (31,955)
2009	-1%	\$ 31,708

## 12. LIQUIDITY RISK

Liquidity risk is the risk that the Fund may encounter as a result of its inability to quickly sell its investments at fair value or when its assets and liabilities do not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Fund has established procedures with the object of minimizing such losses such as maintaining sufficient cash.

The net assets attributable to holders of redeemable participating shares that are not the subject of a redemption request do not have a stated maturity. All other financial liabilities are due to settle in less than three months

The Fund's overall liquidity risks are monitored on a quarterly basis by the Directors.

*(Continued)*

Assets and liabilities are due to mature based on the period remaining to maturity from the statement of assets and liabilities date as follows:

	<b>2010</b>			
	Up to 3 months	3 - 6 months	Over 6 months	Total
Cash and cash equivalents	\$ 63,734	\$ -	\$ -	\$ 63,734
Investments	-	-	16,480,000	16,480,000
Other assets	103,885	-	-	103,885
	<u>\$ 167,619</u>	<u>\$ -</u>	<u>\$ 16,480,000</u>	<u>\$ 16,647,619</u>
Current portion of long term debt	\$ 104,357	\$ 104,357	\$ 208,714	\$ 417,428
Other liabilities	96,688	-	3,033,247	3,129,935
	<u>\$ 201,045</u>	<u>\$ 104,357</u>	<u>\$ 3,241,961</u>	<u>\$ 3,547,363</u>
	<b>2009</b>			
	Up to 3 months	3 - 6 months	Over 6 months	Total
Cash and cash equivalents	\$ 359,956	\$ -	\$ -	\$ 359,956
Investments	-	-	15,650,000	15,650,000
Other assets	82,738	-	-	82,738
	<u>\$ 442,694</u>	<u>\$ -</u>	<u>\$ 15,650,000</u>	<u>\$ 16,092,694</u>
Current portion of long term debt	\$ 104,357	\$ 104,357	\$ 208,714	\$ 417,428
Other liabilities	53,473	-	3,395,429	3,448,902
	<u>\$ 157,830</u>	<u>\$ 104,357</u>	<u>\$ 3,604,143</u>	<u>\$ 3,866,330</u>

*(Concluded)*

### 13. RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances and transactions are as follows:

	2010	2009
<i>Balances:</i>		
Receivable for rental fees	<u>\$ 35,526</u>	<u>\$ 16,710</u>
Due from property manager	<u>\$ 37,218</u>	<u>\$ 13,454</u>
Accrued expenses	<u>\$ 35,540</u>	<u>\$ -</u>
<i>Transactions:</i>		
Rental income	<u>\$ 102,237</u>	<u>\$ 35,476</u>
Property management fees	<u>\$ 76,648</u>	<u>\$ 36,000</u>
Consulting and advisory	<u>\$ 85,790</u>	<u>\$ -</u>
Directors' fees	<u>\$ 32,350</u>	<u>\$ 27,708</u>
Administration fees	<u>\$ 40,300</u>	<u>\$ 38,150</u>

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