

2012 Annual Report |
Fortress Mutual Fund Limited



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

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

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

Fortress Fund Managers Limited
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Hincks Street
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Barbados
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www.fortressfund.com



Your Future. Our Business.

2012

FORTRESS MUTUAL FUND LIMITED
Caribbean Growth Fund
2012

Investment Objectives & Fund Details

The Fund's primary objective is capital growth over the long term.

The Manager uses a value approach to invest primarily in Caribbean and international equities.

All income, including interest, dividends and capital gains earned by the fund, is automatically re-invested and this income is reflected in the quoted net asset value (NAV) of the shares. The Fund does not pay dividends.

FUND NAME:	Fortress Caribbean Growth Fund
LAUNCH DATE:	December 9, 1996
LAUNCH PRICE:	\$1.00 per share
MINIMUM INVESTMENT:	\$100.00 \$100.00 for subsequent investments \$ 50.00 for monthly savings plan
NET ASSET VALUE PER SHARE - 09/30/2012	\$4.6516
NET ASSETS - 9/30/2012	\$336,981,372
MANAGEMENT EXPENSES:	
<i>Investment Manager:</i>	1.75% per annum on the net assets
<i>Administrator:</i>	0.10% per annum on the first \$30 million of net assets 0.0875% per annum on the remaining balance of net assets
<i>Custodian:</i>	0.0875% per annum on the first \$30 million of the net assets 0.075% per annum of the remaining balance of net assets
INITIAL CHARGES:	2%
REDEMPTION CHARGES:	None
INVESTMENT MANAGER & ADMINISTRATOR:	Fortress Fund Managers Limited
CUSTODIAN:	CIBC FirstCaribbean International Bank (Barbados) Limited Wealth Management Division
FUND VALUATIONS:	Weekly on Fridays
NAV QUOTATIONS:	Internet: www.fortressfund.com Local Barbados newspapers Lipper Overseas Fund Table

Directors & Administrators

DIRECTORS

Senator Geoffrey Cave, C.B.E., B.C.H., L.L.D. (Hon) - Chairman
C. David Bynoe
Kenneth Emery
Sir Fred Gollop K.A., Q.C.
John Williams
Roger Cave - Investment Director

INDEPENDENT AUDITOR

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

SECRETARY

Corporate Services Limited
The Financial Services Centre
Bishop's Court Hill
St. Michael
Barbados

CUSTODIAN

CIBC FirstCaribbean International Bank
(Barbados) Limited
Wealth Management Division
Broad Street
Bridgetown
Barbados

REGISTERED OFFICE

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Hincks Street
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Barbados

INVESTMENT MANAGER & ADMINISTRATOR

Fortress Fund Managers Limited
First Floor Carlisle House
Hincks Street
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Barbados

ATTORNEY AT LAW

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Fortress Caribbean Growth Fund ("the Fund", legally named Fortress Mutual Fund Limited) is an open-ended mutual fund company and was incorporated on December 4, 1996 under the provisions of the Mutual Funds Act of Barbados. The Fund maintains its registered office at First Floor, Carlisle House, Hincks Street, Bridgetown, Barbados. The principal activity of the Fund is investment in domestic, regional and international markets with the aim of achieving long-term capital appreciation.

Important information about this Fund is contained in its prospectus, which we encourage you to read before making an investment. The indicated returns in this document are net of all fees and expenses. Returns are historical and are not necessarily indicative of future performance. Investors should be aware that there are risks involved where the value of the Fund's shares may go down as well as up. A copy of the prospectus may be obtained from the offices of Fortress Fund Managers, or downloaded at www.fortressfund.com

Investment Performance

Since inception in 1996, the Caribbean Growth Fund has generated a compound annual rate of return of 10.2% per year. It has accomplished this by investing actively in a diversified mix of regional Caribbean as well as international stocks. We use a value conscious approach to all investments, seeking to position in securities with good fundamentals and compelling valuations.

2012 was the reverse of 2011, with global equities rallying and Caribbean markets lagging. Global equity markets snapped back from the lows of last September's European debt crisis, and investors responded to another wave of huge monetary stimulus from the US Fed and European Central Bank. Caribbean markets, meanwhile, had lackluster performance, with both Jamaica and Barbados showing losses for the year. Companies in the region continue to struggle with flat or declining revenues and relatively illiquid markets for their shares.

The Fund's performance in 2012 was again below its long-term average, with a gain of 3.9%. International investments generally contributed positively to the result, while Barbados investments in particular were detractors.

Investment Performance as of 9/30/12

	3 mo.	1 year	3 year	5 year	Inception
Fortress CGF	4.2%	3.9%	2.0%	-0.4%	10.2%
Jamaica (US\$)	-1.3%	-8.4%	2.6%	-6.6%	4.9%
Trinidad	4.3%	8.1%	10.1%	2.1%	12.1%
Barbados	-0.2%	-3.4%	-2.1%	-3.6%	6.1%
MSCI World	6.8%	22.3%	8.1%	-1.6%	5.3%

** periods longer than 1 year are annual compound returns*

As of September 30, 2012 approximately 46% of the portfolio was invested outside of the Caribbean region in US dollars and other currencies. The Fund's results are therefore a function of the process at work to select securities, as well as the overall market environments prevailing in Caribbean and global equity markets.

The graph below illustrates the shifting fortunes of some key equity market indices over the past 10 years. Through significant volatility in individual markets over this period, the Fund has generated relatively smooth performance, though in recent years returns have clearly been below their historic average.

Caribbean Growth Fund Performance vs Indices - 10 Years



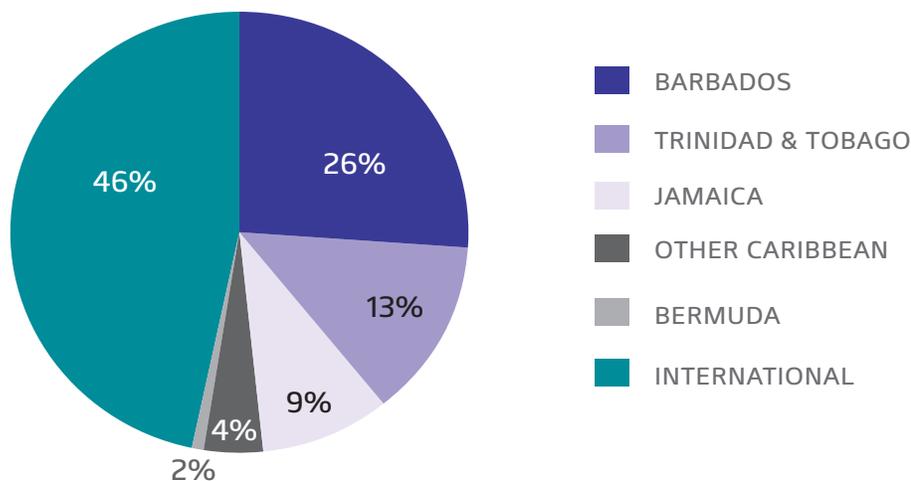
Portfolio Positioning

The Fund's investment portfolio is a diversified mix of regional Caribbean and international stocks, held both directly and in some cases via allocations to other managers and funds. Forty-six percent of the portfolio is invested outside the Caribbean in US dollars and other currencies. The Fund's major holdings within the Caribbean, such as Neal & Massy, GraceKennedy and Goddards, have significant operations not just in their "home" countries, but throughout the region, which adds another measure of overall diversification. The Fund's allocations to internally run strategies in US and international equities, and to funds run by other specialist managers, generally performed well during the year. This naturally pushed the Fund's overall weight to international holdings higher relative to this time last year.

The Fund is constrained in its ability to invest outside Barbados and the Caribbean by exchange controls and the availability of foreign currency.

The graph below summarises the Fund's geographic distribution as of September 30, 2012.

Geographic Distribution of Portfolio



Top 5 Holdings

Holding	Country/Region	Sector	Weight
Neal & Massy Holdings Ltd.	Trinidad	Conglomerate	9.1%
OAM European Value Fund	Europe	Various	6.8%
Fortress Global Value Fund	Global	Various	6.3%
GraceKennedy Ltd.	Jamaica	Conglomerate	4.8%
CS&C Joint Venture	Barbados	Real Estate	3.7%

We continue to see risks to the outlook for business conditions within the Caribbean, even from today's mediocre levels. As a result, the Fund's holdings are concentrated in the shares of companies with relatively stable earnings and balance sheets with the flexibility to weather difficult conditions. These shares have not yet seen significant increases in price from their 2008/09 recession lows, and at these prices we believe they continue to represent reasonable value. Global markets, meanwhile, have seen company fundamentals improve meaningfully since the 2008/09 lows, but they have also seen stock indices rally more than 100%. There is still good value, but it is getting harder to find, and we believe more and more that it is in European and Asian markets as opposed to in the US. In recent months, we have reduced the Fund's exposure to US equities and established option positions to reduce the impact from market weakness if it comes.

The Fund has cash reserves of approximately \$40 million (12% of assets), ready to be invested as opportunities arise in Caribbean or global markets.

For a complete listing of the Fund's holdings as of September 30, 2012, please see the accompanying financial statements.



| Directors' Report

Directors' Report



“The Fund’s net assets grew from \$324 million to \$337 million...”

The Fortress Caribbean Growth Fund returned 3.9% for the year ended September 30, 2012. This is below its historical average, and reflects the challenging business environment faced by companies, especially in the Caribbean. The net asset value (NAV) of the Fund increased from \$4.48 per share at the end of September, 2011 to \$4.65 at September 30, 2012. During the year, the Fund’s assets grew from \$324 million to \$337 million. The annual compound rate of return since inception in 1996 is now 10.2% per year.

The Fund’s returns in recent years have been disappointing, and have certainly been well below its double digit long term average return. The equities in which the Fund is invested, both directly and via allocations to specialist managers, remain broadly diversified by industry and geography. They are generating profits and trading at undemanding valuations that still suggest good long term return prospects. Many are currently paying dividends at rates well above the savings rates being offered on bank deposits. We cannot control when or how prices will improve and boost the Fund’s returns. We can control how the Fund is positioned, though, and we continue to believe its spread of risks is appropriate and its long term outlook good.

Equity markets had mixed results over the past year. This time last year, major global financial markets were in turmoil. European banks were liquidating assets, sovereign bonds from Greece, Spain, Portugal and Italy were plummeting in value amid fears of default, and equity and corporate bond prices in markets around the world were dropping. Since then, most global equity markets have staged significant recoveries, with double digit gains in many developed markets.

Caribbean equities did not see the dramatic decline in late 2011, and as a consequence also did not participate in this widespread recovery. While Trinidad showed gains for the year, Barbados and Jamaica registered losses as business conditions continued to be difficult and financial market liquidity limited.

In this environment, as in all others, our investment process remains the same: *to search for investments with good return prospects and limited risk*. As much as possible, this means focusing on companies with profitable and consistent operations, whose shares are trading at attractive valuations. This approach does not result in the highest returns in all market conditions. It does, however, position the Fund for long term gains while limiting risk of loss along the way.

REGIONAL OPERATING ENVIRONMENT

We wrote in last year's annual report about some of the challenges facing the region. Unfortunately, we must report that they have not improved, and in fact some have worsened. In addition, inflation has remained at very high levels in Barbados, running at a 9.5% rate in 2011 and 7.8% rate so far in 2012. Inflation has averaged over 5% each year for the past 12 years, which means that the value of a dollar has fallen approximately by half over that period. Higher taxes have contributed to this, as has government spending.

Following up from last year, here is an update on some of the other key issues that are affecting economic activity and investment returns in the region.

Fiscal Situation:

Unchanged. While the rate of growth in deficits has stabilised, governments continue to run large deficits and see their respective national debts grow. This situation led to a debt restructuring (the polite term for default) in St. Kitts & Nevis in early 2012, with bond investors likely to lose 80% or more of their money. It also led to a downgrade of the credit rating of Government of Barbados debt, to a level that is now below investment grade. Certain institutional investors are not permitted to own bonds rated below investment grade, so this change in status not only highlights fiscal stresses, it also limits the number of potential buyers for future bond issues.

Lower corporate profits and higher unemployment rates lead to reduced government tax revenues. With reduced tourism and international business activity, it is not easy to see how tax revenues will quickly recover. It is also not easy to see how government expenditures will be reined in given the limited political will to do so. We believe the government fiscal situation may get worse before it gets better.

Capital Markets:

No improvement. The anticipated delisting of Republic Bank (Barbados) will remove another name from an already thin market in Barbados. Jamaica saw a few new listings on its junior market over the past year, assisted by tax policies that encourage private businesses to go public. Joint operation of the region's exchanges remains a reality in theory rather than in practice.

Financial Institutions:

Some improvement. While Trinidad moved closer to resolving the CLICO aftermath through the distribution of series of zero coupon bonds, Barbados has not yet seen any meaningful steps to solving the "limbo" of tens of thousands of policyholders. The relatively new Financial Services Commission (FSC) in Barbados recently issued for comment some new regulatory guidelines applicable to insurance companies. Time will tell if better regulation will prevent future mishaps that affect investor confidence and people's ability to spend and live from money they thought they had.

Banks in Barbados remain very well capitalized, though they continue to fight the headwinds of writing off or restructuring bad loans made in recent years, which is a drag on current earnings.

FUND PERFORMANCE AND POSITIONING

The Fund's return for the year ended September 30, 2012 was 3.9%, below its average annual compound rate of return since inception of 10.2% per year. This year, our international investments rebounded after last year's weakness, contributing double digit returns in many cases. Our Caribbean investments meanwhile, especially in Barbados, did not perform well. The one pocket of strength in the region was Trinidad, whose index was up 8.1% for the year. The Jamaica and Barbados markets fell 8.4% and 3.4% respectively as companies continued to battle a difficult operating environment.

Directors' Report Cont.

Caribbean Investments

Trinidad benefited from very low interest rates and investors' search for yield of any kind that drew money into stocks. The Fund's largest holding is Neal & Massy, at 9.1% of total assets. The stock gained 12% for the year and paid a 3% dividend. ANSA McAl, which the Fund sold on strength during the year, wound up rallying 19%. It now trades at a Price/Earnings (P/E) ratio of nearly 20, which is quite expensive by global standards. It is also expensive relative to a stock like Neal & Massy, which trades at a P/E of only 10 and has a 70% higher dividend yield.

This is a good example of what has happened in Trinidad, where there is still some good value but it is getting much harder to find. The Fund's total allocation to Trinidad is 13%, the bulk of which is represented by the Neal & Massy position. The economy has been strong but more recently showing signs of some weakness, which is another concern.

The Fund's Barbados holdings (approximately 26% of total assets) performed poorly in 2012, a significant drag on overall performance. Sagicor Financial, one of our large holdings, fell 25% during the year. The shares are now trading at one third of their 2008 value, reflecting a significant drop off in operating performance. Other Barbados holdings include CIBC FirstCaribbean (down 1%), Goddard Enterprises (down 8%), and Banks Holdings (down 21%). The operating environment has not yet improved for companies in Barbados, and significant improvement may still be some time off. Tourism and international business have yet to regain anything like their previous levels, economic growth generally is stagnant, and government taxes are high and rising. The downgrade of Government of Barbados debt to below investment grade does not help investor confidence either.

The Barbados equity market remains illiquid, with very little volume traded and no significant new listings. This limits the selection of investments to which the Fund has access and the Fund's ability to adjust this portion of its portfolio.

Jamaican stocks declined during 2012, pushed even lower in US\$ and BD\$ terms by a 5% drop in the value of the Jamaican dollar. After a government debt restructuring in 2010 and support from the IMF, stresses are beginning to surface again. GraceKennedy, one of the Fund's larger holdings, declined 8% during the year. It remains attractively valued with a Price/Earnings ratio of only eight and a dividend yield of just under 3%.

The Fund's other major position in Jamaica, Lascelles, finally came around in 2012, with a 30% gain on the heels of a takeover offer from Italian company Campari. While we are not happy to see the absorption of yet another Caribbean company into a large international one, we had for some time been concerned that Lascelles was not being run to the maximum benefit of its shareholders. In that sense, the Campari offer was a welcome development. The takeover process is not complete, but if it proceeds there is also the potential for further gains as the company sheds non-core assets ahead of the deal closing. The Fund holds an \$11.7 million position in Lascelles and is one of the company's largest shareholders.

During the year, we met with a number of companies in Guyana and came away impressed with their generally good underlying fundamentals and very conservative balance sheets. Valuations in some cases are quite good. The disadvantage of that market is that it is very illiquid, making buying and selling shares difficult. The Fund has positions in three Guyanese companies already and we stand ready to add more as opportunities arise to make long term investments at good prices.

Overall, the Fund's holdings are focused in the shares of companies with steady earnings and responsible balance sheets that stand a good chance of continuing to weather a difficult economy.

International Investments

Global markets had a see-saw year, but ended up with substantial gains. This came as central banks such as the US Fed and the European Central Bank continued and expanded their unprecedented easing policies and support for government bond markets. With US short term interest rates at zero, 10 year Treasury bonds yielding well under 2% and some European governments such as Germany and Switzerland issuing bonds at negative yields, there is a wave of money scouring the world for higher returns. This lent support to stock and corporate bond markets.

As the late 2011 European debt crisis abated, concerns shifted elsewhere. In 2012, markets responded to fears that the Chinese economy was slowing, and to mounting evidence that US corporate profits – at historically high levels relative to the economy – were stagnating after 3 years of recovery and growth. The ongoing European recession was not helpful, and was felt around the world as well as locally in specific European markets. Overall, the US market was the star performer in 2012 as investors perceived it was the “least dirty shirt” in a world with many crosscurrents and economic uncertainties. Japan and peripheral Europe (i.e. Greece, Spain, Portugal) lagged, as did large swathes of the emerging markets, where incidentally we are finding more and more good opportunities to invest as a result of this recent underperformance.

Almost half the Fund’s assets are in US and international investments outside the Caribbean region and currencies. This section of the portfolio diversifies the Fund’s exposures to industries and companies outside those in Barbados and the Caribbean region. Over the years, this type of structure has contributed significantly to returns and helped to reduce the risk and volatility of the Fund. It also helps the Fund maintain its high degree of liquidity.

During 2012, the Fund’s international investments delivered substantial gains, as global markets snapped back from the European-inspired panic of a year ago. In general, our internal strategies and allocations to other managers showed lower returns than those for the broad market indexes. This was due to an inherently more conservative approach, and the related fact that our portfolios did not previously decline to the same degree in last year’s selloff.

The table below summarises the returns generated during the year by the funds and strategies that make up the bulk of our international allocation. All allocations are to strategies or funds that are run with disciplined, value-based investment processes that we expect over time to add both diversification and profits to the Fund.

Full details of the portfolio, including the amount of each allocation, may be found in the accompanying financial statements.

Comparative Returns		
 Holding 	 1 Yr Return 	 Benchmark
Fortress Global Value Fund	7.6%	22.3%
Fortress US Equity Strategy	14.6%	30.2%
Fortress International Equity Strategy	11.5%	14.3%
Fortress US Equity Income Strategy	10.6%	8.0%
Fortress Int’l Equity Income Strategy*	12.1%	2.6%
CG Portfolio Ltd	8.5%	20.7%
Overseas Asset Management		
- OAM Asia Recovery Fund	16.2%	19.9%
- OAM European Value Fund	13.4%	18.1%
Caledonia Investments	5.0%	20.7%

*- International Equity Income Strategy returns from June 1, 2012 initiation.

Directors' Report Cont.

The OAM funds maintained their value very well in the 2011 selloff and still showed healthy returns in 2012. The Fund has had investments in the OAM Asia Recovery and European Value funds for a number of years, and over the course of the last year increased its allocation to the European Value Fund by \$4 million.

The Fortress strategies also held their value relatively well in the 2011 weakness, and delivered gains in 2012, though in the case of the pure equity strategies (US and International) these lagged the benchmark. Our portfolio positioning, which is determined bottom up by a systematic value approach, did not include significant weight in the areas of the US market especially that led the way during the year, most notably financials, biotechnology and information technology.

The Fortress "Equity Income" strategies use portfolios of high quality stocks as a basis for generating a consistent, low risk, return targeting 8% per year. In 2012, the US strategy exceeded this objective, returning 10.6%. The International strategy, initiated in June, returned 12.1%. The Fund makes use of these strategies as a way to generate equity-like returns while only taking bond-like risk. We find this especially useful in an environment where high quality bond yields are so low, and where equities alone can be quite volatile.

The Fund has approximately 12% in cash, providing ready liquidity if and when markets decline and offer up additional opportunities.

OUTLOOK

The economic challenges facing the Caribbean are real and they will not vanish overnight. It is safe to say that whatever the future looks like, it is unlikely to look like the past. All of us – as individuals, the companies we work for and invest in, and our government representatives – need to open our minds to how the future may look and to make appropriate adjustments. There is some evidence that the tourism and finance sectors are beginning to make these necessary shifts to find new opportunities, and this gives us hope. But progress is slow. We firmly believe that "waiting this one out" is not an option for anybody.

As investors, our ideal situation is to see lots of good investments available at bargain prices. Unfortunately, that does not describe the world today – although it does describe parts of it. For the most part, Caribbean equity markets are populated by companies struggling with weak economies, increased competition, high taxes, high costs, inconsistent human resources, flat sales, and lacklustre earnings. The markets in which these securities trade are unnecessarily segmented, thin and illiquid. Thankfully, in some cases the prices we need to pay for these companies are not demanding and reasonable dividend yields can pay us to wait until operating results improve. So our outlook here is constructive, but we also know that big improvements will take time.

Outside of the Caribbean, zero interest rates in major developed countries are increasing the competition among progressively more desperate investors. At the same time, fundamentals are flagging and some variety of economic slowdown is likely underway. This does not mean stock prices need to fall, nor that they need to fall everywhere if they do. But it is a headwind. And combined with the fact that global equity valuations are no longer universally cheap, it means that investors need to be very careful about blindly taking on broad market exposure. The US, for example, looks to us to be less attractive than certain parts of Europe, Asia and emerging markets.

Overall, this is an environment in which we need to proceed cautiously and selectively. By following a disciplined process, we believe there are good returns to be had, with acceptable risk. We are constructive on the long term prospects for the unique portfolio of securities in which the Fund is invested, and take comfort from the diversification and risk management that also forms part of that portfolio.

We thank you very much for your trust and confidence, and thank you for investing with us. We look forward to reporting to you on the Fund's progress in the coming months.

A handwritten signature in black ink that reads "Roger Cave". The signature is written in a cursive, flowing style.

Roger Cave CA, CFA
Investment Director

Financial Statements



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Fortress Mutual Fund Limited

We have audited the accompanying consolidated financial statements of Fortress Mutual Fund Limited which comprise the consolidated statement of financial position as of September 30, 2012 and the consolidated statements of changes in net assets attributable to holders of redeemable mutual fund shares, comprehensive income, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Opinion

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

PricewaterhouseCoopers SRL

December 14, 2012
Bridgetown, Barbados

Fortress Mutual Fund Limited
 Consolidated Statement of Financial Position
 As of September 30, 2012

(expressed in Barbados dollars)

	2012	2011
	\$	\$
Assets		
Investments (note 5)	284,992,093	263,726,191
Real estate available for re-sale (note 6)	2,340,192	2,337,231
Due from brokers (note 8)	12,437	3,386,919
Accounts receivable	301,795	685,409
Cash and cash equivalents (note 9)	49,843,808	54,873,203
Total assets	337,490,325	325,008,953
Liabilities		
Derivative financial instruments (note 7)	98,250	62,400
Accounts payable and accrued expenses	370,703	625,762
Due to brokers (note 8)	—	448
Total liabilities (excluding net assets attributable to holders of redeemable mutual fund shares)	468,953	688,610
Net assets attributable to holders of redeemable mutual fund shares (note 12)	336,981,372	324,280,343
Total liabilities	337,450,325	324,968,953
Share capital (note 13)	40,000	40,000
Liabilities and shareholder funds	337,490,325	325,008,953
Net asset value per share	4.65	4.48

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

Approved by the Board of Directors on December 14, 2012



Director



Director

Fortress Mutual Fund Limited

Consolidated Statement of Changes in Net Assets Attributable to Holders of Redeemable Mutual Fund Shares

For the year ended September 30, 2012

(expressed in Barbados dollars)

	Number of shares	Net assets attributable to holders of redeemable mutual fund shares \$
Balance at September 30, 2010	68,656,948	306,265,191
Issue of shares	7,312,259	33,241,520
Redemption of shares	(3,513,952)	(16,008,800)
Total comprehensive income for the year	—	782,432
Balance at September 30, 2011	72,455,255	324,280,343
Issue of shares	4,144,272	18,703,028
Redemption of shares	(4,155,239)	(18,725,478)
Total comprehensive income for the year	—	12,723,479
Balance at September 30, 2012	72,444,288	336,981,372

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

Fortress Mutual Fund Limited
 Consolidated Statement of Comprehensive Income
 For the year ended September 30, 2012

(expressed in Barbados dollars)

	2012	2011
	\$	\$
Revenue		
Net fair value gains/(losses) on investments (note 5)	12,434,415	(285,526)
Dividend income	6,503,463	6,897,641
Interest income (note 10)	725,222	591,122
Gain on sale of property	–	1,240,000
Other income	81,873	21,879
	<hr/>	<hr/>
Total investment income	19,744,973	8,465,116
	<hr/>	<hr/>
Expenses		
Management fees (note 11)	5,541,744	5,478,751
Operating expenses	335,665	186,887
Administrator and custodian fees (note 11)	540,223	535,724
Trade fees	515,866	835,376
Professional fees	81,515	102,750
Withholding taxes	6,481	188
Impairment charge on property (note 6)	–	543,008
	<hr/>	<hr/>
Operating expenditure	7,021,494	7,682,684
	<hr/>	<hr/>
Total comprehensive income	12,723,479	782,432
	<hr/>	<hr/>

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

Fortress Mutual Fund Limited

Consolidated Statement of Cash Flows

For the year ended September 30, 2012

(expressed in Barbados dollars)

	2012	2011
	\$	\$
Cash flows from operating activities		
Total comprehensive income	12,723,479	782,432
Adjustments for:		
Net fair value (gains)/ losses on investments	(12,434,415)	285,526
Dividend income	(6,503,463)	(6,897,641)
Interest income	(725,222)	(591,122)
Gain on sale of property	–	(1,240,000)
Impairment on property	–	543,008
Operating loss before working capital changes	(6,939,621)	(7,117,797)
Decrease in accounts receivable	155,753	154,316
Decrease in due from brokers	3,374,482	2,702,611
Decrease in due to brokers	(448)	(1,006,340)
(Decrease)/increase in accounts payable and accrued expenses	(255,059)	407,444
Purchase of investments	(56,899,165)	(108,098,578)
Proceeds on sale of investments	48,257,822	103,388,026
Additions to real estate available for re-sale	(2,961)	–
Proceeds from sale of property	–	7,900,000
Cash used in operations	(12,309,197)	(1,670,318)
Interest received	570,928	866,218
Dividends received	6,731,324	6,653,106
Cash (used in)/generated from operating activities	(5,006,945)	5,849,006
Cash flows from financing activities		
Issue of mutual fund shares	18,703,028	33,241,520
Redemption of mutual fund shares	(18,725,478)	(16,008,800)
Cash (used in)/generated from financing activities	(22,450)	17,232,720
Net (decrease)/increase in cash and cash equivalents	(5,029,395)	23,081,726
Cash and cash equivalents – beginning of year	54,873,203	31,791,477
Cash and cash equivalents – end of year	49,843,808	54,873,203

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

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

1 Incorporation and principal activity

Fortress Mutual Fund Limited (“the Fund”) was incorporated in Barbados on December 4, 1996, is registered under the Companies Act of Barbados and is licensed under the Mutual Funds Act 2002-22 as an authorised Mutual Fund. The Fund maintains its registered office at 1st Floor, Carlisle House, Hincks Street, Bridgetown, Barbados. The Fund’s primary objective is capital growth over the long term. The Investment Manager uses a value approach to invest primarily in Caribbean and international equities.

The Fund’s investment and administration activities are managed by Fortress Fund Managers Limited (the Investment Manager).

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of preparation

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

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

a) Basis of preparation...continued

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

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

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements
September 30, 2012

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

b) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Translation differences on non-monetary financial assets and liabilities such as securities 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

The Fund classifies its financial assets into two categories:

- Financial assets at fair value through profit or loss
- Loans and receivables

Management determines the appropriate classification of these assets at initial recognition.

Financial assets at fair value through profit or loss

i) Classification

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

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

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

c) Investments...continued

Financial assets at fair value through profit or loss...continued

ii) *Recognition, derecognition and measurement*

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

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

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.

All other financial assets at fair value through profit or loss are initially recognised at fair value and 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 the Manager to determine the appropriate fair value price to be used. In the event that a security held by the Fund is unquoted, if unusual market conditions exist, or in the event that a particular security's value has become impaired, as evidenced by no bids being quoted and offers below the previous trade price, the Manager, in consultation with the Custodian, and on advice of an independent broker, will make a reasonable estimate of the fair value price by using valuation techniques. These can include the use of recent arm's length transactions, reference to other instruments that are substantially the same or discounted cash flow analysis which make maximum use of market inputs and rely as little as possible on entity-specific inputs.

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 is used to compute realised and unrealised gains and losses on investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective interest method less provision for impairment. A loan or receivable is considered impaired when management determines that it is probable that all amounts due according to the original contract terms will not be collected. This determination is made after considering the payment history of the borrower, the discounted value of collateral and guarantees and the financial condition and viability of the borrower.

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements
September 30, 2012

(expressed in Barbados dollars)

2 Summary of significant accounting policies ...continued

d) Derivative contracts

Open contracts held for trading purposes are included in the statement of financial position at fair value. Fair value is based generally on market prices or broker quotations. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The fair value of open contracts, which are comprised of call and put options, is included in investments where the fair value represents an asset of the Fund. Where the fair value of the options represents an obligation of the Fund, the fair value is included in derivative financial liabilities as a financial liability at fair value through profit or loss. Amounts are offset and the net amount reported in the statement of financial position if, and only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously. This is not generally the case and the related assets and liabilities are presented gross in the statement of financial position. Gains and losses arising from the application of this policy are taken to the statement of comprehensive income.

e) Consolidation

Subsidiaries are all entities over which the Fund has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Fund controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Fund. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between the Fund and its subsidiaries are eliminated. Unrealised losses are also eliminated.

The Fund's subsidiary holding is set out below:

	2012	2011
Cove 11 Limited	100%	100%

Cove 11 Limited is incorporated in Barbados and owns Coral Cove Unit 11 in Payne's Bay, St. James, which has been included in real estate available for re-sale.

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 available for re-sale are included in the statement of comprehensive income at the time of sale.

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

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

g) Cash and cash equivalents

Cash and 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 fair value.

h) Investment income

Interest income is recognised in the statement of comprehensive income for all interest-bearing instruments on an accrual basis using the effective yield method. Interest income relates to coupons earned on fixed income investments, short-term deposits and cash and cash equivalents.

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

i) Transaction costs

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

j) 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.

k) Due from and due to brokers

Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased, that have been contracted for but not yet settled or delivered by the statement of financial position date respectively.

l) Redeemable mutual fund shares/ Net asset value

The Fund issues redeemable mutual fund shares which are redeemable at the holder's option and are classified as financial liabilities. Redeemable mutual fund shares can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's net asset value. The redeemable mutual fund shares are carried at the redemption amount that is payable at the statement of financial position date if the holders were to exercise the right to put the shares back to the Fund.

Redeemable mutual fund shares are issued and redeemed at the holder's option at prices based on the Fund's net asset value per share at the time of issue or redemption. The Fund's net asset value per redeemable mutual fund share is calculated by dividing the net assets attributable to those shares by the number of outstanding redeemable mutual fund shares. In accordance with the provisions of the Fund's

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

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

l) Redeemable mutual fund shares/ Net asset value...*continued*

regulations, investment positions are valued based on the procedures described in note 2c for the purpose of determining the net asset value per share for subscriptions and redemptions.

m) Distributions payable to holders of redeemable mutual fund shares

The Fund's does not pay dividends or distributions to the holders of redeemable mutual fund shares. All income, including interest, dividends and capital gains earned by the Fund, is automatically reinvested and this income is reflected in the quoted net asset value of the shares.

n) Taxation

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

3 Critical accounting estimates and assumptions

The 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 relate to the valuation of unquoted investments and the determination of impairment provisions. Management policies surrounding these estimates and assumptions are disclosed in note 4.

4 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (which includes price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk.

The Fund's overall risk management programme seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise the potential adverse effect on the Fund's financial performance. The Fund's policy allows it to use derivative financial instruments to moderate certain risk exposures.

The risk management policies employed by the Fund to manage these risks are discussed below. There are no changes in the risk management policies from the prior year.

The objective of the Fund is to achieve long-term capital appreciation through investment in domestic, regional and international markets.

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

4 Financial risk management ...continued

Market risk

i) Price risk

The Fund is exposed to market price risk arising primarily from the changes in equity prices. To manage this risk the Fund holds a diversified portfolio of investments in accordance with its investment policy. A summary of the overall statement of financial position market exposures at September 30, 2012 is disclosed in note 5.

At September 30, 2012, 26% (2011- 25%) of financial assets at fair value through profit or loss, comprise of investments in other funds that have been fair valued in accordance with the policies set out in note 2c. Since the shares of the other funds are not publicly traded, redemption can only be made by the Fund on the redemption dates and subject to the required notice periods specified in the offering documents of each of the other funds. The rights of the Fund to request redemption of its investments in other funds may vary in frequency from daily to monthly redemptions. As a result, the carrying values of the other funds may not be indicative of the prevailing values ultimately realised on redemption. In addition, the Fund may be materially affected by the actions of other investors who have invested in funds in which the Fund has invested.

Sensitivity

The effects of a change in equity prices of the Fund's financial assets at fair value through profit or loss are set out below. The analysis is based on the assumption that the equity indexes increase/decrease by 8-10% with all other variables held constant.

Financial assets at fair value through profit or loss:

	Carrying Value 2012 \$	Effective change at September 2012	Impact on income \$
Listed on Caribbean stock exchange and markets	130,971,129	8%	10,477,690
Listed on US stock exchanges and markets	63,676,859	10%	6,367,686
Listed on other exchanges and markets	5,548,139	10%	554,814
Unlisted securities	83,647,264	10%	8,364,726
	283,843,391		25,764,916

Fortress Mutual Fund Limited
Notes to the Consolidated Financial Statements
September 30, 2012

(expressed in Barbados dollars)

4 Financial risk management ...continued

Market risk ...continued

(i) Price risk...continued

	Carrying Value 2011 \$	Effective change at September 2011	Impact on income \$
Listed on Caribbean stock exchange and markets	136,814,882	8%	10,945,191
Listed on US stock exchanges and markets	44,283,820	10%	4,428,382
Listed on other exchanges and markets	8,815,234	10%	881,523
Unlisted securities	72,164,077	10%	7,216,408
	262,078,013		23,471,504

(ii) Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flow. The majority of the Fund's financial assets and liabilities are non-interest bearing. As a result the Fund is not subject to significant amounts of risk due to fluctuation in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates. The effective yield on loans and receivables is disclosed in note 5 and on cash and cash equivalents in note 9.

(iii) Foreign currency risk

The Fund holds financial assets denominated in currencies other than the Barbados dollar, the functional currency of the Fund. Consequently, except where assets and liabilities are denominated in currencies fixed to the Barbados dollar, the Fund is exposed to currency risk. The Fund's policy is not to enter into any hedging transactions to mitigate currency risk.

Foreign currency risk arises as the value of future transactions, recognised monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates. IFRS 7 considers the foreign exchange exposure relating to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. However, management monitors the exposure on all foreign currency denominated assets and liabilities.

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

4 Financial risk management ...continued

Market risk ...continued

(iii) Foreign currency risk...continued

The table below summarises the Fund's exposure to currency risk:

	JMD	GBP	GYD	EUR
	\$	\$	\$	\$
September 30, 2012				
Financial assets				
Investments	31,160,031	20,501,306	6,306,574	3,678,015
Accounts receivable	–	–	–	–
Cash and cash equivalents	5,289	410,070	–	–
Total financial assets	31,165,320	20,911,376	6,306,574	3,678,015
Total financial liabilities	–	–	–	–
Net position	31,165,320	20,911,376	6,306,574	3,678,015
	JMD	GBP	GYD	EUR
	\$	\$	\$	\$
September 30, 2011				
Financial assets				
Investments	34,300,418	19,213,356	5,727,640	–
Accounts receivable	150,945	–	–	–
Cash and cash equivalents	23,279	223,528	–	445,593
Total financial assets	34,474,642	19,436,884	5,727,640	445,593
Total financial liabilities	–	–	–	–
Net position	34,474,642	19,436,884	5,727,640	445,593

Sensitivity

The Fund is most exposed to currency risk in its operating currencies whose values have noticeably fluctuated against the Barbados dollar. These currencies include the Jamaica dollar (JMD), the Great Britain Pound Sterling (GBP), the Guyanese dollar (GYD) and the Euro (EUR).

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

4 Financial risk management ...continued

Market risk ...continued

(iii) Foreign currency risk...continued

The theoretical decrease in net assets had these currencies depreciated by 5% against the Barbados dollar with all other variables held constant is considered below:

	Effect of a 5% depreciation as of September 30, 2012	Effect of a 5% depreciation as of September 30, 2011
	\$	\$
Balances denominated in JMD	1,558,266	1,723,732
Balances denominated in GBP	1,045,569	971,844
Balances denominated in GYD	315,329	286,382
Balances denominated in EUR	183,901	22,280

A 5% appreciation in the currencies will have an equal and opposite effect to that disclosed above.

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 the credit risk is set out in the following table:

	2012	2011
	\$	\$
Loans and receivables	1,148,702	1,648,178
Due from brokers	12,437	3,386,919
Accounts receivable	301,795	685,409
Cash and cash equivalents	49,843,808	54,873,203
	<u>51,306,742</u>	<u>60,593,709</u>

Credit risk from loans and receivables is minimised through holding a diversified portfolio of investments, purchasing securities after careful assessment of the borrower and placing deposits with financial institutions with a strong capital base. The Fund's loans and receivables are unrated.

None of the Fund's loans and receivables and accounts receivables are impaired or past due but not impaired.

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

4 Financial risk management...continued

Credit risk...continued

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal since delivery of securities sold is only made once the broker has delivered payment. On a purchase, payment is made once the securities have been received by the broker. The trade will fail if either party fails to meet their obligation. The Fund's exposure to credit risk related to due to brokers is set out below in the following table:

	2012	2011
	\$	\$
Due from brokers		
Neither past due or impaired	12,437	3,386,919
	<u>12,437</u>	<u>3,386,919</u>

The Fund's exposure to individual counterparty credit risk on its cash and cash equivalents exceeding 2.5% of total the Fund's net assets is set out below:

	2012	2011
	\$	\$
Cash and cash equivalents		
CIBC FirstCaribbean International Bank Ltd (unquoted)	33,679,327	36,547,822

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to weekly cash redemptions of Class "A" Redeemable Mutual Fund Shares (note 12). It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of. The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

4 Financial risk management ...continued

Liquidity risk ...continued

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.

	Less than 1 month \$	1 - 3 months \$
September 30, 2012		
Derivative financial instruments	98,250	–
Accounts payable and accrued expenses	289,553	81,150
Due to brokers	–	–
Net assets attributable to holders of redeemable mutual fund shares	336,981,372	–
Total financial liabilities	337,369,175	81,150
	Less than 1 month \$	1 - 3 months \$
September 30, 2011		
Derivative financial instruments	62,400	–
Accounts payable and accrued expenses	580,234	45,528
Due to brokers	448	–
Net assets attributable to holders of redeemable mutual fund shares	324,280,343	–
Total financial liabilities	324,923,425	45,528

Redeemable shares are redeemed on demand at the holder's option (note 12). In the event of unusual circumstances and redemption requests representing more than 20% of the Fund's assets being received within 30 consecutive days, the directors of the Fund reserve the right to suspend redemptions and to hold a special meeting of the Fund shareholders to determine the future of the Fund, including the liquidation of the Fund's assets.

Capital risk management

The capital of the Fund is represented by the net assets attributable to holders of redeemable shares. The amount of net asset attributable to holders of redeemable shares can change significantly on a weekly basis as the Fund is subject to weekly subscriptions and redemptions at the discretion of shareholders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for shareholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation

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

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

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
September 30, 2012				
Assets				
Financial assets at fair value through profit or loss:				
Listed equity securities	184,018,192	6,123,493	–	190,141,685
Mutual funds	26,497,626	22,338,717	25,439,191	74,275,534
Other	462,000	–	419,200	881,200
Debt securities	3,681,075	–	–	3,681,075
	214,658,893	28,462,210	25,858,391	268,979,494
Liabilities				
Financial liability at fair value through profit or loss:				
Derivative financial instruments	98,250	–	–	98,250

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation ...continued

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
September 30, 2011				
Financial assets at fair value through profit or loss:				
Listed equity securities	181,196,736	2,379,100	–	183,575,836
Mutual funds	41,771,526	1,637,786	21,151,357	64,560,669
Other	–	–	372,721	372,721
Debt securities	17,644	–	–	17,644
	222,985,906	4,016,886	21,524,078	248,526,870
Liabilities				
Financial liability at fair value through profit or loss:				
Derivative financial instruments	62,400	–	–	62,400

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, listed close-ended mutual funds and traded government debt securities. 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 investment-grade corporate bonds, untraded government securities and 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, are unquoted or are determined by a third party. Level 3 instruments include unlisted mutual funds and securities.

The Fund invests in funds for which observable prices are not available as they are not listed in active markets. The fair value of these mutual funds in this category is determined by the administrators of these investments in accordance with industry practice.

Fortress Mutual Fund Limited
Notes to the Consolidated Financial Statements
September 30, 2012

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation ...continued

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

	Level 1	Level 2
	\$	\$
September 30, 2012		
Financial assets at fair value through profit or loss:		
Listed equity securities	(26,143,361)	26,143,361
	(26,143,361)	26,143,361

The equity securities transferred out of Level 1 relate to positions whose trading was inactive as at September 30, 2012 but was actively traded on September 30, 2011.

The following tables present the movement in level 3 instruments by class of financial instrument:

	Mutual Funds	Other	Total balances
	\$	\$	\$
September 30, 2012			
Opening balance	21,151,357	372,721	21,524,078
Purchases	4,000,000	46,479	4,046,479
Sales	(491,767)	–	(491,767)
Gain recognised in the statement of comprehensive income	779,601	–	779,601
Closing balance	25,439,191	419,200	25,858,391
	Mutual Funds	Other	Total balances
	\$	\$	\$
September 30, 2011			
Opening balance	21,736,205	372,721	22,108,926
Purchases	3,000,022	–	3,000,022
Sales	(2,786,750)	–	(2,786,750)
Loss recognised in the statement of comprehensive income	(798,120)	–	(798,120)
Closing balance	21,151,357	372,721	21,524,078

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

5 Investments

	2012 \$	2011 \$
Designated at fair value through profit or loss at inception:		
- listed equity securities	190,141,685	183,575,836
- debt securities	3,681,075	17,644
- mutual funds	74,275,534	64,560,669
- joint ventures	14,863,897	13,551,143
- other	881,200	372,721
Total financial assets designated at fair value through profit or loss	283,843,391	262,078,013
Loans and receivables	1,148,702	1,648,178
Total investments	284,992,093	263,726,191
Net gains/(losses) recognised in relation to investments		
- realized	2,048,668	(1,379,437)
- change in unrealized	10,385,747	1,093,911
	12,434,415	(285,526)

	2012		2011	
	Cost \$	Market value \$	Cost \$	Market value \$
Security				
Financial assets at fair value through profit or loss				
Barbados				
Sagicor Financial Corporation	16,751,032	8,702,905	16,708,689	9,840,011
Goddard Enterprises Limited	5,682,159	8,295,235	5,636,124	9,904,062
Cable & Wireless B'dos Limited	4,337,547	7,643,061	4,497,341	7,476,065
CIBC FirstCaribbean International Bank Ltd	6,649,424	6,190,004	9,681,802	8,694,087
Insurance Corporation of Barbados Ltd	6,438,660	5,505,616	6,438,660	5,505,616
Sagicor Financial Corporation – preference shares	3,719,680	3,860,480	3,500,000	3,500,000
Banks Holdings Limited	1,781,167	1,438,431	1,699,081	1,480,973
Fortress Caribbean Property Fund	2,020,840	1,133,861	1,969,418	1,637,786
Barbados Dairy Industries Ltd	877,117	567,273	983,958	1,113,651
Republic Bank (Barbados) Inc	952,845	544,371	952,845	988,941
	49,210,471	43,881,237	52,067,918	50,141,192

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

5 Investments....continued

Security	2012		2011	
	Cost \$	Market value \$	Cost \$	Market value \$
Financial assets at fair value through profit or loss				
Jamaica				
GraceKennedy	20,933,174	16,581,200	20,133,579	17,899,312
Lascelles Demercado	9,201,081	11,655,638	9,206,737	9,125,916
National Commercial Bank Ltd	2,627,619	2,659,529	4,366,214	5,728,578
Cable & Wireless Jamaica	1,440,853	263,664	1,440,853	224,327
Sagicor Life Jamaica	–	–	605,338	903,200
Capital & Credit Financial Group Ltd	–	–	158,339	235,982
FirstCaribbean Intl Bank(Jamaica) Ltd	–	–	686,224	183,103
	34,202,727	31,160,031	36,597,284	34,300,418
Trinidad				
Neal & Massy Holdings Ltd	28,291,042	30,543,702	28,754,610	27,785,410
Guardian Holdings	8,655,636	10,103,125	6,546,758	5,261,585
Praetorian Property Mutual Fund	4,978,543	3,609,854	4,978,543	3,085,991
Ansa McAl Ltd	–	–	3,588,506	4,087,186
Prestige Holdings Limited	–	–	172,221	186,630
	41,925,221	44,256,681	44,040,638	40,406,802
Bermuda				
Bermuda Fire & Marine Ltd	3,874,154	4,403,667	8,083,787	8,583,771
Bank of N T Butterfield Ltd	–	–	157,542	178,907
	3,874,154	4,403,667	8,241,329	8,762,678
East Caribbean				
East Caribbean Financial Holdings Ltd	2,932,344	3,441,638	2,932,344	4,080,799
St Lucia Electricity Services	536,480	1,076,945	536,480	1,089,775
Trading & Development Co Ltd	526,249	675,486	526,249	837,380
St Vincent Brewery Limited	287,899	410,465	287,899	410,465
	4,282,972	5,604,534	4,282,972	6,418,419

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

5 Investments....continued

Security	2012		2011	
	Cost \$	Market value \$	Cost \$	Market value \$
Financial assets at fair value through profit or loss				
Guyana				
Demerara Bank Limited	2,601,374	4,806,750	2,601,374	4,502,609
Banks DIH Ltd	635,242	1,160,702	635,242	933,271
Demerara Distilleries Ltd	233,674	339,122	233,674	291,760
	3,470,290	6,306,574	3,470,290	5,727,640
International				
OAM European Value Fund	15,945,006	22,887,772	11,945,004	16,249,395
Fortress Global Value Fund	23,525,492	21,204,856	23,525,492	19,695,340
Fortress Equity Income Strategy	7,504,619	9,227,394	13,599,940	15,059,209
OAM Asian Recovery Fund	3,193,007	9,115,964	3,193,007	7,842,651
Fortress International Equity Strategy	7,308,760	8,602,830	7,308,760	7,718,718
C G Portfolio Fund Ltd	3,858,199	8,543,187	3,858,199	7,814,294
Fortress Emerging Equity Strategy	7,400,000	7,400,236	—	—
Caledonia Investment UK Ord shares	8,306,926	7,147,711	8,306,926	6,938,707
Fortress Int'l Equity Income Strategy	6,000,000	6,724,496	—	—
Fortress US Equity Strategy	3,999,940	5,890,904	3,999,940	5,139,912
British Empire Securities & Gen Trust	4,290,577	4,810,408	4,290,577	4,460,355
PIMCO GIS Invest Grade Cr Fund E	4,000,000	4,064,201	—	—
Hellenic Republic Bond	4,247,657	3,678,015	—	—
Sprott Offshore Fund II	4,000,000	2,967,880	—	—
ChapelGate Credit Opportunity Fund	2,000,000	2,404,031	2,000,000	2,007,072
Intregal Global ETF Index Strategy	2,000,000	1,887,144	2,000,000	1,651,951
Ipath S&P 500	2,039,315	1,672,000	—	—
OAM Greenpark II	832,028	1,166,055	924,466	1,674,558
Market Vectors Jnr Gold Miners ETF	908,230	1,140,800	—	—
Kura Africa Fund	1,000,000	962,327	1,000,000	770,960
Wisdomtree Japan hedged ETF	690,956	631,600	—	—
Caribbean Utilities Co Ltd Class A	350,731	337,120	458,805	450,000
Purchased option contracts (note 7)	449,000	462,000	—	—
OAM Greenpark Secondaries	—	182,145	—	240,712
Denholm Hall Russia Arbitrage Fund	197,535	80,097	197,535	116,916
IShares INC MSCI Brazil FR Index	—	—	2,002,054	1,660,800
Berkshire Hathaway Inc Class B	—	—	1,095,672	1,115,171
CATCO Reinsurance Opp Fund C	—	—	1,000,000	1,080,000
Laroc Trading Fund B.V.	—	—	551,771	668,179
Greenlight Capital RE Ltd Class A	—	—	159,335	135,474
	114,047,978	133,191,173	91,417,483	102,490,374

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

5 Investments....continued

	2012		2011	
	Cost \$	Market Value/ Amortised cost \$	Cost \$	Market Value/ Amortised cost \$
Other				
CS&C Joint Venture	5,784,000	13,500,654	5,784,000	12,364,306
Sunset Joint Venture	936,000	1,363,243	936,000	1,186,837
	6,720,000	14,863,897	6,720,000	13,551,143
Holdings less than 0.05%	191,873	175,597	327,463	279,347
Total financial assets at fair value through profit and loss	257,925,686	283,843,391	247,165,377	262,078,013
Loans and receivables				
Deposits	240,000	248,380	740,000	747,856
Fortress St. Lucia Limited (note 11)	900,322	900,322	900,322	900,322
Total loans and receivables	1,140,322	1,148,702	1,640,322	1,648,178
Total investments	259,066,008	284,992,093	248,805,699	263,726,191

The effective yield on loans and receivables is 3.81% (2011 – 4.42%).

6 Real estate available for re-sale

The detailed portfolio of real estate available for resale is as follows:

	2012 \$	2011 \$
Coral Cove – Unit 11	2,340,192	2,337,231

During 2011 an impairment test on the carrying value of the real estate available for re-sale was performed. Based on these tests the Coral Cove Unit 11 property was subsequently adjusted to its net realisable value resulting in impairment losses of \$543,008 on the property being recognised in the statement of comprehensive income. There are no impairment losses for the current year.

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

7 Derivative financial instruments

The Fund in the past used put and call options primarily to reduce the market risk from its portfolio of equity investments as conditions warrant. An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (in the case of a “call” option) or sell (in the case of a “put” option) a specified amount of an underlying security at a specified price on or before the expiry date of the option. The seller receives a premium from the purchaser in return for this right. The market values of these options change primarily in response to changes in values of the underlying assets.

Options which the Fund may enter into are generally all exchange-traded, with pricing for valuation purposes readily available from the exchange(s). Options are shown in the financial statements on a gross basis.

As at September 30, 2012, the Fund held \$462,000 in purchased options contracts (2011- nil). The notional amount underlying options purchased is \$42,000,000. These numbers are most meaningfully considered in the context of the total market value and offsetting exposures within the Fund’s portfolio.

At September 30, 2012 the Fund held \$98,250 in written option contracts (2011-\$62,400). The notional amount underlying options written is \$10,875,000 (2011- \$7,260,000). These numbers are most meaningfully considered in the context of the total market value and offsetting exposures within the Fund’s portfolio.

8 Due from/to brokers

Due from /to brokers represents security purchases and sales transactions contracted for but not yet delivered at the end of the year.

Due from brokers

	2012	2011
	\$	\$
Funds advanced for purchases	12,437	3,386,919

This amount represents funds advanced for the purchase of shares, which have not been issued at the year end.

Due to brokers

	2012	2011
	\$	\$
Purchases awaiting settlement	—	448

This amount represents funds due to brokers on the purchase of investments, which have not been paid at the year end.

Fortress Mutual Fund Limited

Notes to the Consolidated Financial Statements

September 30, 2012

(expressed in Barbados dollars)

9 Cash and cash equivalents

	2012 \$	2011 \$
Cash at bank	39,787,068	48,262,596
Short term deposits and money market funds	<u>10,056,740</u>	<u>6,610,607</u>
	<u>49,843,808</u>	<u>54,873,203</u>

The effective yield on cash and cash equivalents is 0.41% (2011- 0.21%).

10 Interest income

	2012 \$	2011 \$
Loans and receivables	67,885	395,043
Debt securities at fair value through profit or loss	567,227	76,360
Cash and cash equivalents	<u>90,110</u>	<u>119,719</u>
	<u>725,222</u>	<u>591,122</u>

11 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.

Fortress Fund Managers Limited serves as manager, registrar and administrator of the Fund. As a result of providing investment advisory, management, registrar and administrator services, Fortress Fund Managers Limited receives a weekly management and administration fee based on the actual net asset value of the Fund, calculated weekly and payable in arrears. The gross management fee amounted to \$5,737,404 (2011- \$5,687,018) for the year. The administrator fees amounted to \$290,577 (2011- \$287,628) for the year.

Management fees of \$195,660 (2011- \$208,267) were refunded by Fortress Fund Managers Limited being 0.75% - 0.90% of the net asset values of Fortress Caribbean Property Fund Limited, Fortress Caribbean High Interest Fund and Fortress Global Value 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.

The Fund holds 1,619,802 (2011-1,559,796) shares in the Fortress Caribbean Property Fund.

The Fund holds 11,059,827 (2011-11,059,827) shares in the Fortress Global Value Fund.

Included in investments is a deposit of \$900,322 (2011- \$900,322) held with Fortress St. Lucia Limited. Interest is payable quarterly based on 3 month LIBOR plus 2.75%. At year end the interest rate on the deposit was 3.21 % (2011- 3.12%).

Fortress Mutual Fund Limited
Notes to the Consolidated Financial Statements
September 30, 2012

(expressed in Barbados dollars)

11 Related party transactions....continued

The following are the units in the Fund held by the Directors:

	2012	2011
Geoffrey Cave		
Number of shares held at October 1	226,962	48,327
Shares acquired	–	178,635
	<hr/>	<hr/>
Number of shares held at September 30	226,962	226,962
	<hr/>	<hr/>
David Bynoe		
Number of shares held at October 1	60,760	58,511
Shares acquired	–	2,249
	<hr/>	<hr/>
Number of shares held at September 30	60,760	60,760
	<hr/>	<hr/>
Sir Fred Gollop		
Number of shares held at October 1	61,310	56,780
Shares acquired	4,478	4,530
	<hr/>	<hr/>
Number of shares held at September 30	65,788	61,310
	<hr/>	<hr/>
John Williams		
Number of shares held at October 1	32,818	22,103
Shares (redeemed)/acquired	(2,901)	10,715
	<hr/>	<hr/>
Number of shares held at September 30	29,917	32,818
	<hr/>	<hr/>
Roger Cave		
Number of shares held at October 1	63,077	59,052
Shares acquired	22	4,025
	<hr/>	<hr/>
Number of shares held at September 30	63,099	63,077
	<hr/>	<hr/>

Fortress Mutual Fund Limited
Notes to the Consolidated Financial Statements
September 30, 2012

(expressed in Barbados dollars)

12 Redeemable mutual fund shares

Class 'A' Redeemable Mutual Fund Shares (Fund shares)

Each Fund share is entitled to an equal share in the distribution of net income and net capital gains of the Fund and participates equally in all other respects. Fund shareholders shall not be entitled to vote at meetings of shareholders of the Fund save and except as permitted under the Companies Act, CAP 308, for the following:

- i) Disposal of the assets of the Fund.
- ii) Any change or abrogation of the rights of the shares or any variation affecting the rights of the shares.
- iii) Any proposed amalgamation of the Fund or any amalgamation of the Fund

13 Share capital

	2012		2011	
	Number of shares	\$	Number of shares	\$
Common shares				
An unlimited number of common shares				
Issued	1,000	40,000	1,000	40,000

Common shares

The 1,000 common shares, held by the Fund Manager, carry full voting rights, but do not share in the profits of the Fund. On winding up of the Fund, the shares would be repaid at issued value.



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