SANDYPORT HOMEOWNERS ASSOCIATION LIMITED

Financial Statements For The Year Ended December 31, 2010 And Independent Auditors' Report

SANDYPORT HOMEOWNERS ASSOCIATION LIMITED

TABLE OF CONTENTS

CONTENTS	PAGE
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS FOR YEAR ENDED DECEMBER 31, 2010:	
Balance Sheet	5
Statement of Comprehensive Income	6
Statement of Changes in Shareholders' Equity	7
Statement of Cash Flows	8
Notes to Financial Statements	9 - 20



CHARTERED ACCOUNTANTS, FORENSIC AND LITIGATION SUPPORT SERVICES

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Sandyport Homeowners Association Limited

We have audited the accompanying financial statements of Sandyport Homeowners Association Limited ("the Homeowners Association"), which comprise the balance sheet as at December 31, 2010 and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and the other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintain internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Homeowners Association's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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CHARTERED ACCOUNTANTS, FORENSIC AND LITIGATION SUPPORT SERVICES

An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Basis for Qualification

As discussed in Note 15, the corresponding figures presented in the balance sheet as of December 31, 2009, and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended were compiled based on the information provided by the Company's management. These corresponding figures were neither audited nor reviewed by us hence, we have been unable to satisfy ourselves regarding these figures, including the Company's retained earnings as of January 1, 2010.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Sandyport Homeowners Association as at December 31, 2010 and for its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

HLB Galanis + Co.

April 18, 2011

SANDYPORT HOMEOWNERS ASSOCIATION LIMITED BALANCE SHEET

At December 31, 2010

(Expressed in Bahamian Dollars)

		2010		2009 (Note 15)
ASSETS				_
Current Assets				
Cash and cash equivalents	\$	161,781	\$	56,840
Accounts receivable (Note 5)		2,459,090		393,133
Prepayments and deposits		42,769	•	35,349
Total current assets		2,663,640	-	485,322
Fixed assets, net (Note 6)		112,346		-
TOTAL ASSETS		2,775,986	\$	485,322
LIABILITIES AND EQUITY LIABILITIES				
Current Liabilities Accounts payable and accrued expenses	\$	131,876	\$	214,882
Deferred income (Note 7)	Ψ	2,374,546	Ψ	177,680
Total current liabilities		2,506,422		392,562
SHAREHOLDERS' EQUITY Share capital authorized, issued and outstanding				
5,000 shares at \$1.00 per share		5,000		5,000
Capital reserve fund (Note 8)		55,727		55,727
Retained earnings		208,837		32,033
Total shareholders' equity	-	269,564		92,760
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,775,986		485,322

Karen Dagenais	Mark Holcombe
Director	Director

SANDYPORT HOMEOWNERS ASSOCIATION LIMITED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

(Expressed in Bahamian Dollars)

		,,,		2009
		2010		(Note 15)
REVENUE	Φ.	0.100.456	•	1 050 510
Maintenance fees	\$	2,139,456	\$	1,979,712
Water and meters income		287,734		282,042
Security fees (Note 4)		175,156		147,537
Miscellaneous income		1,343		382
Other income		19,737		
Total revenue		2,623,425		2,409,673
DIRECT EXPENSES				
Security expenses (Note 9)		614,973		746,192
Water and meters		399,708		424,151
Gardening expenses (Note 11)		377,430		342,012
Painting expenses (Note 10)		174,115		293,577
Maintenance of common areas (Note 12)		225,324		175,760
Waste water management		123,334		61,337
Garbage removal		34,110		18,662
Total direct expenses		1,948,994		2,061,691
Gross Profit		674,431		347,982
OPERATING EXPENSES				
Salaries, benefits & national insurance		302,594		267,834
Professional fees		37,714		77,223
Other expense (Note 13)		94,556		11,325
Office & computer supplies		28,551		33,491
Telephone & communications		15,059		13,452
Rent and utilities		10,066		10,658
Insurance		3,620		15,101
Property & other taxes		(5,366)		-
Finance charges		10,833		7,693
Total operating expenses		497,627		436,776
NET COMPREHENSIVE INCOME (LOSS)		176,804	\$	(88,794)

SANDYPORT HOMEOWNERS ASSOCIATION LIMITED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY For the year ended December 31, 2010

(Expressed in Bahamian Dollars)

		Share Capital		Capital Reserve Fund	Retained Earnings	 Total
Balance at January 1, 2009	\$	5,000	\$	55,727	\$ 120,827	\$ 181,554
Net comprehensive loss for the year		-	<u></u>		 (88,794)	 (88,794)
Balance at December 31, 2009		5,000		55,727	32,033	92,760
Net comprehensive income for the year				_	176,804	 176,804
Balance at December 31, 2010	\$_	5,000	\$	55,727	\$ 208,837	\$ 269,564

SANDYPORT HOMEOWNERS ASSOCIATION LIMITED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

(Expressed in Bahamian Dollars)

	2010	2009 (Note 15)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net comprehensive income (loss)	\$ 176,804	\$ (88,794)
Add non-cash transactions:		
Depreciation	13,998	545
Operating income before working capital changes	190,802	(88,249)
Increase in accounts receivables	(2,065,958)	(61,108)
Increase in prepayments and deposits	(7,420)	-
(Decrease)/Increase in accounts payable and accrued expenses	(83,006)	114,645
Increase in deferred income	2,196,866	22,662
Net cash provided by (used in) operating activities	231,284	(12,050)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purhase of fixed assets	(126,343)	-
Net cash (used in) financing activities	(126,343)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Due from Sandyport Development Company Ltd.	-	250
Net cash provided by financing activities	-	250
Net increase (decrease) in cash and cash equivalents	104,941	(11,800)
Cash and cash equivalents, beginning of year	56,840	68,640
Cash and cash equivalents, end of year	\$ 161,781	\$ 56,840

For the year ended December 31, 2010

1. General

Sandyport Homeowners Association Limited ("the Company") was incorporated under the laws of the Commonwealth of the Bahamas on May 25, 1990. The Registered Office was located at the office of Kendal Wright, Attorney-At-Law and is in the process of being transferred to Harry B. Sands, Lobosky and Company. The principal activities of the Company are to provide maintenance and security services to the residents of Sandyport.

Effective October 1, 2001 the responsibility for property maintenance was transferred to the Company from Sandyport Development Company Limited.

On January 2, 2010, the homeowners of Sandyport Homeowners Association Limited took over the ownership and management of the affairs of the Company.

As at December 31, 2010 the Company had 64 employees (2009:61)

2. New and revised international accounting standards and interpretations

In the current year, the Company 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 is relevant to its operations and effective for annual reporting periods beginning January 1, 2010.

At the date of approval of those financial statements, the IASB has issued amendments to IFRS 1, IFRS 3, IFRS 7, IFRS 9, IAS 1, IAS 12, IAS 24, IAS 27, IAS 32, IAS 34, IFRIC 13, IFRIC 14 and IFRIC 19, which are not yet effective.

The Directors anticipate that the relevant adoption of these Standards and Interpretations in future periods will have no impact on the financial statements of the Company.

For the year ended December 31, 2010

3. Summary of significant accounting policies

These financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards. The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Bahamian dollar is the Company's measurement and reporting currency because its capital and a majority of its transactions are denominated in that currency.

The following is a summary of the significant accounting policies.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and fixed deposit which is subject to an insignificant risk of change in value.

Accounts Receivable

Accounts receivable are stated at cost less provision for doubtful accounts and any impairment losses. Management records provisions when in their opinion amounts are irrecoverable based on historical performance and solvency of the customer.

For the year ended December 31, 2010

3. Summary of significant accounting policies (Continued):

Fixed assets

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Fixed assets are stated at cost less accumulated depreciation and any impairment losses. Depreciation is provided on the straight-line basis to write-off assets over their estimated useful lives as follows:

Vehicles (Golf Carts) - 3 years
Computer and equipment - 3 years
Gardening equipment - 3 years
Waste water systems - 3-5 years

Deferred Income

Deferred Income represents maintenance fees billed to the homeowners in advance.

Related parties

Related parties consisted of companies with common directorships. All related party transactions and balances are shown in the financial statements as such.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the monthly maintenance fee charged to the homeowners. This fee is based on each property's square footage and owners of empty lots are charged a flat fee.

Income and expense recognition

Income and expenses are recorded on an accrual basis of accounting.

For the year ended December 31, 2010

3. Summary of significant accounting policies (Continued):

Impairment of assets

An assessment is made at each financial position date to determine whether there is any indication of impairment of any assets, or whether there is any indication that an impairment loss previously recognized on an asset in prior years may no longer exists, the asset's recoverable amount is estimated. An asset's recoverable amount is computed as the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the period in which it arises unless the asset is carried at a revalued amount in which case the impairment is charged to revaluation.

A previously recognized impairment is reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognized for the asset in prior years.

4. Related party balances and transactions

These amounts represent reimbursements for services rendered by the Company to Sandyport Development Company Limited, and Sandyport Beaches Resort Limited, regarding security, gardening and other maintenance personnel's wages. Other than this, there are no other cash transactions carried out between the Company and its related parties.

These amounts are invoiced monthly on normal commercial terms.

For the year ended December 31, 2010

4. Related party balances and transactions (continued)

Related balances and transactions were as follows:

	2010	2009 (Note 15)
Revenues		
Security fees		
Sandyport Beaches Resort Limited	\$ 58,250	\$ 43,568
Sandyport Development Company Limited	116,906	103,969
Total	\$ 175,156	\$ 147,537

When the Homeowners took over the ownership and management of the company on January 2, 2010 the companies detailed above ceased to be related and therefore the information provided for 2010 is informational only.

5. Accounts receivable

Accounts receivable is comprised as follows:

	2010	2009 (Note 15)
Accounts receivable Less: provision for doubtful accounts	\$ 2,539,169 (80,079) \$ 2,459,090	\$ 505,625 (112,492) \$ 393,133

For the year ended December 31, 2010

5. Accounts receivable (continued)

The movement in provision for doubtful of accounts is as follows:

		2009
	 2010	(Note 15)
Balance, beginning of year	\$ 112,492	\$ 112,492
Add: provision made during the year	29,112	-
Less: amounts written off during the year	 (61,525)	 -
Balance, end of year	\$ 80,079	\$ 112,492

The ageing of receivables is as follows:

		2009
	2010	(Note 15)
Current	\$ 2,398,423	\$ 182,421
31 to 90 days	115,980	90,790
Over 90 days	24,767	 232,414
Balance, end of year	\$ 2,539,169	\$ 505,625

For the year ended December 31, 2010

6. Fixed assets

The movement of fixed assets during the year is as follows:

	Balance at January 1, 2010		January 1, Additions			Salance at ember 31, 2010
COST						
Waste water system	\$	-	\$	90,336	\$	90,336
Gardening equipment		-		30,188		30,188
Computer and office equipment		2,177		1,120		3,297
Vehicle (Golf Carts)		6,000		4,700		10,700
Total		8,177		126,343		134,520
ACCUMULATED DEPRECIATION						
Waster water system		-		9,940		9,940
Gardening equipment		-		3,828		3,828
Computer and office equipment		2,177		(31)		2,146
Vehicle (Golf Carts)		6,000		261		6,261
Total		8,177		13,998		22,175
NET BOOK VALUE						
Waster water system		-				80,396
Gardening equipment		-				26,360
Computer and office equipment		-				1,151
Vehicle (Golf Carts)		-				4,439
Total	\$				\$	112,346

For the year ended December 31, 2010

6. Fixed assets

	Balance at January 1, 2009 (Unaudited)		Additions (Disposals)		
COST					
Computer equipment	\$	2,177	-	\$	2,177
Vehicle (Golf Carts)		6,000			6,000
Total		8,177	-		8,177
ACCUMULATED DEPRECIATION					
Computer equipment		1,632	545		2,177
Vehicle (Golf Carts)		6,000			6,000
Total		7,632	545		8,177
NET BOOK VALUE					
Computer equipment		545			-
Vehicle (Golf Carts)		_			
Total	\$	545		\$	-

7. Deferred income

Deferred income as at December 31, 2010 is as follows:

	2010
Indenture fees	\$ 215,312
Maintenance services	2,070,296
Water fees	88,938
Total deferred income	\$ 2,374,546

8. Capital reserve fund

This amount represents a reserve established in order to provide for major capital replacements to the residence common areas.

For the year ended December 31, 2010

9. Security expenses

		2010		2009 (Note 15)
Wages	\$	579,906	\$	661,714
Security maintenance		34,077		48,682
Golf carts		_		27,831
Uniforms		990		6,565
Guard dog security		, -		1,400
Total	\$	614,973	\$	746,192
10. Painting expenses				
5 •				2009
		2010		(Note 15)
Wages	\$	69,072	\$	129,819
Painting contractors	•	53,719	•	112,750
Paint and supplies		51,324		51,008
Total	\$	174,115	\$	293,577
11. Gardening expenses				
11. Gardening expenses				2009
		2010		(Note 15)
Wages	\$	249,911	\$	281,958
Garden supplies	•	57,651	•	48,898
Contract services		25,984		· -
Maintenance		19,916		-
Extermination		12,967		6,862
Depreciation		3,828		-
Gas		5,392		4,294
Motor		1,781		
Total	\$	377,430	\$	342,012

For the year ended December 31, 2010

12. Maintenance of common areas

	 2010	2009 (Note 15)
Wages	\$ 44,395	\$ -
Utilities	96,530	101,030
Swimming pool	19,757	33,064
Dredging	20,709	-
Cleaning and repairs	21,603	21,136
Roads and lights	16,445	8,944
Tennis courts	1,050	6,640
Supplies and tools	4,834	2,715
Trenching	-	1,130
Playground	 	 1,101
Total	\$ 225,324	\$ 175,760
13. Other expenses		
		2009
	 2010	 (Note 15)
Provision for doubtful accounts	\$ 29,112	\$ -
Charitable contribution	865	3,960
Medical expenses	2,009	3,739
Flags, signs decorations	2,878	3,005
Meals and entertainment	36	546
Freight	2,087	75
Miscellaneous	 57,568	
	 94,556	\$ 11,325

For the year ended December 31, 2010

14. Financial risk management

The Company is exposed to a variety of risks including credit risk, liquidity risk, foreign currency risk, and cash flow interest risk arising in the normal course of the Company's business activities.

The Company does not have any written risk management policies and guidelines. Management monitors the financial risks of the Company and takes such measures as considered necessary from time to time to minimize such financial risks.

Liquidity risk - Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Prudent liquidity risk management implies maintaining sufficient cash. The Company monitors and maintains a level of bank balances deemed adequate to finance its operations. The Company deposits cash with financial institutions of good standing.

Credit risk – Credit risk arises from the possibility that customers may not be able to settle obligations within the normal terms of transactions. The Company performs ongoing credit evaluation of the debtors' financial condition and maintains an account for allowance for doubtful trade and other accounts receivable based upon the expected collectibles of all trade and other accounts receivable.

The Company has no significant concentration of credit risks with any single counterparty or group counterparties.

For the year ended December 31, 2010

14. Financial risk management (continued)

Interest rate risk – Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rate.

Demand deposits and term deposits are the only significant interest bearing assets and liabilities. Accordingly, the Company's income and operating cash flow are substantially independent of changes in market interest rates.

Corporate risk management – The Company manages their capital to ensure that they will be able to continue as going concern while maximizing the return to homeowners through the optimization of the debts and equity balance. The Company's overall strategy remains unchanged from 2008.

The Capital structure of the Company consists of debt, cash and equity attributable to equity holders comprising of share capital, capital reserve fund and retained earnings.

15. Corresponding figures

The corresponding figures presented in the balance sheet as of December 31, 2009 and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended are unaudited. The corresponding figures have been compiled from the Company's underlying financial records.