

ANNUAL REPORT //2015

THE PATH TO THE FUTURE



FOCOL



ANNUAL REPORT
// 2015

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INTRODUCTION

The Board and Executive team are pleased to present this 2015 Annual Report, which reflects that FOCOL continues to exceed stakeholder expectations for progress. From the time of its establishment, FOCOL inscribed its name in Bahamian history by achieving a feat that can never be surpassed. Ours was the first fully Bahamian owned company to enter the petroleum industry, a status that has remained unchanged from 1981. While it is highly gratifying and worthy of celebrating, this accomplishment would mean little if we did not make continuous increments in realizing FOCOL's mission. The company is dedicated to:

- responding in a timely and beneficial manner to changes in the local and international business climate for the protection of the company's investment and stakeholder satisfaction.
- continuously enhancing the transportation sector of The Bahamas by wholesaling a wide spectrum of high quality petroleum products, including oil, LPG, jet fuels, and lubricants
- increasing retail customers' satisfaction through excellence in customer service at 60 conveniently located, well-provisioned and staffed stations across The Bahamas and the Turks & Caicos Islands
- creating value for FOCOL personnel through training opportunities and competitive remuneration
- increasing shareholder value year after year.

We are confident that the Chairman's Report and associated financials will reflect mission accomplished for yet another year. By the tributes to those FOCOL partners who have passed on, we remember and honour the faithful contributions of stalwarts who built this enterprise.



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Footsteps in the Sands of Time: A Tribute to Our Late Colleagues and Friends

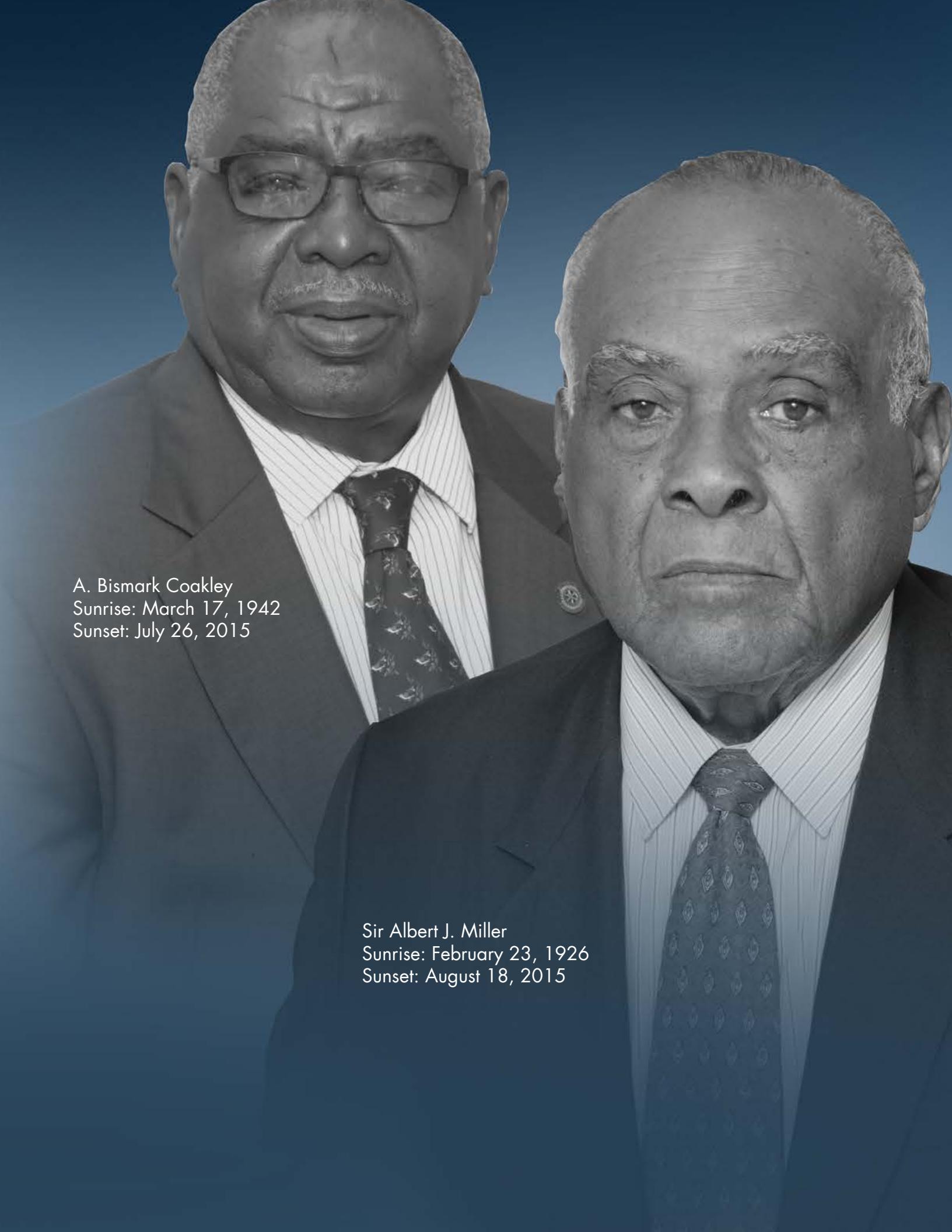
Sir Albert J. Miller
Chairman Emeritus

and

A. Bismarck Coakley
(Director)

FOCOL was twice bereaved in 2015 with the passing of two of its most revered and treasured colleagues and shareholders, Sir Albert Joel Miller and Alfred Bismarck Coakley, known to family and friends by his second name. While we continue to regret the loss of their comradeship and wise council, sadness must give way to gratitude when we recall the rich legacies with which they endowed the FOCOL family and the Bahamian people in general.

Bismarck Coakley and Sir Albert Miller were both born to families who were challenged economically but rich in character and the best of human values. As a result, the lives of both men were characterized by personal discipline, continuous learning and integrity in their dealings. Both became exemplars of the virtues of hard work in overcoming the challenges of life and a commitment to be of service to homeland, fellow citizens and anyone who came within the ambit of their influence. Both were trailblazers and high achievers in their personal careers, investments, and nation building through their support of church, civic programmes and national development initiatives. In life, both were extensively recognized and honoured for their humanity and national impact.



A. Bismark Coakley

Sunrise: March 17, 1942

Sunset: July 26, 2015

Sir Albert J. Miller

Sunrise: February 23, 1926

Sunset: August 18, 2015

SIR ALBERT JOEL MILLER, K.C.M.G., L.V.O., M.B.E., Q.P.M., C.P.M., was born in Long Island, which was, in that era, one of the poorest islands in The Bahamas. The opportunities to earn a satisfactory living were few and young people could count on little more than a hardscrabble existence as farmers and fishermen. As a scion of a family of great dignity and intellect, however, young Albert was imbued with values that shaped an inclination to achievement and service and inculcated a spirit of faith and striving even in the most unpromising circumstances.

Albert and many of his male family members left Long Island as teenagers to take advantage of one of the few professional avenues open to them—joining the Bahamas Police Force. Here too were glass ceilings; the customs of the day dictated that the higher ranks of the Force were reserved almost exclusively for British nationals. The course of the young Long Islander's career speak volumes of the sterling quality of his character and intelligence. He joined the Royal Bahamas Police Force in 1943, and had risen from detective corporal to deputy commissioner by 1968 and would act as Commissioner of Police on several occasions. Throughout his service, Albert Miller seized every opportunity for local and international training and carved out a reputation hallmarked by discipline, determination and hard work. Having accomplished many of his goals with the Force and eager to test his talents in a wider arena, he resigned from that organization in 1971.

Thereafter, Albert Miller migrated to Freeport, the nation's second city, which was still in its infancy. He correctly perceived that a man of his inborn and cultivated abilities could rise beyond the strictures imposed on Bahamians of his ilk, who sought to rise in the commercial arena. His prediction was accurate. He became one of the country's most prominent and successful businessmen. He found employment with the Grand Bahama Port Authority (GBPA), which was the shaper and engine of the new city. His rise in that situation was as meteoric as it had been with the Police Force. He became GBPA's president, co-chair and later chairman, his contributions lasting for more than three decades. He worked closely and in friendship with two of the founding fathers of Freeport, Sir Jack Hayward and Sir Edward St George. Together, they engineered the economic miracle that the city became, thereby contributing greatly to the national development of The Bahamas.

That his contributions to nation-building were recognized at the highest levels is undoubted. The knighthood bestowed upon him by Her Majesty Queen Elizabeth II in 2002 was just one of many. It had been preceded by the award of Member of the British Empire (MBE), the Queen's Police Medal, the Colonial Police Medal and designation as Lieutenant of the Royal Victorian Order. All such awards were well merited.

As today's principals of FOCOL will attest, Sir Albert's financial investment, his influence in a powerful business and governmental network and his leadership were the indispensable key to the establishment, survival and stellar growth of the novice petroleum company. As Sir Albert himself noted, this willing and dedicated participation emanated from the belief that Bahamians should be major owners of the Bahamian economy and from his confidence in the strength, longevity and integrity of the Sunshine partnership. His faith has been justified: FOCOL is today the only fully Bahamian owned member of the petroleum industry and the Shell Franchisee and exclusive distributor of Shell's fine products and services in The Bahamas and Turks & Caicos Islands.

Sir Albert's business leadership attracted many invitations to serve on company boards. He became the first chairman of the FOCOL Board and contributed as a director on many others, including the boards of Solomon Brothers, Pepsi Cola (Bahamas) Bottling Company, Bahamas Amusements Ltd and the Sunshine Group.

Sir Albert Miller's community service and philanthropy ranged far and wide. He was once president of the Rotary clubs in East Nassau and Freeport, Chairman of the Grand Bahama Island Tourism Board, Honorary Chairman of the Junior Achievement of Grand Bahama, member of the Anglican Diocesan Finance Committee and former member of the Salvation Army Board.

That his name is invariably spoken with respect and even awe cements Sir Albert's status as a giant in every facet of Bahamian life that is laudable and worthy of commemoration.

ALFRED BISMARCK COAKLEY, MBE was a man whose modest manner gave little indication of his outstanding achievements in personal development and extensive contributions to the corporate sector and civic endeavours for the greater part of his adult life.

Bismark Coakley was one of 12 children of an impoverished family. Although he passed the entrance examination for a private secondary school, his parents did not have the means to pay the fees. From the public Western Senior School, he went to work delivering telegrams for a meager wage, but never lost sight of his ambition to attain a college education. In the 1960s, he paid for business, accounting and marketing studies in Canada from his own earnings. Twenty years later, he earned an MBA from the University of Miami.

Mr Coakley began his post-college professional career as an accountant at Commonwealth Bank, rising to the rank of vice president. He next followed a similar trajectory in his employment with Burns House, the largest liquor company in The Bahamas. In early 1970s he and a group of friends, determined to prove that Bahamians of humble origins could cooperate to successfully establish and manage large enterprises, formed the Sunshine Group with a capital of \$100,000. The partners grew what became a multifaceted entity into a blue-chip company of \$100 million in assets. In exemplifying Henry Ford's dictum, "Coming together is a beginning, staying together is progress, and working together is success," they encouraged other Bahamians to aspire to sectors of enterprise, which had formerly been closed to them by societal conventions.

Becoming Sunshine's first president responsible for the company's day-to-day administration, Mr Coakley would serve with distinction for nearly four decades. It was he who led Sunshine's thrust into housing development, which afforded thousands of Bahamian families the opportunity to become homeowners. In recent times, he had served as deputy chairman/director and advisor for several Sunshine affiliates, including Sunshine Holdings Company, Sun Oil Company, Eleuthera Properties and RoyalStar Assurance Company.

Bismark Coakley's life commitments went beyond his interests as a business tycoon. Those who knew him best attest to his lifelong desire and sustained efforts to help those around him who were disadvantaged in some way. In 1991, he became involved with the Physically Challenged Children's Committee, then known as the Crippled Children's Committee, serving first as treasurer and later as chairman. In the latter capacity, he interacted with both local and international physicians assuring that children whom the Committee served, received the best care.

Driven to serve, Mr Coakley was continually responsive to opportunities to do so. He was a founding member of many community betterment associations, including Junior Achievement, Toastmasters International and the Young Presidents Organisation. He was also an early member of the Jaycees. He served as president of the Chamber of Commerce for three years and as a longtime director. As president of the Rotary Club of West Nassau, of which he was a founding member, he worked with the Bahamas Children's Emergency Hostel and the Persis Rodgers Home for the Aged. For his contributions, Rotary bestowed upon him the Club's highest honour, the Paul Harris Fellowship.

A pillar of St Agnes Parish, Mr Coakley gave unstintingly wherever and whenever he was called, which included chairing the Council of the Anglican Church Men. Valued for his business acumen, he also had the opportunity to input to numerous corporate boards, notably that of the Bahamas Electricity Corporation.

Among his many honours, Mr Coakley was made a Member of the Most Excellent Order of the British Empire by the Queen in 2010 and in February 2015, was awarded the Lady Sassoon Golden Heart Award for his work with physically challenged children and helping his fellow man. What would be of even greater moment to this Bahamian "from Over the Hill", who never hesitated at an opportunity to assist his brothers and sisters, neighbours and friends, he has been knighted in the hearts of his fellow men.

Sir Albert Miller and A. Bismark Coakley, consummate family and businessmen and altogether admirable Bahamians, will forever be praised by FOCOL for their peerless characters, involvement and influence. It is recognition that should resound throughout The Bahamas. These sons of the soil continue to exemplify the finest of the Bahamian ethos and have left deep footprints in the sands of time and peerless life patterns, which all who aspire to greatness would do well to emulate.

BOARD OF DIRECTORS



SIR FRANKLYN R. WILSON, CMG
Chairman



ANTHONY ROBINSON
President & CEO



CARYL A.E. LASHLEY
Corporate Secretary



ALFRED B. COAKLEY
Director
July 26, 2015



DEBORAH S.A. ARCHER
Director



S. ROSEL MOXEY
Director



RUSSELL MILLER
Director



WALTER WELLS
Director



JOHN BETHELL
Director

CORPORATE INFORMATION

REGISTRAR AND TRANSFER AGENT

Bahamas Central Securities Depository Limited
2nd Floor Fort Nassau Centre
British Colonial Hilton Suite #202,
P.O. Box N-9307
Nassau, The Bahamas

AUDITORS

Deloitte & Touche
2nd Terrace West, Centreville
P.O. Box N-7120
Nassau, The Bahamas
Tel: 242.302.4800
Fax: 242.322.3101

COUNSEL AND ATTORNEYS

Dupuch & Turnquest & Co.
#308 East Bay Street
P.O. Box N-8181
Nassau, The Bahamas
Tel: 242.393.2226
Fax: 242.393.6807

BANKER

Royal Bank of Canada
East Hill Street
P.O. Box N-7549
Nassau, The Bahamas
Tel: 242.356.8500
Fax: 242.328.7145

CHAIRMAN'S REPORT 2015

FOR THE YEAR ENDED JULY 31, 2015

In light of the challenging business environment encountered in 2014, the Directors of FOCOL approved an aggressive restructuring plan to transform the company. The plan involved launching a new business model that required significant capital investment in 2015 and 2016 to ensure a timely impact on the Company's financial performance.

On behalf of the Board of Directors, I am pleased to report that FOCOL Holdings Limited's net income for fiscal year ended 31st July, 2015 was \$20.6 million compared to \$11.3 million last fiscal year. The diligent and timely execution of several major investments by management has significantly improved the Company's financial performance in fiscal 2015. Additionally, we are proceeding with the implementation of the second phase of our plan to complete the transformation.

Initiatives that contributed to our success in 2015 include the following:

- Upgrading the infrastructure at our Fuel Storage Terminals in New Providence, Grand Bahama and Turks & Caicos Islands has improved operational efficiencies.
- The successful launch of a new portfolio of motor fuels that meet the demands of modern engines and improve fuel economy has resulted in a significant increase in our retail market share in 2015.
- The impact of the upgrades and realignment of our retail service station network on New Providence exceeded our expectations in 2015.
- We introduced a retraining program for our staff to increase the use of industry specific technology to improve productivity and safety.

To build a sustainable business, the Board of Directors and Management are dedicated to nurturing a corporate culture at FOCOL that promotes corporate evolution and innovation while remaining committed to our core business and values.

The Board of Directors thanks our loyal customers, dedicated staff and shareholders for their continued confidence in FOCOL Holdings Limited.



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
FOCOL Holdings Limited:

We have audited the consolidated financial statements of FOCOL Holdings Limited (the "Company") which comprise the consolidated statement of financial position as of July 31, 2015 and the related consolidated statements of comprehensive income, changes in equity 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

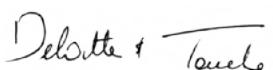
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of FOCOL Holdings Limited as of July 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to Note 23 to the consolidated financial statements which indicates that the Company restated prior period balances. Our opinion is not modified in respect to this matter.



January 8, 2016

FOCOL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JULY 31, 2015 (Expressed in Bahamian dollars)

	2015	2014 (Restated, Note 23)	2013 (Restated, Note 23)
ASSETS			
CURRENT ASSETS:			
Cash and bank balances (Note 5)	\$ 19,391,474	\$ 11,880,686	\$ 16,119,393
Accounts receivable, net (Note 7)	22,280,997	24,447,458	23,040,530
Notes receivable, net (Note 8)	-	23,013	150,187
Inventories (Note 6)	17,048,224	37,269,605	35,773,282
Investments (Note 9)	262,500	255,000	275,000
Prepaid expenses and sundry assets (Notes 10 and 22)	<u>3,693,767</u>	<u>3,934,000</u>	<u>2,869,616</u>
Total current assets	<u>62,676,962</u>	<u>77,809,762</u>	<u>78,228,008</u>
NON-CURRENT ASSETS:			
Property, plant and equipment, net (Notes 11 and 23)	80,913,559	75,411,545	74,207,908
Goodwill and intangible assets (Notes 12 and 13)	14,355,711	14,938,568	14,938,568
Investment in associate (Notes 14 and 23)	11,028,807	7,269,430	6,340,267
Due from associate (Note 22)	<u>55,070</u>	<u>71,539</u>	<u>58,139</u>
Total non-current assets	<u>106,353,147</u>	<u>97,691,082</u>	<u>95,544,882</u>
TOTAL ASSETS	<u>\$ 169,030,109</u>	<u>\$ 175,500,844</u>	<u>\$ 173,772,890</u>

(Continued)

See notes to consolidated financial statements.

FOCOL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JULY 31, 2015 (Expressed in Bahamian dollars)

	2015	2014 (Restated, Note 23)	2013 (Restated, Note 23)
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Bank overdraft (Note 5)	\$ 5,700	\$ 7,925,437	\$ 4,825,829
Accounts payable and accrued liabilities (Notes 15 and 23)	20,369,373	38,197,325	39,800,882
Dividends payable	1,699,689	1,701,444	1,701,449
Current portion of long-term debt (Note 16)	<u>1,665,338</u>	<u>379,794</u>	<u>357,225</u>
Total current liabilities	<u>23,740,100</u>	<u>48,204,000</u>	<u>46,685,385</u>
NON-CURRENT LIABILITIES:			
Due to associate (Note 22)	285,340	-	-
Long-term debt (Note 16)	<u>11,996,707</u>	<u>3,826,565</u>	<u>4,206,355</u>
Total non-current liabilities	<u>12,282,047</u>	<u>3,826,565</u>	<u>4,206,355</u>
EQUITY:			
Share capital (Note 18)	84,943	85,072	85,072
Preference shares (Note 18)	500,000	500,000	500,000
Contributed capital (Note 18)	54,444,542	54,729,450	54,729,450
Revaluation surplus (Note 17)	1,168,339	1,194,689	1,221,039
Retained earnings (Note 23)	<u>76,810,138</u>	<u>66,961,068</u>	<u>66,345,589</u>
Total equity	<u>133,007,962</u>	<u>123,470,279</u>	<u>122,881,150</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 169,030,109</u>	<u>\$ 175,500,844</u>	<u>\$ 173,772,890</u>

(Concluded)

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on January 7, 2016, and are signed on its behalf by:



Director



Director

FOCOL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED JULY 31, 2015

(Expressed in Bahamian dollars)

	2015	2014
	(Restated, Note 23)	
REVENUE	\$ 344,841,231	\$ 380,108,510
COST OF SALES (Note 23)	<u>(273,450,560)</u>	<u>(324,516,511)</u>
Gross profit	71,390,671	55,591,999
Equity income (Notes 14 and 23)	1,209,377	929,163
Other income	20,827	12,930
Marketing, administrative and general expenses (Note 19)	(46,166,590)	(40,438,938)
Depreciation and amortization expense (Notes 13 and 23)	(5,060,279)	(4,070,906)
Finance costs	(844,182)	(678,760)
Unrealized gain (loss) on investments (Note 9)	<u>7,500</u>	<u>(20,000)</u>
NET AND COMPREHENSIVE INCOME	<u>\$ 20,557,324</u>	<u>\$ 11,325,488</u>
Basic and diluted earnings per share (Note 20)	<u>\$ 0.51</u>	<u>\$ 0.24</u>

See notes to consolidated financial statements.

FOCOL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED JULY 31, 2015

(Expressed in Bahamian dollars)

	<u>Share Capital</u>	<u>Preference Shares</u>	<u>Contributed Capital</u>	<u>Revaluation Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at July 31, 2013, as previously reported	\$ 85,072	\$ 500,000	\$ 54,729,450	\$ 1,221,039	\$ 67,740,186	\$ 124,275,747
Restatement (Note 23)	—	—	—	—	(1,394,597)	(1,394,597)
Balance at July 31, 2013, as restated	85,072	500,000	54,729,450	1,221,039	66,345,589	122,881,150
Transfer from revaluation surplus (Note 17)	—	—	—	(26,350)	26,350	—
Comprehensive income	—	—	—	—	11,325,488	11,325,488
Common share dividends: \$0.22 per share (Note 18)	—	—	—	—	(7,486,359)	(7,486,359)
Preference share dividends (Note 18)	—	—	—	—	(3,250,000)	(3,250,000)
Balance at July 31, 2014	85,072	500,000	54,729,450	1,194,689	66,961,068	123,470,279
Transfer from revaluation surplus (Note 17)	—	—	—	(26,350)	26,350	—
Comprehensive income	—	—	—	—	20,557,324	20,557,324
Common shares purchased and cancelled (Note 18)	(129)	—	(284,908)	—	—	(285,037)
Common share dividends: \$0.22 per share (Note 18)	—	—	—	—	(7,484,604)	(7,484,604)
Preference share dividends (Note 18)	—	—	—	—	(3,250,000)	(3,250,000)
Balance at July 31, 2015	<u>\$ 84,943</u>	<u>\$ 500,000</u>	<u>\$ 54,444,542</u>	<u>\$ 1,168,339</u>	<u>\$ 76,810,138</u>	<u>\$ 133,007,962</u>

See notes to consolidated financial statements.

FOCOL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JULY 31, 2015

(Expressed in Bahamian dollars)

	2015	2014
	(Restated, Note 23)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 20,557,324	\$ 11,325,488
Adjustments for:		
Depreciation and amortization expense (Note 13)	5,060,279	4,070,906
Equity income from associate (Note 14)	(1,209,377)	(929,163)
Unrealized (gain) loss on investments	(7,500)	20,000
Loss on disposals of property, plant and equipment, net	<u>134,825</u>	<u>557,806</u>
Income from operations before working capital changes	24,535,551	15,045,037
Decrease (increase) in accounts receivable, net	2,166,461	(1,406,928)
Decrease (increase) in prepaid expenses and sundry assets	173,987	(1,082,780)
Decrease (increase) in inventories	20,221,381	(1,496,323)
Decrease in accounts payable and accrued liabilities	<u>(17,829,707)</u>	<u>(1,603,557)</u>
Net cash from operating activities	<u>29,267,673</u>	<u>9,455,449</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in notes receivable, net	23,013	127,174
Capital contributed to associate (Note 14)	(2,550,000)	-
Purchase of property, plant and equipment (Note 11)	(10,048,015)	(5,784,637)
Decrease (increase) in due from associate	16,469	(13,400)
Increase in due to associate	<u>285,340</u>	<u>-</u>
Net cash used in investing activities	<u>(12,273,193)</u>	<u>(5,670,863)</u>

(Continued)

See notes to consolidated financial statements.

FOCOL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JULY 31, 2015
(Expressed in Bahamian dollars)

	2015	2014 (Restated, Note 23)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of ordinary shares (Note 18)	\$ (285,037)	\$ -
Common share dividends paid	(7,484,604)	(7,486,364)
Proceeds from long-term debt	12,000,000	-
Repayment of long-term debt	(2,544,314)	(357,221)
Preference share dividends paid	<u>(3,250,000)</u>	<u>(3,250,000)</u>
Net cash used in financing activities	<u>(1,563,955)</u>	<u>(11,093,585)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,430,525	(7,308,999)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,955,249</u>	<u>11,264,248</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 19,385,774</u>	<u>\$ 3,955,249</u>
CASH AND CASH EQUIVALENTS IS COMPRISED OF THE FOLLOWING:		
Cash and bank balances	\$ 19,391,474	\$ 11,880,686
Bank overdraft	<u>(5,700)</u>	<u>(7,925,437)</u>
	<u>\$ 19,385,774</u>	<u>\$ 3,955,249</u>
SUPPLEMENTAL INFORMATION:		
Interest paid on bank overdraft and loans	<u>\$ 844,182</u>	<u>\$ 678,760</u>
Interest received	<u>\$ 20,827</u>	<u>\$ 12,930</u>

(Concluded)

See notes to consolidated financial statements.

FOCOL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JULY 31, 2015

(Expressed in Bahamian dollars)

1. INCORPORATION AND ACTIVITY

FOCOL Holdings Limited (the “Company”) is incorporated under the laws of The Commonwealth of The Bahamas. The consolidated financial statements of the Company for the year ended July 31, 2015 comprise the Company and its subsidiaries (together referred to as the “Company”). The Company operates through its wholly-owned subsidiaries and investment in associate as follows:

- Freeport Oil Company Limited (“FOCOL”), an exclusive supplier of petroleum products in Freeport, Grand Bahama;
- Grand Sun Investments Limited (“Grand Sun”), an operator of several service stations in the Freeport, Grand Bahama area;
- Grand Bahama Terminals Limited, an operator of storage facilities in Lewis Yard, Grand Bahama;
- GAL Terminal Limited, an operator of service stations in Eight Mile Rock and Lewis Yard, Grand Bahama;
- Sun Services Limited, a land-owning entity;
- O.R. Services Limited, an operator for several service stations in New Providence;
- Freeport Oil Holdings Investments Limited (“FOHIL”) and its wholly-owned subsidiaries, Sun Oil Limited (“Sun Oil”), a wholesaler of fuel and related products operating in The Bahamas; and Sun Oil Turks and Caicos Limited, a wholesaler of fuel and related products operating in the Turks and Caicos Islands. Sun Oil also operates through its 60% voting interest in BTCL Tankers Limited (“BTCL”) (an associate), a company engaged in shipping petroleum products throughout The Bahamas and Turks and Caicos Islands;
- Sun Oil Aviation Limited, a partner in a Joint Operation (“JO”) which conducts fuel supply operations at the Lynden Pindling International Airport (“LPIA”);
- Sun Marine Limited, a company to develop marine shipping business at a later date;
- Boulevard Services Limited (“Boulevard”), an operator of a service station in Freeport, Grand Bahama;
- Sun Utilities Company Limited, a company developed to provide utility services at a later date;
- Atlantic International Supply & Trading Limited (“AIST”), a wholesaler of petroleum products; and
- Atlantic International Supply & Trading (“AIST-TCI”) Limited, a wholesaler of petroleum products.

Except for BTCI, AIST-TCI and Sun Oil-TCI, a subsidiary of FOHIL, which are incorporated under the laws of the Turks and Caicos Islands, all of the subsidiaries are incorporated under the laws of the Commonwealth of The Bahamas.

The registered office of the Company is located in the chambers of Dupuch & Turnquest, Attorneys-at-Law on East Bay Street, New Providence.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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 are relevant to its operations and effective for annual reporting periods beginning on August 1, 2014. The adoption of the following standards and interpretations has not led to any changes in the Company’s accounting policies:

IFRS 2	Share Based Payments (amendments)
IFRS 3	Business Combinations (amendments)
IFRS 7	Financial Instruments: Disclosures (amendments)
IFRS 8	Operating Segments (amendments)
IFRS 10	Consolidated Financial Statements (amendments)
IFRS 12	Disclosure of Interests in Other Entities (amendments)
IFRS 13	Fair Value Measurement (amendments)
IAS 16	Property, Plant, and Equipment (amendments)
IAS 19	Employee Benefits (amendments)
IAS 24	Related Party Disclosures (amendments)
IAS 36	Impairment of Assets (amendments)
IAS 38	Intangible Assets (amendments)
IAS 39	Financial Instruments: Recognition and Measurement (amendments)

At the date of authorization of these consolidated financial statements, the following relevant Standards were issued but not yet effective:

IFRS 5	Non-Current Assets Held for Sale and Discounted Operations (amendments)
IFRS 7	Financial Instruments: Disclosures (amendments)
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financials (amendments)
IFRS 11	Joint Arrangements (amendments)
IFRS 12	Disclosure of Interests in Other Entities (amendments)
IFRS 14	Regulatory Deferral Accounts
IFRS 15	Revenue from Contracts with Customers
IAS 1	Presentation of Financial Statements (amendments)
IAS 16	Property, Plant, and Equipment (amendments)
IAS 19	Employee Benefits (amendments)
IAS 27	Separate Financial Statements (amendments)
IAS 28	Investments in Associates and Joints Ventures (amendments)
IAS 34	Interim Financial Reporting (amendments)
IAS 38	Intangible Assets (amendments)

The Directors anticipate that the Company will adopt these Standards in the relevant future periods, but have not yet assessed the potential impact of the adoption of these Standards.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance** - These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and the interpretations adopted by the IASB, applied on a consistent basis for all years presented.
- b. Basis of preparation** - The consolidated financial statements include the Company and its wholly-owned subsidiaries, and have been prepared under the historical cost convention, except for the revaluation of certain property, plant and equipment and financial instruments.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed separately.

- c. Basis of consolidation** - The consolidated financial statements incorporate the financial statements of the Company, entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:
 - Has power over the investee;
 - Is exposed, or has rights, to variable returns from its involvement with the investee; and
 - Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and

- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company.

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Company's accounting policies.

All inter-company assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

- d. Cash and cash equivalents** - Cash and cash equivalents comprise cash balances, call and short-term deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.
- e. Accounts receivable** - Accounts receivable are stated at cost less allowance for doubtful accounts (Note 7) and any impairment losses (Note 3 (i)).
- f. Investments** - Investments are recognized on a trade date basis and are initially measured at cost. Investments are classified as fair value through profit or loss and are stated at fair value, with any resultant gain or loss recognized in the consolidated statement of comprehensive income. The fair value of such investments is the quoted bid price at the date of the consolidated statement of financial position.

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

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

g. **Inventories** - Inventories are valued at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of selling expenses.

Cost of inventories is based on the first-in, first-out method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

h. **Property, plant and equipment** - Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 3(i)) except for certain of the Company's land, buildings, building improvements and equipment, which are stated at their appraised values with subsequent additions at cost. Maintenance, repairs and minor costs are expensed as incurred.

Major repairs and improvements which substantially extend the useful life of the assets are capitalized. Upon sale or other disposition of assets, the cost and the related depreciation are removed from the accounts and the resulting gain or loss, if any, is reflected in income. Commencing the month following acquisition or when the asset is placed in service, depreciation of property, plant and equipment is recorded on the straight-line basis with the following rates of depreciation:

Buildings and improvements	2½%
Equipment	12½ - 20%
Computer, furniture, fixtures and fencing equipment	20 - 33½%
Storage facilities	5%
Vehicles	20%
Liquid petroleum gas plant	5%

i. **Impairment** - Fixed assets, accounts receivable and intangible assets are reviewed at the date of each consolidated statement of financial position to determine whether there is objective evidence of impairment. If any such indications exist, the asset's recoverable amount is estimated.

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Fixed assets

An impairment loss is recognized whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive income.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

Accounts receivable

The recoverable amount of receivables is calculated as the total amount of expected collections. The receivables are of a short-term duration and therefore, the expected future cash collections are not discounted.

Intangible assets

Goodwill and indefinite life intangibles are tested for impairment on an annual basis. Determining whether goodwill and intangibles are impaired requires an estimation of the value in use of the asset or cash-generating units to which such assets have been allocated. The value in use calculation requires the Company to estimate the future cash flows expected to arise from the asset or cash-generating unit and a suitable discount rate in order to calculate present value.

Intangible assets with definite useful lives are assessed for impairment when there is an impairment indicator. Amortization is recorded on a straight line basis over the useful life of the asset.

j. **Leases** - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Company as lessee

Assets held under finance leases are recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

k. **Repurchase of shares** - When share capital recognized as equity is repurchased, the amount of consideration paid, including directly attributable costs, is recognized as a reduction of equity. Pursuant to Section 45 of the Companies Act, 1992 all common shares purchased are cancelled upon acquisition.

l. **Accounts payable and accrued liabilities** - Accounts payable and accrued liabilities are stated at cost.

m. **Dividends** - Dividends are recognized as a liability in the period in which they are declared.

n. **Revenue recognition** - Revenue is recognized in the consolidated statement of comprehensive income when significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

- o. Employee benefits*** - The Company maintains defined contribution plans covering all eligible fulltime employees. Contributions to the plan are based on salaries. Obligations for pension plans are recognized as an expense in the consolidated statement of comprehensive income as incurred.
- p. Provisions*** - A provision is recognized in the consolidated statement of financial position when the Company has a present and legal obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.
- q. Business combinations*** - The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date, except for non-current assets that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in the consolidated statement of comprehensive income.

- r. Foreign currency translation*** - The Company's functional currency is Bahamian dollars. In preparing the consolidated financial statements of the Company, transactions in currencies other than Bahamian dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At the date of each consolidated statement of financial position, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the consolidated statement of comprehensive income. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated statement of comprehensive income for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

- s. **Classification** - Assets are classified as current when intended for sale or consumption in the normal operating cycle, or held primarily for the purpose of being traded, or expected to be realized within twelve months, or classified as cash or cash equivalents. All other assets are classified as non-current. Liabilities are classified as current when expected to be settled in the normal operating cycle, or held primarily for the purpose of being traded, or due to be settled within twelve months, or there are no unconditional rights to defer settlement for at least twelve months. All other liabilities are classified as non-current.
- t. **Segment reporting** - A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.
- u. **Investment in associate** - An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies and is typically evidenced by voting rights more than 20%.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interest that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses.

Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

- v. **Related parties** - Related parties are defined as follows:
 - i. Controlling shareholders;
 - ii. Subsidiaries;
 - iii. Associates;
 - iv. Individuals owning, directly or indirectly, an interest in the voting power that gives them significant influence over the enterprise, i.e. normally more than 20% of shares (plus close family members of such individuals);
 - v. Key management personnel - persons who have authority for planning, directing and controlling the enterprise and close family members of such individuals. The Company defines related parties as fellow subsidiaries, directors and officers and their close family members and enterprises which are controlled by these individuals through their majority shareholding or their role as chairman or CEO in those companies;
 - vi. Enterprises owned by the individuals described in (i), (iv) and (v).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgments in applying the entity's accounting policies - In the process of applying the Company's accounting policies, which are described above, judgments made by management that have the most significant effect on the amounts recognized in the consolidated financial statements are discussed in the relevant notes below.

Key sources of estimation uncertainty - critical accounting estimates - The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts included in or affecting the Company's consolidated financial statements and related disclosure must be estimated, requiring the Company to make assumptions with respect to values or conditions which cannot be known with certainty at the time the consolidated financial statements are prepared. A critical accounting estimate is one which is both important to the portrayal of the Company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company evaluates such estimates on an ongoing basis, based upon historical results and experience, consultation with experts, trends and other methods considered reasonable in the particular circumstances, as well as the forecasts as to how these might change in the future.

- a. Impairment** - The Company has made significant investments in tangible and intangible assets. These assets and investments are tested for impairment either annually or when circumstances indicate there may be potential impairment. Factors considered important which could trigger an impairment review include the following: significant fall in market values; significant underperformance relative to historical or projected future operating results; significant changes in the use of the assets or the strategy for the overall business, including assets on which a decision has been made to phase out or replace and also assets that are damaged or taken out of service; significant negative industry or economic trends; and significant cost overruns in the development of assets.

Estimating recoverable amounts of assets of companies must in part be based on management evaluations, including estimates of future performance, revenue generating capacity of the assets, assumptions of the future market conditions and the success in marketing of new products and services. Changes in circumstances and in management's evaluations and assumptions may give rise to impairment losses in the relevant periods.

- b. Depreciation and amortization** - Depreciation and amortization is based on management's estimate of the useful lives of property, plant and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors that may result in changes in their estimated useful lives.

Changes from indefinite life intangibles to finite life intangibles based on management's assessments are accounted for as changes in accounting estimates and are reflected prospectively in accordance with IFRS.

- c. **Investment in associate** - In accordance with the provisions of IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investment in Associates*, the Company assessed whether or not it has control over BTCI Tankers Ltd. ("BTCI"), based on practical ability to direct the relevant activities of BTCI Tankers Ltd. unilaterally. The Company owns 60% voting and equity interest in BTCI with Marine Tankers Services AS ("MTS") having 40% voting and equity interest. In making their judgment, the Company considered that the relevant activities of BTCI are controlled through the management agreement with Marine Management LLC ("MML"), a subsidiary of MTS. Given the nature and terms of the management agreement, it was determined that the relationship was established whereby MTS is a principal acting on its behalf as described in IFRS 10. Therefore, it was determined that the Company does not have control as they do not have the ability to direct the relevant activities, thereby making BTCI an investment in associate.
- d. **Business combinations** - Business combinations are required to allocate the purchase price of acquired companies to the assets acquired and liabilities assumed based on their estimated fair values. For larger acquisitions, the Company engages independent third-party appraisal firms to assist in determining the fair value of the assets acquired and liabilities assumed. Such valuations require management to make estimates and assumptions for significant purchases. These purchases of intangible assets recorded by the Company include customer contracts, brands, trademark and other licenses, and service concession rights.

Management's estimates of fair value and useful lives are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from these estimates.

- e. **Legal proceedings, claims and regulatory discussions** - The Company is subject to various legal proceedings, claims and regulatory discussions, the outcomes of which are subject to significant uncertainty. The Company evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require the Company to increase or decrease the amount the Company has accrued for any matter, or accrue for a matter that has not been previously accrued for because it was not considered probable, or a reasonable estimate could not be made.
- f. **Provision for bad debts** - To cover any shortfall from trade receivables, the Company records a provision for bad debts based on historical information and on estimates with regard to the solvency of customers. Unexpected financial problems of major customers could lead to the recorded provision being inadequate.

5. CASH AND CASH EQUIVALENTS

FOHIL has short-term deposits with local banks totaling \$2,961,672 (2014: \$3,410,040), with interest rates of 1.50% (2014: 2.50% to 3.00%) per annum.

FOHIL has an overdraft facility up to \$10,000,000 (2014: \$10,000,000) with a local bank which bears interest at Bahamas Prime plus 1.00% or 5.75% (2014: Bahamas Prime plus 1.00% or 5.75%) per annum; at July 31, 2015, the balance was \$Nil (2014: \$7,234,737). The overdraft is secured by a guarantee and postponement of claim by the Company, a fixed charge over FOHIL assets, and assignment of insurance proceeds.

FOCOL has available to it, an overdraft facility of \$2,500,000. This overdraft facility bears interest at Bahamas Prime plus 1% per annum; at July 31, 2015, the balance was \$Nil (2014: \$682,226). The overdraft facility is secured by a guarantee and postponement of claim for \$3,000,000 (2014: \$3,000,000) from FOCOL Holdings Limited, which is supported by the usual directors' resolution, as well as a fixed and floating charge debenture over the assets of FOCOL and all risk insurance with loss payable to RBC Royal Bank (Bahamas) Limited, including appropriate insurance of the Company's oil tank farm, stamped to secure \$6,000,000.

Boulevard has available to it, an overdraft facility of \$100,000. This overdraft facility bears interest at Bahamas Prime plus 1.50% (2014: Bahamas Prime plus 1.50%) per annum; at July 31, 2015, the balance was \$5,700 (2014: \$8,474). The overdraft facility is secured by a fixed and floating charge debenture over the assets of the Company and all risk insurance with loss payable being CIBC FirstCaribbean International Bank.

6. INVENTORIES

Inventories consist of the following:

	2015	2014
Gasoline - unleaded	\$ 7,882,072	\$ 11,977,451
Gasoil - diesel	3,385,978	18,077,288
Lube oil	2,382,574	4,552,952
Propane	2,291,886	1,548,386
Other	654,339	593,151
Parts and tanks	<u>451,375</u>	<u>520,377</u>
	<u><u>\$ 17,048,224</u></u>	<u><u>\$ 37,269,605</u></u>

7. ACCOUNTS RECEIVABLE, NET

Accounts receivable consists of the following:

	2015	2014
Accounts receivable - trade	\$ 22,982,020	\$ 24,156,524
Other receivables	<u>637,676</u>	<u>1,387,938</u>
	23,619,696	25,544,462
Less: allowance for doubtful accounts	<u>(1,338,699)</u>	<u>(1,097,004)</u>
	<u>\$ 22,280,997</u>	<u>\$ 24,447,458</u>

The movement in allowance for doubtful accounts is as follows:

	2015	2014
At beginning of year	\$ 1,097,004	\$ 1,005,830
Bad debts for the year (Note 19)	388,012	235,243
Write-offs	(62,027)	(140,286)
Recoveries	<u>(84,290)</u>	<u>(3,783)</u>
At end of year	<u>\$ 1,338,699</u>	<u>\$ 1,097,004</u>

The ageing of receivables is as follows:

	2015	2014
Current	\$ 20,517,994	\$ 21,250,019
31 - 60 days	1,124,606	2,190,581
61 - 90 days	769,897	725,491
Over 90 days	<u>1,207,199</u>	<u>1,378,371</u>
	<u>\$ 23,619,696</u>	<u>\$ 25,544,462</u>

Included in accounts receivable are balances totaling \$1,763,003 (2014: \$3,197,439) which are past due but not impaired.

8. NOTES RECEIVABLE, NET

During 2012, a major credit customer defaulted on its original promissory agreement owing \$35,514 at year end. During 2013, the customer became delinquent in the amount of \$135,128. This delinquent balance combined with the remainder of the original note balance was converted to a new promissory note. The terms of the note require the customer to pay the Company in 58 weekly installments of \$3,000 at 2.50% interest beginning June 2013. Due to several irregular payments, the note was paid in full in September, 2014.

9. INVESTMENTS

Investments are considered Level 1 investments and consist of the following:

	2015	2014
	Market	Market
	Value	Value
ICD Utilities Limited:		
50,000 ordinary shares at par value of B\$0.10		
(cost \$600,000)	<u>\$ 262,500</u>	<u>\$ 255,000</u>

10. PREPAID EXPENSES AND SUNDRY ASSETS

Prepaid expenses include advances and other deferred expenses of \$1,929,425 (2014: \$2,707,067) to be fully amortized during the subsequent fiscal year.

Sundry assets include a contract premium of \$10,734 (2014: \$29,134) being amortized over the life of the contract, and deferred costs of \$1,054,984 (2014: \$1,112,099) on an insurance policy with a related party in-force to March 2016 (2014: March 2015).

11. PROPERTY, PLANT AND EQUIPMENT, NET

The movement of property, plant and equipment during the year is as follows:

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Equipment</u>	<u>Computer, Furniture, Fixtures and Fencing Equipment</u>	<u>Storage Facilities</u>	<u>Vehicles</u>	<u>Liquid Petroleum Gas Plant</u>	<u>Construction In-Progress</u>	<u>Total</u>
COST/VALUATION:									
Balance at July 31, 2013	\$ 19,325,137	\$ 23,466,785	\$ 9,827,750	\$ 2,305,959	\$ 28,716,566	\$ 4,982,083	\$ 726,295	\$ 12,430,586	\$ 101,781,161
Additions	357,578	39,980	197,527	57,626	472,249	461,016	-	4,198,661	5,794,637
Disposals and transfers in (out)	-	3,250,898	494,003	52,262	4,843,511	393,858	-	(9,061,346)	(26,814)
Balance at July 31, 2014	19,682,715	26,757,663	10,519,280	2,415,847	34,032,326	5,836,957	726,295	7,567,901	107,538,984
Additions	-	32,933	103,111	64,085	2,240,460	151,205	-	7,456,221	10,048,015
Disposals and transfers in (out)	-	3,690,837	1,190,418	494,010	4,335,967	(577,826)	-	(9,289,489)	(156,083)
Balance at July 31, 2015	<u>\$ 19,682,715</u>	<u>\$ 30,481,433</u>	<u>\$ 11,812,809</u>	<u>\$ 2,973,942</u>	<u>\$ 40,608,753</u>	<u>\$ 5,410,336</u>	<u>\$ 726,295</u>	<u>\$ 5,734,633</u>	<u>\$ 117,430,916</u>
ACCUMULATED DEPRECIATION:									
Depreciation	\$ -	\$ 5,358,324	\$ 6,426,298	\$ 1,838,640	\$ 10,496,439	\$ 3,260,520	\$ 715,929	\$ -	\$ 28,096,150
Disposals	-	646,591	1,025,088	173,246	1,624,471	575,339	7,775	-	4,052,510
Balance at July 31, 2014	-	-	-	-	-	(21,221)	-	-	(21,221)
Depreciation	-	6,004,915	7,451,386	2,011,886	12,120,910	3,814,638	723,704	-	32,127,439
Disposals	-	676,199	1,117,622	243,895	1,816,320	554,549	2,591	-	4,411,176
Balance at July 31, 2015	<u>\$ -</u>	<u>\$ 6,681,114</u>	<u>\$ 8,569,008</u>	<u>\$ 2,255,781</u>	<u>\$ 13,937,230</u>	<u>\$ 4,347,929</u>	<u>\$ 726,295</u>	<u>\$ -</u>	<u>(21,258)</u>
CARRYING VALUE:									
As at July 31, 2015	<u>\$ 19,682,715</u>	<u>\$ 23,800,319</u>	<u>\$ 3,243,801</u>	<u>\$ 718,161</u>	<u>\$ 26,671,523</u>	<u>\$ 1,062,407</u>	<u>\$ -</u>	<u>\$ 5,734,633</u>	<u>\$ 80,913,559</u>
As at July 31, 2014	<u><u>\$ 19,682,715</u></u>	<u><u>\$ 20,752,748</u></u>	<u><u>\$ 3,067,894</u></u>	<u><u>\$ 403,961</u></u>	<u><u>\$ 21,911,416</u></u>	<u><u>\$ 2,022,319</u></u>	<u><u>\$ 2,591</u></u>	<u><u>\$ 7,567,901</u></u>	<u><u>\$ 75,411,545</u></u>

12. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consists of the following:

	2015	2014
Goodwill assets	\$ 10,858,568	\$ 10,858,568
Intangible assets	<u>3,497,143</u>	<u>4,080,000</u>
	<u><u>\$ 14,355,711</u></u>	<u><u>\$ 14,938,568</u></u>

Goodwill assets

Goodwill assets consists of the following:

	2015	2014
Goodwill, G.A.L. Terminal Limited	\$ 3,808,514	\$ 3,808,514
Goodwill, Shell Propane Plant	3,285,419	3,285,419
Goodwill, Boulevard Services Limited	3,116,881	3,116,881
Goodwill, Grand Bahama Terminals Limited	<u>647,754</u>	<u>647,754</u>
	<u><u>\$ 10,858,568</u></u>	<u><u>\$ 10,858,568</u></u>

Allocation of goodwill to cash-generating units:

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- *Petroleum operations* - wholesale sales of petroleum and petroleum products, lubricating oils and greases and all other petroleum derivatives; the construction and operations of filling stations and the provision of bunkering services in Grand Bahama. Goodwill allocated to this cash generating unit totaled \$7,573,149.
- *LPG operations* - distribution, wholesale and retail sales of propane in Grand Bahama. Goodwill allocated to this cash generating unit totaled \$3,285,419.

Petroleum Operations - Supply of petroleum products

Goodwill arose during 2006 and 2013 when the Group acquired Texaco Service Stations in Lewis Yard and Eight Mile Rock, and Boulevard Services Limited in Freeport, Grand Bahama, respectively. The recoverable amounts of these cash-generating units are determined based on value-in-use calculations which uses cash flow projections based on financial budgets approved by the Directors covering a five-year period, and discounted rates of 11% per annum (2014: 11%).

Cash flow projections during the budgeted period are based on consistent gross margins throughout the budgeted period. The cash flows were projected over the 5 year discrete period based on a growth rate of 1% (2014: 1%) per annum. The annual growth rate is estimated by management based on the annual GDP growth rate. The Directors assessed the key assumption and concluded that reasonable changes in the key assumptions described would not cause the aggregate carrying value to exceed the aggregate recoverable amount resulting in an impairment of the goodwill.

LPG Operations - Supply of propane

Goodwill arose during 2005 with the acquisition of the Shell Propane Plant in Grand Bahama. The recoverable amount of this cash-generating unit is determined based on a value-in-use calculation which uses financial budgets approved by the Directors covering a five-year period, and a discounted rate of 11% (2014: 12%) per annum. The business has continued to operate on a satisfactory basis, but without achieving any significant increase in market share because it remains the only supplier of the product.

Cash flow projections during the budgeted period are based on consistent gross margins throughout the budgeted period. The cash flows were projected over the 5 year discrete period based on an annual growth rate of 1% (2014:1%) per annum. The annual growth rate is estimated by management based on the annual GDP growth rate. The Directors assessed the key assumption and concluded that reasonable changes in the key assumptions described would not cause the aggregate carrying value to exceed the aggregate recoverable amount resulting in an impairment of the goodwill.

Intangible assets

Intangible assets consists of the following:

	2015	2014
Trademark license	\$ 4,080,000	\$ 4,080,000
Less: accumulated amortization	<u>(582,857)</u>	<u>-</u>
	<u><u>\$ 3,497,143</u></u>	<u><u>\$ 4,080,000</u></u>

Shell Brands International AG is one of the Shell Overseas Holdings Limited (“SOHL”) Group of Companies whose primary responsibility is maintaining the Shell Brand Trademarks in all relevant jurisdictions. Upon purchasing Shell Bahamas Limited, the Company paid an initial license fee of \$4,080,000 and pays quarterly royalties on American gallons sold from authorized sites. The agreement provides the Company with a non-exclusive license to continue the use of the Shell Brand Visual Manifestations at authorized sites.

The Company entered into an initial Trademark License Agreement with SOHL which expired January 15, 2011. Effective July 2012, the agreement was renewed for a further five (5) years with revised royalty rates. "The Parties may at any time extend the License term for a further period of five (5) years whether on the same commercial terms as at the commencement date or otherwise." In the prior year, management determined that the trademark had an indefinite useful life. In the current year, management reviewed the useful life assessment and subsequently determined that the Trademark License has a finite useful life equal to the remaining life of the contract with the exercised option. As a result, the Trademark License is being amortized over a period of seven years, commencing August 2014. Management has assessed and have not identified any impairment of the trademark during the year.

The value of the initial license fee was determined by SOHL and purportedly represents the proportionate value added to the business as a result of SOHL's global efforts to distinguish itself and promote its products over those of its competitors.

13. DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation and amortization expense consists of the following:

	2015	2014
Depreciation of property, plant and equipment (Note 11)	\$ 4,411,176	\$ 4,052,510
Amortization of trademark license (Note 12)	582,857	-
Amortization of deferred contract premium (Note 10)	<u>66,246</u>	<u>18,396</u>
	<u><u>\$ 5,060,279</u></u>	<u><u>\$ 4,070,906</u></u>

14. INVESTMENT IN ASSOCIATE

Investment in associate consists of the following:

	Interest Held	2015	2014
BTCI Tankers Ltd.	60.00%	\$ <u>11,028,807</u>	\$ <u>7,269,430</u>

Key figures for the 60% owned Company are as follows:

	2015	2014
Revenues	\$ <u>6,729,769</u>	\$ <u>5,014,641</u>
Expenses	\$ <u>4,714,140</u>	\$ <u>3,466,036</u>
Current assets	\$ <u>2,522,739</u>	\$ <u>3,314,658</u>
Non-current assets	\$ <u>15,973,086</u>	\$ <u>8,916,768</u>
Current liabilities	\$ <u>86,010</u>	\$ <u>87,239</u>

Total movement in investment in associate is as follows:

	2015	2014
Balance, beginning of year	\$ <u>7,269,430</u>	\$ <u>6,340,267</u>
Capital contributions	\$ <u>2,550,000</u>	\$ <u>-</u>
Equity income	\$ <u>1,209,377</u>	\$ <u>929,163</u>
Balance, end of year	\$ <u>11,028,807</u>	\$ <u>7,269,430</u>

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2015	2014
Trade payables	\$ <u>18,188,168</u>	\$ <u>36,419,865</u>
Accrued liabilities	\$ <u>2,181,205</u>	\$ <u>1,777,460</u>
	\$ <u>20,369,373</u>	\$ <u>38,197,325</u>

16. LONG-TERM DEBT

Long-term debt is comprised of the following:

	2015	2014
Bank loan	\$ 12,000,000	\$ 2,382,882
Note payable	<u>1,662,045</u>	<u>1,823,477</u>
	13,662,045	4,206,359
Less: current portion	<u>1,665,338</u>	<u>379,794</u>
	<u><u>\$ 11,996,707</u></u>	<u><u>\$ 3,826,565</u></u>

The prior period bank loan of \$2,382,882 was secured by a registered first fixed and floating charge debenture over the assets of the Company, supported by Directors' Resolution. The assets are further secured by an all-risk insurance with loss, if any, payable to the bank, including appropriate coverage on storage facilities and total coverage of \$2,450,000. On July 3, 2015, the loan was paid in full.

The loan facility of \$20 million was entered into on September 30, 2014 at an interest rate of Nassau Prime Plus 0.25% or 5.00%, with a 10 year term commencing one year after the initial drawdown, and monthly payments of \$185,185. At year end, drawdowns totaled \$12 million with the first payment to be effective October, 2015. The monthly payments due on the \$12 million outstanding balance at year end is \$111,111. However, subsequent to year end, the Company obtained an additional \$3 million draw down. As such, the balance payments due within twelve months is \$139,889 monthly. The loan is secured by debenture guarantee and a pledge of shares of the Parent company.

The note payable of \$2,000,000 is unsecured at an interest rate of 6.00% over a 10 year term, repayable in monthly installments of \$22,204.

17. REVALUATION SURPLUS

The fixed assets of FOCOL are stated at cost, net of accumulated depreciation, except for certain land, buildings, building improvements and equipment, which are recorded at appraised values as at July 13, 1990, on the basis of an appraisal as of that date, performed by an independent appraiser, net of accumulated depreciation. The value of the land was determined using the market data approach. The values of the buildings, building improvements and equipment were determined using the replacement cost approach.

The difference between depreciation based on the revalued carrying amount and depreciation based on the assets' original cost is transferred annually from revaluation surplus to retained earnings over the estimated life of the assets.

18. SHARE CAPITAL

	2015	2014
<u>Common Shares</u>		
<i>Authorized:</i>		
160,000,000 shares of \$.0025 each (2014: 160,000,000 of \$.0025)	\$ 400,000	\$ 400,000
<i>Issued and fully paid:</i>		
33,977,153 shares of \$.0025 each (2014: 34,028,878 of \$.0025)	\$ 84,943	\$ 85,072

The movement in issued shares during the year is as follows:

	2015	2014
Balance at beginning of year	34,028,878	34,028,878
Common shares purchased and cancelled during the year	(51,725)	-
Balance at end of year	<u>33,977,153</u>	<u>34,028,878</u>

Common shares purchased and cancelled during the year are comprised of the following:

<u>Repurchase Date</u>	<u>Total Shares</u>	<u>Price Per Share</u>	<u>Total Consideration</u>	<u>Cancellation Date</u>
Feb 13, 2008	14,100	\$ 5.12	\$ 72,192	May 22, 2015
Feb 26, 2008	4,951	5.15	25,498	May 22, 2015
July 22, 2010	5,050	4.65	23,482	May 22, 2015
Sept 7, 2010	11,000	5.46	60,060	May 22, 2015
July 17, 2015	724	6.25	4,525	August 18, 2015
July 17, 2015	12,400	6.20	76,880	August 18, 2015
July 20, 2015	1,500	6.50	9,750	August 18, 2015
July 20, 2015	1,000	6.32	6,320	August 18, 2015
July 20, 2015	<u>1,000</u>	<u>6.33</u>	<u>6,330</u>	<u>August 18, 2015</u>
	<u>51,725</u>		<u>\$ 285,037</u>	

Common share dividends are made payable to shareholders of record as at October 31, January 31, April 30 and July 31 of each year within 10 business days of the record date or such other period as stipulated by the Directors from time to time.

(Continued)

	2015	2014
<u>Preference Shares</u>		
<i>Authorized:</i>		
Class A shares of \$.01 each	25,000,000	25,000,000
Class B shares of \$.01 each	15,000,000	15,000,000
Class C shares of \$.01 each	10,000,000	10,000,000
Additional authorized shares	<u>70,000,000</u>	<u>70,000,000</u>
	<u>120,000,000</u>	<u>120,000,000</u>
120,000,000 shares of \$.01 each		
(2014: 120,000,000 shares of \$.01 each)	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>
<i>Issued and fully paid:</i>		
Class A shares of \$.01 each	25,000,000	25,000,000
Class B shares of \$.01 each	15,000,000	15,000,000
Class C shares of \$.01 each	<u>10,000,000</u>	<u>10,000,000</u>
	<u>50,000,000</u>	<u>50,000,000</u>
50,000,000 shares of \$.01 each		
(2014: 50,000,000 shares of \$.01 each)	<u>\$ 500,000</u>	<u>\$ 500,000</u>

The movement in issued preference shares during the year is as follows:

	2015	2014
Balance at beginning of year	50,000,000	50,000,000
Issued and fully paid during the year	-	-
Balance at end of year	<u>50,000,000</u>	<u>50,000,000</u>

Key attributes of the preference shares are as follows:

a. **Refunding provision** - The Company reserves the right to retire these securities at any date, if it is deemed to be in the Company's best interest, providing 90 days' notice by way of a refunding issue. In the case of such refunding, investors would have first right of refusal to subscribe for an equivalent amount of the principal value of new securities in any such refunding issue.

(Continued)

- b. **Dividends** - Preference share dividends at the annual rate of The Bahamas Prime Lending Rate plus 1.75% on the principal value outstanding to shareholders of record as at the record date (if declared) are paid in semi-annual cash installments following declaration by the Board of Directors in their full discretion. Effective June 6, 2011, the Bahamas Prime Lending Rate changed to 4.75% resulting in an effective rate of 6.5%. Unpaid dividends are cumulative from the date of the last dividend payment or from the date of issuance, whichever is later. Preference share dividends declared are made payable to shareholders of record as at April 15, June 30, October 15 and December 31 of each year within 10 business days of the record date in the full discretion of the Board of Directors.
- c. **Liquidation preference** - If the Company liquidates, dissolves, winds up or sells more than 51% of the value of the Company's assets other than in the ordinary course of the Company's business, holders of Preference Shares will have the right to have their shares redeemed at the issue price of B\$1.00 per share of the residual outstanding principal value on the effective date of liquidation.
- d. **Ranking** - The Class A, Class B and Class C Preference Shares rank equally, and with respect to the payment of dividends and payments upon liquidation: (1) senior to the Company's Common Shares and (2) subordinate to any debentures, debt obligations, or vendor claims against the Company.
- e. **No equity ownership or voting rights** - Holders of Preference Shares do not have equity ownership nor voting rights.

Contributed capital

Total contributed capital is comprised of:

	2015	2014
Common shares	\$ 4,944,542	\$ 5,229,450
Preference shares	<u>49,500,000</u>	<u>49,500,000</u>
	<u><u>\$ 54,444,542</u></u>	<u><u>\$ 54,729,450</u></u>

(Concluded)

19. MARKETING, ADMINISTRATIVE AND GENERAL EXPENSES

Marketing, administrative and general expenses are comprised of:

	2015	2014
Salaries and benefits (Note 22)	\$ 12,622,199	\$ 12,562,336
Shipping and delivery (Note 22)	9,238,296	8,098,658
License registrations	5,164,351	3,137,152
Repairs and maintenance	4,542,324	4,258,756
Insurance (Note 22)	3,459,209	3,382,873
Fuel inspection	2,674,041	922,246
Utilities	1,409,079	1,389,918
Fees paid to affiliates	1,314,253	1,270,003
Professional fees (Note 22)	1,273,584	1,191,766
Rent	1,266,444	1,014,803
Advertising	967,508	805,974
Miscellaneous	494,257	890,900
Bad debts (Note 7)	388,012	235,243
Communications	369,902	374,736
Office expenses	216,597	208,121
Travel expenses	176,819	233,417
Consulting fees (Note 22)	166,000	176,000
Donations	121,936	128,782
Bank charges	109,311	58,854
Non-executive Directors' fees (Note 22)	98,400	98,400
Customer service	94,068	-
	<hr/> <u>\$ 46,166,590</u>	<hr/> <u>\$ 40,438,938</u>

20. EARNINGS PER SHARE

The calculation of basic earnings per share at July 31, 2015 was based on net comprehensive income attributable to ordinary shareholders of the Parent company of \$17,307,324 (2014: \$8,075,488) and weighted average number of ordinary shares outstanding during the year ended July 31, 2015 of 33,992,392 (2014: 34,028,878), calculated as follows:

	2015	2014
	(Restated, Note 23)	
Net and comprehensive income	\$ 20,557,324	\$ 11,325,488
Dividends paid on preference shares	<u>(3,250,000)</u>	<u>(3,250,000)</u>
Net comprehensive income attributable to ordinary shareholders of the Parent company	<u>\$ 17,307,324</u>	<u>\$ 8,075,488</u>
Weighted average number of ordinary shares, end of year	<u>33,992,392</u>	<u>34,028,878</u>
Basic and diluted earnings per share	<u>\$ 0.51</u>	<u>\$ 0.24</u>

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no transactions that would dilute earnings per share.

21. PENSION PLANS

The Company through its subsidiaries has two separate defined contribution plans covering all eligible full-time employees. Contributions are based on employee salaries and are matched by the subsidiaries up to 5%. Employer contributions vest after five years. One plan is self-administered and the other is administered by an independent third party. Combined contributions for the year for both plans were \$323,455 (2014: \$341,528).

22. RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances and transactions were as follows:

	2015	2014
<i>Related party balances:</i>		
Prepaid expenses and sundry assets	<u>\$ 1,559,492</u>	<u>\$ 1,672,984</u>
Due from associate	<u>\$ 55,070</u>	<u>\$ 71,539</u>
Due to associate	<u>\$ 285,340</u>	<u>\$ -</u>
<i>Related party transactions:</i>		
Charter hires from associate (shipping and delivery)	<u>\$ 6,729,769</u>	<u>\$ 4,939,933</u>
Directors' fees	<u>\$ 98,400</u>	<u>\$ 98,400</u>
Insurance premiums	<u>\$ 3,459,209</u>	<u>\$ 3,382,873</u>
Fees paid to affiliates	<u>\$ 1,314,253</u>	<u>\$ 1,270,003</u>
Legal fees	<u>\$ 208,376</u>	<u>\$ 250,673</u>
Interest expense	<u>\$ 63,925</u>	<u>\$ 33,223</u>
<i>Compensation of key management personnel:</i>		
Salaries and short-term benefits	<u>\$ 2,070,966</u>	<u>\$ 1,994,209</u>
Post employment benefits	<u>232,513</u>	<u>221,493</u>
Consulting fees	<u>166,000</u>	<u>176,000</u>
	<u><u>\$ 2,469,479</u></u>	<u><u>\$ 2,391,702</u></u>

The balance due from associate is unsecured and interest free with no fixed terms of repayment.

23. PRIOR PERIOD ADJUSTMENTS

During the year, the Company identified errors in the capitalization of work-in-progress amounts for property, plant & equipment that arose from the carryforward of balances from the former Shell Bahamas Limited. These errors resulted in an understatement of depreciation expense and an overstatement of property, plant & equipment for the 2014, 2013 and prior periods.

The Company also identified accruals related to product handling that had expired in previous periods, due to a change in supplier contracts. The accruals were therefore, conservatively estimated, resulting in an overstatement of accounts payable and accrued liabilities.

Additionally, the Company's equity associate changed its accounting for an asset which resulted in an overstatement of the investment in the associate and equity income for the 2014, 2013 and prior periods.

As per IAS 8, Accounting Policies, Changes in Accounting Estimates, and Errors, the Company has made a retrospective restatement of certain items in its financial statements, restating the comparative balances for 2014 and prior periods.

	Effect on 2014	Effect on 2013	And Before
<i>Consolidated statement of financial position changes:</i>			
Decrease in property, plant and equipment, net	\$ (2,559,384)	\$ (2,206,598)	
Decrease in investment in associate	\$ (112,408)	\$ (95,325)	
Decrease in accounts payable and accrued liabilities	\$ 1,928,088	\$ 907,326	
Decrease in retained earnings	\$ 743,704	\$ 1,394,597	
<i>Consolidated statement of comprehensive income:</i>			
Decrease in cost of sales	\$ (1,020,757)	\$ -	
Decrease in equity income	\$ 17,083	\$ -	
Increase in depreciation expense	\$ 352,781	\$ -	
Decrease in net income	\$ 650,893	\$ 1,394,597	

There was no effect on the Company's consolidated financial statements for the current year as a result of these changes.

24. FINANCIAL INSTRUMENTS

The Company is exposed to various risks including interest rate risk, credit risk, liquidity risk, capital risk, currency risk and fair value of financial assets and liabilities risk arising in the normal course of the Company's business activities. Management monitors the financial risks of the Company and takes such measures as considered necessary from time to time, to minimize such financial risks.

a. Interest rate risk

The Company is exposed to interest rate risk on short-term deposits and long-term debt. Management monitors interest rates to minimize the gap between interest rates, however, such instruments bear interest at adjustable rates thus limiting interest rate risk.

b. Credit risk

The Company is exposed to credit risk in respect of losses that would have to be recognized if counterparties fail to perform as contracted.

The Company's exposure to credit risk is primarily with respect to accounts receivable, bank balances, and short-term deposits. Credit risk on bank balances and short-term deposits is limited as counterparties are reputable, well-established financial institutions. The Company's credit risk is thus primarily limited to accounts receivable, which is shown net of provision for doubtful accounts.

c. 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 requires maintaining sufficient cash. The Company monitors and maintains a level of bank balances deemed adequate to finance its operations. The Company maintains cash deposits with financial institutions of good standing. In addition, the Company through its subsidiaries maintains overdrafts as described in Note 5.

d. Capital risk

Capital risk is the risk that the Company will become unable to absorb losses; this entails ensuring that opportunities can be acted upon in a timely fashion, while solvency is never threatened.

The Company manages its capital to ensure it will be able to continue as a going concern while maximizing benefits and opportunities that may arise. The Company holds regular Board of Directors meetings, during which time all aspects of the business are discussed. Identified risks are addressed and immediate solutions are sought.

The board manages its capital structure and makes adjustments to it in light of economic conditions. The board may from time to time adjust dividend payments, return capital to shareholders, issue new shares, retire debt or increase debt all subject to performance ratios provided by their primary banker. The Company's capital risk policy remains unchanged from 2014.

e. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. At present, the Company does not have any significant transactions denominated in foreign currencies and foreign exchange rates have not significantly fluctuated during the year.

Transactions denominated in U.S. dollars were translated into Bahamian dollars at the time of the exchange.

f. Fair value of financial assets and liabilities risk

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

In the opinion of management, the estimated fair value of financial assets and financial liabilities (accounts receivable, investments at fair value through profit or loss, bank balances, inventories, prepaid expenses and sundry assets and accounts payable and accrued liabilities) at the date of the consolidated statement of financial position were not materially different from their carrying values due to their short-term nature.

25. COMMITMENTS

The Company through its subsidiaries has entered into various strategic agreements with third parties in order to secure supplies of inventory, as well as a Technical Service Agreement in connection with its participation in the Joint Operation at the Lynden Pindling International Airport. Incidental to these agreements, the Company through its subsidiaries, has committed to minimum purchase quantities for the supply agreements, and a minimum annual fee for the Technical Service Agreement.

FOHIL renewed a Trademark License agreement effective July 2012 (see Note 12). The agreement provides FOHIL a non-exclusive license to the Shell Brand Visual Manifestations at authorized sites. Consideration for the license, valued at \$4,080,000 at inception of the agreement, is capitalized accordingly. Continued use of the license is contingent on FOHIL's commitment to pay SOHL royalties based on American gallons sold by authorized sites.

The Company, through its subsidiary, entered into a supply agreement with a major supplier of petroleum products. Per the sales agreement, the Company is committed to purchase minimum quantities of gasoline and diesel for the calendar year. The supply agreement covers the period from January 1, 2015 to December 31, 2015. Thereafter, the agreement shall renew automatically for each successive year, unless terminated thereafter by either party upon written notice of cancellation.

26. LEASE AGREEMENTS

Company as Lessor

Rental income from service stations, shop spaces and automated banking machines was \$711,182 (2014: \$1,015,553).

Future minimum payments due at July 31, 2015 were as follows:

	2015	2014
Within one year	\$ 702,496	\$ 670,296
After one year but no more than five years	<u>2,861,374</u>	<u>2,760,924</u>
	<u><u>\$ 3,563,870</u></u>	<u><u>\$ 3,431,220</u></u>

Company as Lessee

Operating lease commitments from service stations, property and buildings were \$696,196 (2014: \$670,296).

Future minimum lease rental expenses as at July 31, 2015 are as follows:

	2015	2014
Within one year	\$ 1,026,544	\$ 753,442
After one year but no more than five years	<u>3,909,430</u>	<u>2,823,230</u>
	<u><u>\$ 4,935,974</u></u>	<u><u>\$ 3,576,672</u></u>

Charter hires for vessels from the associate were \$6,799,768 (2014: \$4,939,933). The original lease terms on these charters ranged between two (2) to five (5) years and are currently on an 'evergreen' basis (i.e. the leases are automatically renewed until proper notice of cancellation by either party).

27. CONTINGENT LIABILITIES

The Company is contingently liable for customs bonds of \$1,305,000 (2014: \$1,305,000) and has standby letters of credit of \$9,250,000 (2014: \$16,550,000).

28. CLAIMS AGAINST THE COMPANY

Pursuant to the purchase of Shell Bahamas Limited, FOHL assumed several outstanding legal matters and has engaged legal Counsel to represent FOHL in these matters. Based on management's judgment, a provision has been made in these consolidated financial statements for any expected loss in connection therewith.

29. SEGMENT REPORTING

The Company's primary format for segment reporting is in Business Segments. The risks and returns of the Company's operations are primarily determined by the nature of the different activities that the Company is engaged in, rather than the geographical location of these operations. This is reflected by the Company's organizational structure and the Company's internal financial reporting systems.

The Company has two Operating Segments: Wholesale and Retail. The activity of the Retail Segment includes marketing and operating several service stations, whilst, the Wholesale Segment is dedicated to supplying petroleum products. The Company is managed on an integrated basis. The accounting policies of Operating Segments are the same as those described in Note 3, Summary of Significant Accounting Policies. Sales between segments are made at prices that approximate market prices, taking into account the volumes involved. Revenue, expenses and results of the segments include inter-segment transactions between business segments. These transactions and any unrealized profits and losses are eliminated on consolidation.

(Continued)

SEGMENT REPORTING, YEAR ENDED JULY 31, 2015

STATEMENT OF COMPREHENSIVE INCOME

	Retail	Wholesale	Eliminations	Consolidated
REVENUE:				
External sales	\$ 73,254,115	\$ 271,587,116		\$ 344,841,231
Intersegment sales	<u>-</u>	<u>233,966,864</u>	<u>(233,966,864)</u>	<u>-</u>
	<u>73,254,115</u>	<u>505,553,980</u>	<u>(233,966,864)</u>	<u>344,841,231</u>
RESULT:				
Segment result	1,244,499	21,258,577	(1,129,897)	21,373,179
Unallocated operating expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income from operations	1,244,499	21,258,577	(1,129,897)	21,373,179
Interest income	<u>-</u>	<u>-</u>	<u>-</u>	20,827
Other expense	(132,684)	(711,498)		(844,182)
Unallocated other income	<u>-</u>	<u>-</u>	<u>-</u>	7,500
Unallocated other expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET AND COMPREHENSIVE INCOME	\$ 1,111,815	\$ 20,547,079	\$ (1,129,897)	\$ 20,557,324

STATEMENT OF FINANCIAL POSITION

ASSETS:				
Segment assets	\$ 29,398,678	\$ 157,544,135	\$ (17,912,704)	\$ 169,030,109
Unallocated corporate assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	\$ 29,398,678	\$ 157,544,135	\$ (17,912,704)	\$ 169,030,109
LIABILITIES:				
Segment liabilities	\$ 5,162,821	\$ 48,772,030	\$ (17,912,704)	\$ 36,022,147
Unallocated corporate liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	\$ 5,162,821	\$ 48,772,030	\$ (17,912,704)	\$ 36,022,147

OTHER INFORMATION

ASSETS:				
Capital additions	\$ 59,789	\$ 9,988,226	\$ -	\$ 10,048,015

(Continued)

SEGMENT REPORTING, YEAR ENDED JULY 31, 2014

STATEMENT OF COMPREHENSIVE INCOME

	Retail	Wholesale	Eliminations	Consolidated
REVENUE:				
External sales	\$ 80,194,940	\$ 299,913,570		\$ 380,108,510
Intersegment sales	-	178,003,685	(178,003,685)	-
	<u>80,194,940</u>	<u>477,917,255</u>	<u>(178,003,685)</u>	<u>380,108,510</u>
RESULT:				
Segment result	1,814,729	12,273,947	(1,449,724)	12,638,952
Unallocated operating expenses	-	-	-	(627,633)
Income from operations	1,814,729	12,273,947	(1,449,724)	12,011,319
Interest income	-	-	-	12,930
Other expense	(270,365)	(408,396)	-	(678,761)
Unallocated other income	-	-	-	(20,000)
Unallocated other expenses	-	-	-	-
NET AND COMPREHENSIVE INCOME				
	<u>\$ 1,544,364</u>	<u>\$ 11,865,551</u>	<u>\$ (1,449,724)</u>	<u>\$ 11,325,488</u>

STATEMENT OF FINANCIAL POSITION

ASSETS:				
Segment assets	\$ 52,940,867	\$ 149,838,779	\$ (27,278,802)	\$ 175,500,844
Unallocated corporate assets	-	-	-	-
TOTAL ASSETS	<u>\$ 52,940,867</u>	<u>\$ 149,838,779</u>	<u>\$ (27,278,802)</u>	<u>\$ 175,500,844</u>
LIABILITIES:				
Segment liabilities	\$ 6,641,774	\$ 71,217,870	\$ (25,829,079)	\$ 52,030,565
Unallocated corporate liabilities	-	-	-	-
TOTAL LIABILITIES	<u>\$ 6,641,774</u>	<u>\$ 71,217,870</u>	<u>\$ (25,829,079)</u>	<u>\$ 52,030,565</u>

OTHER INFORMATION

ASSETS:

Capital additions	\$ 531,446	\$ 5,253,191	\$ -	\$ 5,784,637
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Segment assets consist primarily of accounts receivable, inventories, property, plant and equipment and intangible assets.

Segment liabilities consist primarily of accounts payable, accrued liabilities and certain long-term debt.

Corporate overheads are allocated to segments for Company reporting purposes based on annual revenues and operating expenditure.

(Concluded)

30. SUBSEQUENT EVENTS

Subsequent to year end, the Company declared a distribution of ordinary dividends of \$2,378,121 (2014: \$2,382,021) to all shareholders on record as of the declaration date.

Subsequent to year end, the Company declared a distribution of Class A and Class C preference share dividends of \$812,500 and \$325,000, respectively.

Subsequent to year end, the Company received an additional drawdown of \$3,000,000 line of credit from RBC Royal Bank (Bahamas) Limited.

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NOTES

consolidated financial statements
FOCOL HOLDINGS LIMITED

NOTES

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