# FOCOL HOLDINGS LIMITED

**Consolidated Financial Statements**
**For The Year Ended July 31, 2016**
**And Independent Auditors' Report**

Deloitte.

# FOCOL HOLDINGS LIMITED

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Deloitte.

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
FOCOL Holdings Limited:

We have audited the consolidated financial statements of FOCOL Holdings Limited and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of July 31, 2016 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.



A member firm of
Deloitte Touche Tohmatsu Limited

**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, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

November 30, 2016

## FOCOL HOLDINGS LIMITED

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION
### AS OF JULY 31, 2016
*(Expressed in Bahamian dollars)*

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and bank balances (Note 5) | $ 32,429,136 | $ 19,391,474 |
| Accounts receivable, net (Note 7) | 21,014,443 | 22,280,997 |
| Inventories (Note 6) | 11,603,110 | 17,048,224 |
| Investments (Note 8) | 320,000 | 262,500 |
| Prepaid expenses and sundry assets (Notes 9 and 21) | 3,359,982 | 3,693,767 |
| Total current assets | 68,726,671 | 62,676,962 |
| NON-CURRENT ASSETS: | | |
| Property, plant and equipment, net (Note 10) | 83,012,109 | 80,913,559 |
| Goodwill and intangible assets (Note 11) | 13,772,854 | 14,355,711 |
| Investment in associate (Note 13) | 12,457,935 | 11,028,807 |
| Due from associate (Note 21) | 27,549 | 55,070 |
| Total non-current assets | 109,270,447 | 106,353,147 |
| TOTAL ASSETS | $ 177,997,118 | $ 169,030,109 |

*(Continued)*

See notes to consolidated financial statements.

## FOCOL HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS OF JULY 31, 2016**
*(Expressed in Bahamian dollars)*

| | 2016 | 2015 |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Bank overdraft (Note 5) | $ - | $ 5,700 |
| Accounts payable and accrued liabilities (Note 14) | 15,976,177 | 20,369,373 |
| Dividends payable | 2,033,589 | 1,699,689 |
| Current portion of long-term debt (Note 15) | 1,666,668 | 1,665,338 |
| Total current liabilities | 19,676,434 | 23,740,100 |
| NON-CURRENT LIABILITIES: | | |
| Due to associate (Note 21) | 252,480 | 285,340 |
| Long-term debt (Note 15) | 7,573,987 | 11,996,707 |
| Total non-current liabilities | 7,826,467 | 12,282,047 |
| Total liabilities | 27,502,901 | 36,022,147 |
| EQUITY: | | |
| Share capital (Note 17) | 84,733 | 84,943 |
| Preference shares (Note 17) | 500,000 | 500,000 |
| Contributed capital (Note 17) | 53,913,353 | 54,444,542 |
| Retained earnings | 95,996,131 | 77,978,477 |
| Total equity | 150,494,217 | 133,007,962 |
| TOTAL LIABILITIES AND EQUITY | $ 177,997,118 | $ 169,030,109 |

*(Concluded)*

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on November 29, 2016, and are signed on its behalf by:

Director

Director

# FOCOL HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## YEAR ENDED JULY 31, 2016
*(Expressed in Bahamian dollars)*

| | 2016 | 2015 |
|---|---|---|
| REVENUE (Note 24) | $ 278,396,668 | $ 344,841,231 |
| COST OF SALES (Note 21) | (201,414,198) | (273,450,560) |
| Gross profit | 76,982,470 | 71,390,671 |
| Equity income (Notes 13 and 21) | 1,429,128 | 1,209,377 |
| Other income | 24,830 | 20,827 |
| Marketing, administrative and general expenses (Notes 18 and 21) | (41,215,109) | (46,166,590) |
| Depreciation and amortization expense (Note 12) | (5,370,622) | (5,060,279) |
| Finance costs | (802,755) | (844,182) |
| Unrealized gain on investments (Note 8) | 57,500 | 7,500 |
| NET AND COMPREHENSIVE INCOME | $ 31,105,442 | $ 20,557,324 |
| Basic and diluted earnings per share (Note 19) | $ 0.82 | $ 0.51 |

See notes to consolidated financial statements.

# FOCOL HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## YEAR ENDED JULY 31, 2016
*(Expressed in Bahamian dollars)*

| | Share Capital | Preference Shares | Contributed Capital | Retained Earnings | Total |
|---|---|---|---|---|---|
| Balance at July 31, 2014 | $ 85,072 | $ 500,000 | $ 54,729,450 | $ 68,155,757 | $ 123,470,279 |
| Comprehensive income | - | - | - | 20,557,324 | 20,557,324 |
| Common shares purchased and cancelled (Note 17) | (129) | - | (284,908) | - | (285,037) |
| Common share dividends: $0.22 per share (Note 17) | - | - | - | (7,484,604) | (7,484,604) |
| Preference share dividends (Note 17) | - | - | - | (3,250,000) | (3,250,000) |
| Balance at July 31, 2015 | 84,943 | 500,000 | 54,444,542 | 77,978,477 | 133,007,962 |
| Comprehensive income | - | - | - | 31,105,442 | 31,105,442 |
| Common shares purchased and cancelled (Note 17) | (210) | - | (531,189) | 831 | (530,568) |
| Common share dividends: $0.29 per share (Note 17) | - | - | - | (9,838,619) | (9,838,619) |
| Preference share dividends (Note 17) | - | - | - | (3,250,000) | (3,250,000) |
| Balance at July 31, 2016 | $ 84,733 | $ 500,000 | $ 53,913,353 | $ 95,996,131 | $ 150,494,217 |

See notes to consolidated financial statements.

# FOCOL HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS
## YEAR ENDED JULY 31, 2016
*(Expressed in Bahamian dollars)*

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 31,105,442 | $ 20,557,324 |
| Adjustments for: | | |
| Depreciation and amortization expense (Note 12) | 5,370,622 | 5,060,279 |
| Equity income from associate (Note 13) | (1,429,128) | (1,209,377) |
| Unrealized gain on investments (Note 8) | (57,500) | (7,500) |
| Loss on disposals of property, plant and equipment, net | - | 134,825 |
| Income from operations before working capital changes | 34,989,436 | 24,535,551 |
| Decrease in accounts receivable, net | 1,266,554 | 2,166,461 |
| Decrease in prepaid expenses and sundry assets | 323,051 | 173,987 |
| Decrease in inventories | 5,445,114 | 20,221,381 |
| Decrease in accounts payable and accrued liabilities | (4,059,296) | (17,829,707) |
| Net cash from operating activities | 37,964,859 | 29,267,673 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Decrease in notes receivable, net | - | 23,013 |
| Capital contributed to associate (Note 13) | - | (2,550,000) |
| Purchase of property, plant and equipment (Note 10) | (6,875,581) | (10,048,015) |
| Decrease in due from associate | 27,521 | 16,469 |
| (Decrease) increase in due to associate | (32,860) | 285,340 |
| Net cash used in investing activities | (6,880,920) | (12,273,193) |

*(Continued)*

See notes to consolidated financial statements.

## FOCOL HOLDINGS LIMITED

### CONSOLIDATED STATEMENT OF CASH FLOWS
### YEAR ENDED JULY 31, 2016
*(Expressed in Bahamian dollars)*

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from long-term debt | $ - | $ 12,000,000 |
| Repayment of long-term debt | (4,421,390) | (2,544,314) |
| Repurchase of ordinary shares (Note 17) | (530,568) | (285,037) |
| Common share dividends paid | (9,838,619) | (7,484,604) |
| Preference share dividends paid | (3,250,000) | (3,250,000) |
| Net cash used in financing activities | (18,040,577) | (1,563,955) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 13,043,362 | 15,430,525 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 19,385,774 | 3,955,249 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 32,429,136 | $ 19,385,774 |
| CASH AND CASH EQUIVALENTS IS COMPRISED OF THE FOLLOWING: | | |
| Cash and bank balances | $ 32,429,136 | $ 19,391,474 |
| Bank overdraft | - | (5,700) |
| | $ 32,429,136 | $ 19,385,774 |
| SUPPLEMENTAL INFORMATION: | | |
| Interest paid on bank overdraft and loans | $ 802,755 | $ 844,182 |
| Interest received | $ 24,830 | $ 20,827 |

*(Concluded)*

See notes to consolidated financial statements.

### 1. INCORPORATION AND ACTIVITY

FOCOL Holdings Limited is incorporated under the laws of The Commonwealth of The Bahamas. The consolidated financial statements for the year ended July 31, 2016 comprise of FOCOL Holdings Limited and its subsidiaries (together referred to as the "Group"). The Group 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 ("Sun Oil – TCI"), a wholesaler of fuel and related products operating in the Turks and Caicos Islands. Sun Oil also operates through its 60% voting interest in BTCI Tankers Limited ("BTCI") (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 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 Limited ("AIST-TCI"), a wholesaler of petroleum products.

Except for BTCI, AIST-TCI and Sun Oil-TCI, 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 Group 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 Group 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, 2015. At the date of authorization of these consolidated financial statements, the following relevant Standards were issued but not yet effective:

| | |
|---|---|
| IAS 1 | Presentation of Financial Statements (amendments) |
| IAS 7 | Statement of Cash Flows (amendments) |
| IAS 12 | Income Taxes (amendments) |
| IAS 16 | Property, Plant, and Equipment (amendments) |
| IAS 19 | Employee Benefits (amendments) |
| IAS 27 | Consolidated and Separate Financial Statements (amendments) |
| IAS 28 | Investments in Associates (amendments) |
| IAS 34 | Interim Financial Reporting (amendments) |
| IAS 38 | Intangible Assets (amendments) |
| IAS 39 | Financial Instruments: Recognition and Measurement (amendments) |
| IAS 41 | Agriculture (amendments) |
| IFRS 2 | Share Based Payments (amendments) |
| IFRS 4 | Insurance contracts (amendments) |
| IFRS 5 | Non-Current Assets Held for Sale and Discounted Operations (amendments) |
| IFRS 7 | Financial Instruments: Disclosures (amendments) |
| IFRS 9 | Financial Instruments: Classification and Measurement (amendments) |
| 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 |
| IFRS 16 | Leases |

The Directors anticipate that the Group 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 Group and its wholly-owned subsidiaries, and have been prepared under the historical cost convention.

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 Group'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 Group, entities (including structured entities) controlled by the Group and its subsidiaries. Control is achieved when the Group:

- 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 Group 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 Group 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 Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group 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 Group obtains control over the subsidiary and ceases when the Group 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 Group gains control until the date when the Group ceases to control the subsidiary.

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

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

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

***d.*** ***Cash and cash equivalents*** - Cash and cash equivalents comprise cash balances, call and short-term deposits with original contractual maturities of 3 months or less, and subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group’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 at 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)). 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 - 33⅓% |
| 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 Group 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 finite 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 Group as lessee

Assets held under finance leases are recognized as assets of the Group 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 Group 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 Group 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 Group 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 Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group'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 Group's functional currency is Bahamian dollars. In preparing the consolidated financial statements of the Group, 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 Group 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 Group 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 Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interest that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses.

Additional losses are recognized only to the extent that the Group 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 Group 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 Group'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 Group's consolidated financial statements and related disclosure must be estimated, requiring the Group 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 Group'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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group is subject to various legal proceedings, claims and regulatory discussions, the outcomes of which are subject to significant uncertainty. The Group 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 Group to increase or decrease the amount the Group 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 Group 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 $3,001,658 (2015: $2,961,672), with interest rates of 1.50% (2015: 1.50% to 3.00%) per annum.

FOHIL has an overdraft facility up to $7,500,000 (2015: $10,000,000) with a local bank which bears interest at Bahamas Prime plus 1.00% or 5.75% (2015: Bahamas Prime plus 1.00% or 5.75%) per annum; at July 31, 2016, the balance was $Nil (2015: $Nil). The overdraft is secured by a guarantee and postponement of claim by the Group, a fixed charge over FOHIL assets, and assignment of insurance proceeds.

FOCOL has available to it, an overdraft facility of $2,500,000 (2015: $2,500,000). This overdraft facility bears interest at Bahamas Prime plus 1% (2015: Bahamas Prime plus 1%) per annum; at July 31, 2016, the balance was $Nil (2015: $Nil). The overdraft facility is secured by a guarantee and postponement of claim for $3,000,000 (2015: $3,000,000) from the Group, 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 Group's oil tank farm, stamped to secure $6,000,000.

Boulevard has available to it, an overdraft facility of $100,000 (2015: $100,000). This overdraft facility bears interest at Bahamas Prime plus 1.50% (2015: Bahamas Prime plus 1.50%) per annum; at July 31, 2016, the balance was $Nil (2015: $5,700). The overdraft facility is secured by a fixed and floating charge debenture over the assets of the Group and all risk insurance with loss payable being CIBC FirstCaribbean International Bank.

## 6. INVENTORIES

Inventories consist of the following:

| | 2016 | 2015 |
|---|---|---|
| Gasoil - diesel | $ 3,410,855 | $ 3,385,978 |
| Lube oil | 3,073,153 | 2,382,574 |
| Gasoline - unleaded | 1,693,304 | 7,882,072 |
| Propane | 1,357,550 | 2,291,886 |
| Jet fuel | 754,318 | - |
| Other | 660,516 | 654,339 |
| Parts and tanks | 653,414 | 451,375 |
| | $ 11,603,110 | $ 17,048,224 |

## 7. ACCOUNTS RECEIVABLE, NET

Accounts receivable consists of the following:

| | 2016 | 2015 |
|---|---|---|
| Accounts receivable - trade | $ 21,495,684 | $ 22,982,020 |
| Other receivables | 974,299 | 637,676 |
| | 22,469,983 | 23,619,696 |
| Less: allowance for doubtful accounts | (1,455,540) | (1,338,699) |
| | $ 21,014,443 | $ 22,280,997 |

The movement in allowance for doubtful accounts is as follows:

| | 2016 | 2015 |
|---|---|---|
| At beginning of year | $ 1,338,699 | $ 1,097,004 |
| Bad debts for the year (Note 18) | 229,538 | 388,012 |
| Write-offs | (109,758) | (62,027) |
| Recoveries | (2,939) | (84,290) |
| At end of year | $ 1,455,540 | $ 1,338,699 |

The ageing of receivables is as follows:

| | 2016 | 2015 |
|---|---|---|
| Current | $ 14,098,456 | $ 20,517,994 |
| 31 - 60 days | 5,137,487 | 1,124,606 |
| 61 - 90 days | 641,259 | 769,897 |
| Over 90 days | 2,592,781 | 1,207,199 |
| | $ 22,469,983 | $ 23,619,696 |

Included in accounts receivable are balances totaling $6,915,987 (2015: $1,763,003) which are past due but not impaired.

## 8. INVESTMENTS

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

| | 2016 Market Value | 2015 Market Value |
|---|---|---|
| ICD Utilities Limited: | | |
| 50,000 ordinary shares at par value of B$0.10 | | |
| (cost $600,000) | $ 320,000 | $ 262,500 |

## 9. PREPAID EXPENSES AND SUNDRY ASSETS

Prepaid expenses include advances and other deferred expenses of $1,555,171 (2015: $1,929,425) to be fully amortized during the subsequent fiscal year.

Sundry assets include a contract premium of $Nil (2015: $10,734) being amortized over the life of the contract, and deferred costs of $1,107,716 (2015: $1,054,984) on an insurance policy with a related party in-force to March 2017 (2015: March 2016).

## 10. PROPERTY, PLANT AND EQUIPMENT, NET

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

| | Land | Buildings and Improvements | Equipment | Computer, Furniture, Fixtures and Fencing Equipment | Storage Facilities | Vehicles | Liquid Petroleum Gas Plant | Construction In-Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| COST/VALUATION: | | | | | | | | | |
| 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 | 19,682,715 | 30,481,433 | 11,812,809 | 2,973,942 | 40,608,753 | 5,410,336 | 726,295 | 5,734,633 | 117,430,916 |
| Additions | - | 14,235 | 48,456 | 90,080 | 219,277 | - | - | 6,503,533 | 6,875,581 |
| Disposals and transfers in (out) | - | 81,877 | 590,326 | (419,426) | 3,359,626 | 1,002,316 | - | (4,645,769) | (31,050) |
| Balance at July 31, 2016 | $ 19,682,715 | $ 30,577,545 | $ 12,451,591 | $ 2,644,596 | $ 44,187,656 | $ 6,412,652 | $ 726,295 | $ 7,592,397 | $ 124,275,447 |
| ACCUMULATED DEPRECIATION: | | | | | | | | | |
| Balance at July 31, 2014 | $ - | $ 6,004,915 | $ 7,451,386 | $ 2,011,886 | $ 12,120,910 | $ 3,814,638 | $ 723,704 | $ - | $ 32,127,439 |
| Depreciation | - | 676,199 | 1,117,622 | 243,895 | 1,816,320 | 554,549 | 2,591 | - | 4,411,176 |
| Disposals | - | - | - | - | - | (21,258) | - | - | (21,258) |
| Balance at July 31, 2015 | - | 6,681,114 | 8,569,008 | 2,255,781 | 13,937,230 | 4,347,929 | 726,295 | - | 36,517,357 |
| Depreciation | - | 1,524,358 | 213,823 | 81,913 | 2,622,599 | 334,338 | - | - | 4,777,031 |
| Disposals | - | - | - | - | - | (31,050) | - | - | (31,050) |
| Balance at July 31, 2016 | $ - | $ 8,205,472 | $ 8,782,831 | $ 2,337,694 | $ 16,559,829 | $ 4,651,217 | $ 726,295 | $ - | $ 41,263,338 |
| CARRYING VALUE: | | | | | | | | | |
| As at July 31, 2016 | $ 19,682,715 | $ 22,372,073 | $ 3,668,760 | $ 306,902 | $ 27,627,827 | $ 1,761,435 | $ - | $ 7,592,397 | $ 83,012,109 |
| As at July 31, 2015 | $ 19,682,715 | $ 23,800,319 | $ 3,243,801 | $ 718,161 | $ 26,671,523 | $ 1,062,407 | $ - | $ 5,734,633 | $ 80,913,559 |

During the year, management revisited its depreciation policy on equipment, computer, furniture, fixtures and fencing equipment resulting in a credit to depreciation.

## 11. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consists of the following:

| | 2016 | 2015 |
|---|---|---|
| Goodwill assets | $ 10,858,568 | $ 10,858,568 |
| Intangible assets | 2,914,286 | 3,497,143 |
| | $ 13,772,854 | $ 14,355,711 |

**Goodwill assets**

Goodwill assets consists of the following:

| | 2016 | 2015 |
|---|---|---|
| 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 | 647,754 | 647,754 |
| | $ 10,858,568 | $ 10,858,568 |

***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 (2015: $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 (2015: $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 (2015: 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% (2015: 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% (2015: 11%) 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% (2015:1%) 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:

| | 2016 | 2015 |
|---|---|---|
| Trademark license | $ 4,080,000 | $ 4,080,000 |
| Less: accumulated amortization | (1,165,714) | (582,857) |
| | $ 2,914,286 | $ 3,497,143 |

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

The Group 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 on the same commercial terms as at the commencement date or otherwise." In the prior 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 events that would trigger impairment testing 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.

## 12. DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation and amortization expense consists of the following:

| | 2016 | 2015 |
|---|---|---|
| Depreciation of property, plant and equipment (Note 10) | $ 4,777,031 | $ 4,411,176 |
| Amortization of trademark license (Note 11) | 582,857 | 582,857 |
| Amortization of deferred contract premium (Note 9) | 10,734 | 66,246 |
| | $ 5,370,622 | $ 5,060,279 |

## 13. INVESTMENT IN ASSOCIATE

Investment in associate consists of the following:

| | Interest Held | 2016 | 2015 |
|---|---|---|---|
| BTCI Tankers Ltd. | 60.00% | $ 12,457,935 | $ 11,028,807 |

***Total movement in investment in associate is as follows:***

| | 2016 | 2015 |
|---|---|---|
| Balance, beginning of year | $ 11,028,807 | $ 7,269,430 |
| Capital contributions | - | 2,550,000 |
| Equity income | 1,429,128 | 1,209,377 |
| Balance, end of year | $ 12,457,935 | $ 11,028,807 |

## 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

| | 2016 | 2015 |
|---|---|---|
| Trade payables | $ 13,377,002 | $ 18,188,168 |
| Accrued liabilities | 2,599,175 | 2,181,205 |
| | $ 15,976,177 | $ 20,369,373 |

## 15. LONG-TERM DEBT

Long-term debt is comprised of the following:

| | 2016 | 2015 |
|---|---|---|
| Bank loan | $ 7,749,999 | $ 12,000,000 |
| Note payable | 1,490,656 | 1,662,045 |
| | 9,240,655 | 13,662,045 |
| Less: current portion | 1,666,668 | 1,665,338 |
| | $ 7,573,987 | $ 11,996,707 |

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 $138,889 (2015: $185,185). At year end, drawdowns totaled $15 million (2015: $12 million) with the first payment effective October, 2015.

The note payable of $2,000,000 (2015: $2,000,000) is unsecured at an interest rate of 6.00% over a 10 year term, repayable in monthly installments of $22,204 (2015: $22,204).

## 16. RECLASSIFICATION

During the year, amounts previously reported as revaluation surplus have been fully recognized into retained earnings.

There was no effect on total retained earnings as a result of these changes.

## 17. SHARE CAPITAL

| | 2016 | 2015 |
|---|---|---|
| **Common Shares** | | |
| *Authorized:* | | |
| 160,000,000 shares of $.0025 each (2015: 160,000,000 of $.0025) | $ 400,000 | $ 400,000 |
| *Issued and fully paid:* | | |
| 33,893,153 shares of $.0025 each (2015: 33,977,153 of $.0025) | $ 84,733 | $ 84,943 |

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

| | 2016 | 2015 |
|---|---|---|
| Balance at beginning of year | 33,977,153 | 34,028,878 |
| Common shares purchased and cancelled during the year | (84,000) | (51,725) |
| Balance at end of year | 33,893,153 | 33,977,153 |

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

| Repurchase Date | Total Shares | Price Per Share | Total Consideration | Cancellation Date |
|---|---|---|---|---|
| Oct 19, 2015 | 2,000 | $ 6.05 | $ 12,108 | October 30, 2015 |
| Oct 20, 2015 | 2,000 | 7.23 | 14,460 | October 30, 2015 |
| Dec 21, 2015 | 80,000 | 6.30 | 504,000 | December 31, 2015 |
| | 84,000 | | $ 530,568 | |

Common share dividends were 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)*

| | 2016 | 2015 |
|---|---|---|
| **Preference Shares** | | |
| *Authorized:* | | |
| 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 | 70,000,000 | 70,000,000 |
| | 120,000,000 | 120,000,000 |
| 120,000,000 shares of $.01 each (2015: 120,000,000 shares of $.01 each) | $ 1,200,000 | $ 1,200,000 |
| *Issued and fully paid:* | | |
| 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 |
| | 50,000,000 | 50,000,000 |
| 50,000,000 shares of $.01 each (2015: 50,000,000 shares of $.01 each) | $ 500,000 | $ 500,000 |

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

| | 2016 | 2015 |
|---|---|---|
| Balance at beginning of year | 50,000,000 | 50,000,000 |
| Issued and fully paid during the year | - | - |
| Balance at end of year | 50,000,000 | 50,000,000 |

Key attributes of the preference shares are as follows:

***a.*** ***Refunding provision*** **-** The Group reserves the right to retire these securities at any date, if it is deemed to be in the Group'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 Group liquidates, dissolves, winds up or sells more than 51% of the value of the Group's assets other than in the ordinary course of the Group'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 Group's Common Shares and (2) subordinate to any debentures, debt obligations, or vendor claims against the Group.

*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:

| | 2016 | 2015 |
|---|---|---|
| Common shares | $ 4,413,353 | $ 4,944,542 |
| Preference shares | 49,500,000 | 49,500,000 |
| | $ 53,913,353 | $ 54,444,542 |

*(Concluded)*

## 18. MARKETING, ADMINISTRATIVE AND GENERAL EXPENSES

Marketing, administrative and general expenses are comprised of:

| | 2016 | 2015 |
|---|---|---|
| Salaries and benefits (Note 21) | $ 14,192,067 | $ 12,622,199 |
| Shipping and delivery (Note 21) | 6,786,298 | 9,238,296 |
| Repairs and maintenance | 4,471,963 | 4,542,324 |
| License registrations | 3,828,318 | 5,164,351 |
| Insurance (Note 21) | 3,010,142 | 3,459,209 |
| Trademark and related fees | 1,315,733 | 1,314,253 |
| Professional fees (Note 21) | 1,281,522 | 1,273,584 |
| Rent (Note 24) | 1,260,818 | 1,266,444 |
| Utilities | 1,232,725 | 1,409,079 |
| Advertising | 1,195,305 | 967,508 |
| Miscellaneous | 587,433 | 494,257 |
| Fuel inspection | 513,881 | 2,674,041 |
| Communications | 371,707 | 369,902 |
| Office expenses | 235,194 | 216,597 |
| Bad debts (Note 7) | 229,538 | 388,012 |
| Travel expenses | 220,663 | 176,819 |
| Donations | 138,726 | 121,936 |
| Consulting fees (Note 21) | 115,000 | 166,000 |
| Bank charges | 106,072 | 109,311 |
| Non-executive Directors' fees (Note 21) | 93,400 | 98,400 |
| Customer service | 28,604 | 94,068 |
| | $ 41,215,109 | $ 46,166,590 |

## 19. EARNINGS PER SHARE

The calculation of basic earnings per share at July 31, 2016 was based on net comprehensive income attributable to ordinary shareholders of the Group totaling $27,855,442 (2015: $17,307,324) and weighted average number of ordinary shares outstanding during the year ended July 31, 2016 of 33,910,353 (2015: 33,992,392), calculated as follows:

| | 2016 | 2015 |
|---|---|---|
| Net and comprehensive income | $ 31,105,442 | $ 20,557,324 |
| Dividends paid on preference shares | (3,250,000) | (3,250,000) |
| **Net comprehensive income attributable to ordinary shareholders of the Parent company** | $ 27,855,442 | $ 17,307,324 |
| Weighted average number of ordinary shares, end of year | 33,910,353 | 33,992,392 |
| **Basic and diluted earnings per share** | $ 0.82 | $ 0.51 |

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.

## 20. PENSION PLANS

The Group 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% (2015: 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 $354,423 (2015: $323,455).

## 21. RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances and transactions were as follows:

| | 2016 | 2015 |
|---|---|---|
| ***Related party balances:*** | | |
| Prepaid expenses and sundry assets | $ 1,618,931 | $ 1,559,492 |
| Due from associate | $ 27,549 | $ 55,070 |
| Due to associate | $ 252,480 | $ 285,340 |
| ***Related party transactions:*** | | |
| Equity income | $ 1,429,128 | $ 1,209,377 |
| Shipping and delivery | $ 5,176,277 | $ 6,729,769 |
| Cost of sales | $ 2,655,594 | $ - |
| Directors' fees | $ 93,400 | $ 98,400 |
| Insurance premiums | $ 3,010,142 | $ 3,459,209 |
| Professional fees | $ 112,045 | $ 208,376 |
| Interest expense | $ - | $ 63,925 |
| ***Compensation of key management personnel:*** | | |
| Salaries and short-term benefits | $ 2,423,578 | $ 2,070,966 |
| Post employment benefits | 273,281 | 232,513 |
| Consulting fees | 115,000 | 166,000 |
| | $ 2,811,859 | $ 2,469,479 |

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

## 22. FINANCIAL INSTRUMENTS

The Group 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 Group's business activities. Management monitors the financial risks of the Group and takes such measures as considered necessary from time to time, to minimize such financial risks.

a. Interest rate risk

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

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

d. Capital risk

Capital risk is the risk that the Group 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 Group manages its capital to ensure it will be able to continue as a going concern while maximizing benefits and opportunities that may arise. The Group 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 Group's capital risk policy remains unchanged from 2015.

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 Group 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 Group 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, 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.

## 23. COMMITMENTS

The Group 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 Group 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 11). 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 Group, through its subsidiary, entered into a supply agreement with a major supplier of petroleum products. Per the sales agreement, the Group is committed to purchase minimum quantities of gasoline and diesel for the calendar year. The supply agreement covers the period from January 1, 2016 to December 31, 2016. Thereafter, the agreement shall renew automatically for each successive year, unless terminated thereafter by either party upon written notice of cancellation.

## 24. LEASE AGREEMENTS

Company as Lessor

Rental income from service stations, shop spaces and automated banking machines was $697,496 (2015: $711,182).

Future minimum payments due at July 31, 2016 were as follows:

| | 2016 | 2015 |
|---|---|---|
| Within one year | $ 690,296 | $ 702,496 |
| After one year but no more than five years | 2,860,707 | 2,861,374 |
| | $ 3,551,003 | $ 3,563,870 |

Company as Lessee

Operating lease commitments from service stations, property and buildings were $690,296 (2015: $696,196).

Future minimum lease rental expenses as at July 31, 2016 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Within one year | $ 1,039,932 | $ 1,026,544 |
| After one year but no more than five years | 4,116,246 | 3,909,430 |
| | $ 5,156,178 | $ 4,935,974 |

Charter hires for vessels from the associate were $7,831,871 (2015: $6,799,768). 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).

## 25. CONTINGENT LIABILITIES

The Group is contingently liable for customs bonds of $1,305,000 (2015: $1,305,000), guarantees of $2,300,000 (2015: $2,300,000), and has standby letters of credit of $9,250,000 (2015: $9,250,000).

## 26. CLAIMS AGAINST THE GROUP

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

## 27. SEGMENT REPORTING

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

The Group 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 Group 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, 2016

### STATEMENT OF COMPREHENSIVE INCOME

| | Retail | Wholesale | Eliminations | Consolidated |
|---|---|---|---|---|
| REVENUE: | | | | |
| External sales | $ 67,028,558 | $ 211,368,110 | $ - | $ 278,396,668 |
| Intersegment sales | - | 192,711,179 | (192,711,179) | - |
| | 67,028,558 | 404,079,289 | (192,711,179) | 278,396,668 |
| RESULT: | | | | |
| Segment result | 2,349,391 | 29,972,545 | (496,069) | 31,825,867 |
| Income from operations | 2,349,391 | 29,972,545 | (496,069) | 31,825,867 |
| Interest income | 20,456 | 4,374 | - | 24,830 |
| Finance costs | (198,262) | (604,493) | - | (802,755) |
| Unallocated other income | 57,500 | - | - | 57,500 |
| NET AND COMPREHENSIVE INCOME | $ 2,229,085 | $ 29,372,426 | $ (496,069) | $ 31,105,442 |

### STATEMENT OF FINANCIAL POSITION

| | Retail | Wholesale | Eliminations | Consolidated |
|---|---|---|---|---|
| ASSETS: | | | | |
| Segment assets | $ 31,041,920 | $ 181,383,883 | $ (34,428,686) | $ 177,997,117 |
| Unallocated corporate assets | - | - | - | - |
| TOTAL ASSETS | $ 31,041,920 | $ 181,383,883 | $ (34,428,686) | $ 177,997,117 |
| LIABILITIES: | | | | |
| Segment liabilities | $ 4,152,867 | $ 57,282,650 | $ (33,932,616) | $ 27,502,901 |
| Unallocated corporate liabilities | - | - | - | - |
| TOTAL LIABILITIES | $ 4,152,867 | $ 57,282,650 | $ (33,932,616) | $ 27,502,901 |

### OTHER INFORMATION

| | Retail | Wholesale | Eliminations | Consolidated |
|---|---|---|---|---|
| ASSETS: | | | | |
| Capital additions | $ 874,304 | $ 6,001,277 | $ - | $ 6,875,581 |

*(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 | - | 233,966,864 | (233,966,864) | - |
| | 73,254,115 | 505,553,980 | (233,966,864) | 344,841,231 |
| RESULT: | | | | |
| Segment result | 1,244,499 | 21,258,577 | (1,129,897) | 21,373,179 |
| Income from operations | 1,244,499 | 21,258,577 | (1,129,897) | 21,373,179 |
| Interest income | - | - | - | 20,827 |
| Finance costs | (132,684) | (711,498) | - | (844,182) |
| Unallocated other income | - | - | - | 7,500 |
| NET AND COMPREHENSIVE INCOME | $ 1,111,815 | $ 20,547,079 | $ (1,129,897) | $ 20,557,324 |

### STATEMENT OF FINANCIAL POSITION

| | Retail | Wholesale | Eliminations | Consolidated |
|---|---|---|---|---|
| ASSETS: | | | | |
| Segment assets | $ 29,398,678 | $ 157,544,135 | $ (17,912,704) | $ 169,030,109 |
| Unallocated corporate assets | - | - | - | - |
| 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 | - | - | - | - |
| TOTAL LIABILITIES | $ 5,162,821 | $ 48,772,030 | $ (17,912,704) | $ 36,022,147 |

### OTHER INFORMATION

| | Retail | Wholesale | Eliminations | Consolidated |
|---|---|---|---|---|
| ASSETS: | | | | |
| Capital additions | $ 59,789 | $ 9,988,226 | $ - | $ 10,048,015 |

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)*

## 28. SUBSEQUENT EVENTS

Subsequent to year end but before the date of authorization of these consolidated financial statements, the following events have occurred:

- The Group made a principal payment of $2,472,221 on its loan from RBC Royal Bank (Bahamas) Limited.

- The Group entered into a purchase agreement for an office complex at a cost of $600,000.

- During October 2016, the Group suffered damages resulting from Hurricane Matthew passing through the Bahamas. Management is assessing the total impact of such damages on the assets of the Group.

- The Group declared distribution of the following dividends:

  ***a) Common Shareholders:***

  *i.* Ordinary dividend of 7 cents per share to all shareholders on record at October 31, 2016, payable on November 10, 2016.

  *ii.* Extra-ordinary dividend of 9 cents per share to all shareholders on record at November 30, 2016, payable on December 9, 2016.

  ***b) Preference Shareholders:***

  Semi-annual dividend of 6.50% (Prime + 1.75%), to Class B Preference Shareholders on record at October 14, 2016, payable by October 28, 2016.

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