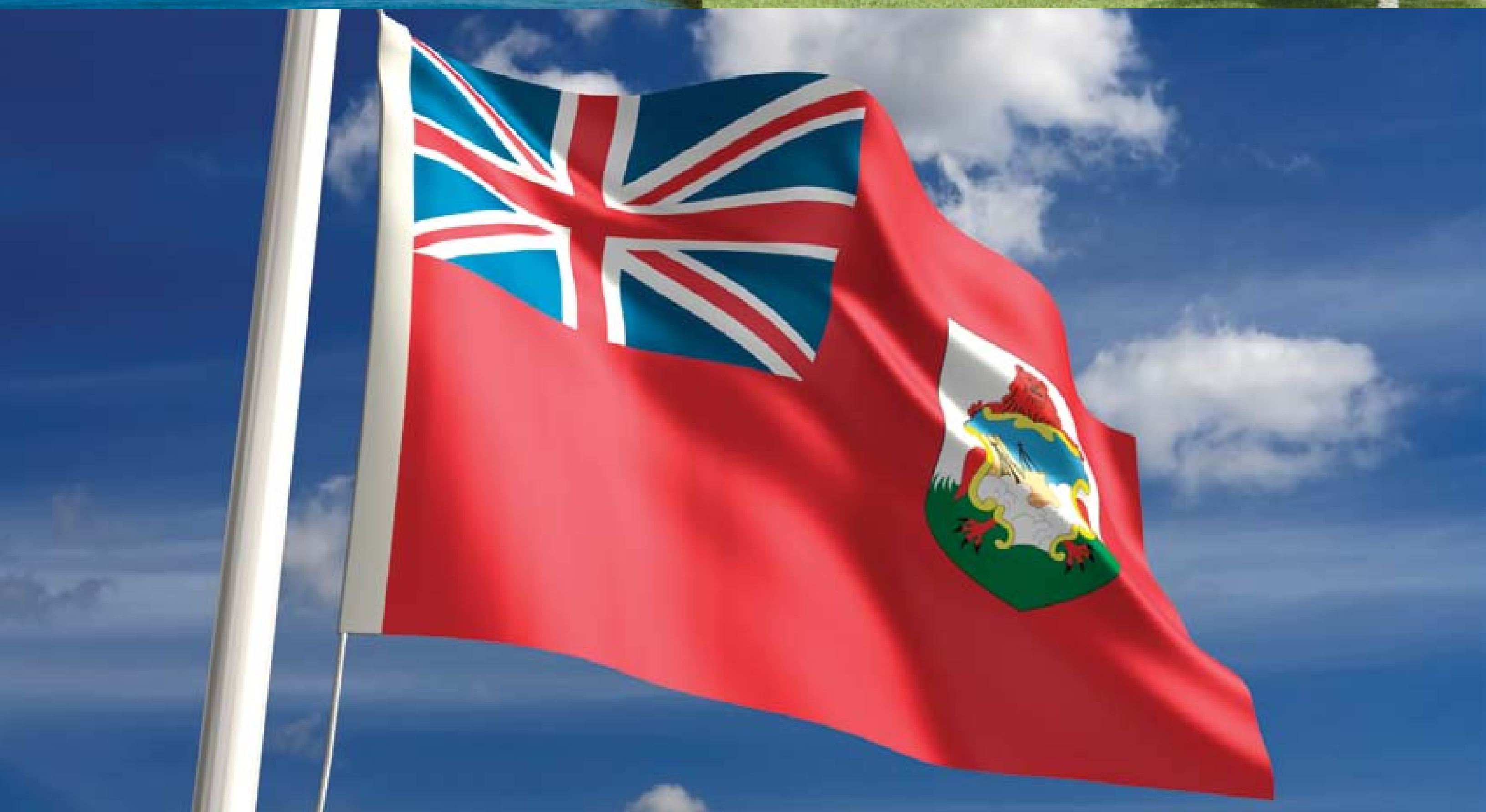
2014 Annual Report

BERMUDA FIRST
INVESTMENT COMPANY

Managed by
ICM Limited






BERMUDA FIRST INVESTMENT COMPANY LIMITED

- **Established October 2012**
- **Listed on the BSX October 29, 2012**
- **Gross assets of BD$ 32.0 million**

BFIC's principal objective is to maximise shareholder value as measured by total return by investing in BSX listed companies.

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Financial Calendar

Year End	June 30, 2014
Annual General Meeting	December 8, 2014
Half Year	December 31, 2014
Half Year December 2014 announcement	March 2015

Forward Looking Statements

This annual report may contain "forward looking statements" with respect to the financial condition, results of operations and business of the Company. Such statements involve risk and uncertainty because they relate to future events and circumstances that could cause actual results to differ materially from those expressed or implied by forward looking statements. The forward looking statements are based on the Directors' current views and on information known to them at the date of this report. Nothing in this publication should be construed as a profit forecast.

Chairman's Letter
September 18 2014

I am pleased to present the results of Bermuda First Investment Company Limited ("BFIC" or the "Company") for the year ended June 30, 2014.

The Company was incorporated in October 2012 as an investment holding company with a stated strategy to invest in local Bermudian listed companies. BFIC offers its shareholders the opportunity to have access to a number of investments across different sectors whilst limiting the risk associated with holding the individual investments directly.

BFIC has continued to add to its investments in this financial year taking advantage of the continuing depressed economic situation in Bermuda. Whilst share prices in BFIC's core investments have decreased in 2014, we believe that there still remains significant opportunity in the long term for these companies.

The warrants issued to shareholders on a one for three basis expired at the year end. The warrants exercised by BFIC's shareholders gave the Company increased funding to move forward with its investment objectives and generate shareholder value.

Financials

The Company's major investments as at June 30, 2014 were its holdings in KeyTech Limited ("KeyTech") ($21.3 million) and Ascendant Group Limited ("Ascendant") ($8.1 million). Whilst dividend payments at KeyTech and Ascendant were cut during the year, and in the case of KeyTech suspended for two quarters, companies such as Argus Group Limited ("Argus") and BF&M Limited ("BF&M") increased their payments. Consequently the Company was able to report a strong income stream during the financial period.

The Company has increased its portfolio of investments in the year, adding to its holdings at lower cost levels. However, following a significant increase in its share price, the Company disposed of its entire holding in the Bank of N.T. Butterfield & Son Limited ("BNTB") thereby generating a profit of $0.3 million.

Income Statement

The Company's results for 2013 are for the nine month period ended June 30, 2013.

For the period ended June 30, 2014 the Company recorded income of $2.7 million (2013: $1.9 million), operating income of approximately $1.5 million (2013: $1.0 million) and an unrealised loss on its investments of $13.6 million (2013: unrealised gain of $1.4 million). The Company incurred total expenses of approximately $1.6 million (2013: $0.9 million), the bulk of which are attributed to the interest on the Company's loan notes ($1.2 million) and interest on its $5 million loan facility with BNTB. ICM Limited, the Company's Investment Manager, was paid an investment management fee of $0.2 million for the year.

The Company's loss per share was $6.39 (2011: earnings per share of $1.04), which was driven by the decrease in the unrealised value of our investments in KeyTech and Ascendant.

Balance Sheet

The Company accounts for its investments in accordance with International Financial Reporting Standards ("IFRS"). The Company's assets, which are its investments in Bermuda listed companies, are valued at a price based on the average of the bid and offer prices.

As at June 30, 2014 the Company had total assets of $32.0 million (2013: $37.3 million) and net assets of $8.9 million (2013: $19.2 million). The Company had accrued dividends of $0.5 million, all of which were subsequently received post year end. The Investment Manager's report gives more detail on the Company's investments and their performance in the financial year.

As at June 30, 2014 the Company had total liabilities of $23.1 million (2013: $18.1 million). The Company's major liability is its $17.1 million 2019 unsecured loan notes. The loan notes were issued to the Company's founder shareholders in October 2012 and they carry a coupon of 6% with interest paid semi-annually.

During the year the Company entered into a BM$5 million loan facility (the "Facility") with the BNTB. The entire Facility was drawn down on September 27, 2013. The Facility carries a rate of BNTB's base rate plus 175 bps. On July 23, 2014 the Facility was extended for a further 12 months.

Dividends

Post year end the Company paid a final dividend payment of $0.20 a share to its shareholders.

The total dividend paid to shareholders for the year ended June 30, 2014 was $0.40 a share (2013: $0.40 per share) representing an annualised yield of approximately 5.3%.

Summary

We continue to believe that listed companies in Bermuda remain significantly undervalued. However, we are conscious that Bermuda is still suffering from the effects of the global financial crisis and that there is little sign of significant growth in 2014. There have been green shoots and it is clear that the Bermuda Government is attempting to make Bermuda more business friendly. However, significantly more needs to be done to make it easier for people to come and live on the island.

Bermuda needs to attract more people who will use key services whether it is power or telecoms. The benefit of a larger population will have a multiplier effect on restaurants and other services. This is vitally important for our core investments of Ascendant and KeyTech. The more people on the island, the more that their services will be used which will improve the returns for all stakeholders. However, we are very aware that any upturn in performance is likely to be a long and slow process.

As referred to in more detail in the Investment Manager's report, there are actions that companies can take which will improve shareholder returns. The transformative transactions entered into by KeyTech post the year end are a good example of the ways in which companies in a depressed environment can still aim to move forward.

Companies need to focus on their core strengths and streamline operations to generate the maximum returns to shareholders. For this to happen in the regulated sectors, the regulator needs to provide a framework which is fair and equitable to all stakeholders. This is of great importance to Ascendant who have publicly acknowledged the significant capital expenditure that may be required if a move away from high cost oil is to be achieved. By working together, a framework can be structured to enable the right decisions to be taken for Bermuda's long term energy needs.

We are disappointed with the share price performance of the Company's investments in 2014. Nonetheless, we remain optimistic that the economic performances can be improved which will have a knock on effect on the investee companies share prices and therefore the value of BFIC's investments. We are pleased with our interaction with the investee companies and believe that a number of measures are being taken which will improve the returns from our investments.

J. Michael Collier
Chairman

Investment Approach

BFIC seeks to invest in undervalued Bermudian companies listed on the Bermuda Stock Exchange ("BSX") . The Company will identify and invest in opportunities where the underlying value is not reflected in the market or purchase price. The perceived undervaluation may arise from a number of factors including the limited number of potential buyers of the shares resulting in illiquidity in the BSX and the macroeconomic situation in Bermuda. BFIC's aim is to maximise total returns for shareholders.

The Company has the flexibility to invest in shares, bonds, convertibles and other securities, however the majority of investments will be in shares. BFIC may invest in other investment companies or vehicles, including any managed by the investment manager where such investment is complementary to the Company's investment objective and policy.

BFIC may acquire majority or minority positions in its target investments. The Company aims to maximise value for shareholders by holding a concentrated portfolio of investments. The portfolio will consist of minority positions, but BFIC will consider opportunities which will maximise its ability to contribute as a proactive investor with a view to actively extracting value for both its investors and investors in the underlying investee companies.

The Company intends to have a mid to long term investment horizon and does not expect to be trading its investments on a regular basis. The Company intends to be supportive of its investments and maintain regular dialogue with the management of its investments and where required provide additional capital to ensure that the investments can develop and grow.

Investment Manager's Report

BFIC's focus is on investments in Bermudian companies listed on the BSX where the Company and the Directors believe fair value is greater than market value. BFIC aims to work with the directors and senior management of its investee companies, either through Board representation or dialogue with management, to increase the long term value of these investments and to introduce shareholder friendly initiatives such as dividend reinvestment plans, or share buybacks so that all shareholders can benefit.

The macroeconomic environment in Bermuda continues to be challenging even with 2014 likely to show that Bermuda's GDP has turned positive for the first time in five years. In the rest of the world, the US is leading the way with decreasing unemployment to such a level that the US Federal Reserve ended its programme of quantitative easing in October 2014. There continues to be stagnation in Europe with a significant threat of deflation looming. China continues to grow at the expected level of 7.0% p.a. but there are doubts as to the accuracy of this number and worries over the shadow banking and housing sectors. Japan has launched an unprecedented programme of quantitative easing over the last 9 months with the aim of removing the economy from decades of deflation. There are global concerns that growth following the financial crisis has not rebounded as it should have done and whether 2015 will show additional weakness.

Bermuda has historically benefitted from its close geographic location to the US and as the US continues to recover, then Bermuda should in a small way, benefit from this. It is disappointing that the significant decisions to cut Government spending and to encourage investment in Bermuda have yet to occur which has had the effect of prolonging the poor performance of the economy.

We do believe that the private sector has been more proactive in cost management than the public sector and therefore should be well placed if the economy improves.

Portfolio

BFIC's net assets as at June 30, 2014 were $8.9 million (2013: $19.2 million). The investments in KeyTech and Ascendant accounted for 88.9% (2013: 91.4%) of the Company's portfolio as at June 30, 2014. The rest of the portfolio is made up of investments in other Bermudian listed companies on the BSX such as Argus and BF&M.

KeyTech's share price decreased by 27.9% during the year ended June 30, 2014. This reflected the continued weakness in the Bermuda economy coupled with increased competition in Bermuda's telecoms market following new regulations introduced in early 2014. During the year BFIC increased its holding in KeyTech by 1,031,616 shares.

Post the year end on September 3, 2014 KeyTech announced that it had sold 100% of its interest in Bermuda Telephone Company to Barrie OpCo Limited. In addition to the sale of Bermuda Telephone Company, KeyTech announced the acquisition of BOTCAT which owns 100 percent of WestStar TV Ltd. in Cayman and a 40% interest in CableVision Holding Ltd. in Bermuda. As a result of this acquisition, KeyTech will now have a controlling interest of 68% in Cablevision. The BOTCAT acquisition was financed through a combination of debt and equity.

Whilst recognising the significant risks, both financial, through the increase of debt on its balance sheet and operational and management risks associated with a significant acquisition, we are supportive of these transactions as they are expected to be transformational for KeyTech. The BOTCAT acquisition strengthens Logic Cayman's market presence by acquiring the incumbent subscription television provider in Cayman, WestStar TV. Logic Cayman will now have an increased customer base to support the fiber to the home build and to grow its IPTV and high speed data service offerings across the island.

The sale of Bermuda Telephone Company was driven by regulatory concerns, union issues and the acknowledgement that Cablevision's better technology and higher speeds on its network would enable KeyTech to expand into the three markets, or 'triple play', now permitted under the Integrated Communications Operating License Regulations. The divestiture of Bermuda Telephone Company and acquisition of BOTCAT will enhance the Group's diversified portfolio of investments in both Bermuda and Cayman. An additional advantage is the benefit of leveraging cross jurisdictional relationships of clients for Logic corporate services. Cayman offers an attractive jurisdiction for investment due to the projected growth in GDP, increased company incorporations, hotel and residential developments, as well as a favourable regulatory environment.

Due to the transactions detailed above, KeyTech announced a suspension of its dividend for two quarters to enable management to focus the Company's cash resources on the integration and opportunities in Cayman and Bermuda. We believe this is the sensible approach and will enable the Company to return to paying a dividend in 2015 which we would expect to be sustainable in the long term.

KeyTech's results for the year ended March 31, 2014 were also delayed in light of the corporate transactions.

We would anticipate that the Company's share price should react positively once the synergies start to show and we remain convinced that this investment is undervalued.

Ascendant's share price decreased by 41.6% during the year ended June 30, 2014. During the year BFIC increased its holding in Ascendant by 159,007 shares.

The fall in the share price was driven by a combination of poor financial performance in recent years and the cut in the annual dividend from $0.85 to $0.30 a share, which was announced in June 2014. The cut in the dividend was due to a combination of the need to fund future capital expenditure associated with Ascendant's long term energy strategy and the poor financial results over the last three years which had left the dividend uncovered.

Consolidated net earnings decreased by $0.6 million to $1.2 million for the six months ended June 30, 2014. Earnings improved at both Bermuda Gas and AG Holdings compared to the prior period in 2013, but these were offset by reduced earnings at BELCO, due to lower electricity sales and higher operating costs. BELCO's electric sales revenue decreased $1.1 million or 1.6% when compared to the first half of 2013. The decline in sales was due directly to decreased residential sales which decreased by $1.8 million. 2014 is the fifth consecutive year that BELCO reported significantly reduced kWh consumption. Ascendant attributed the weakness to the Bermuda economy and the significant reduction in the residential population. Book value per share as at June 30, 2014 was $30.37.

Ascendant's major asset, BELCO, is faced by the twin threats of reducing demand coupled with increased costs due to ageing equipment. It is this scenario that has forced BELCO to look at its long term energy strategy as part of an integrated resource plan. This may well result in the fuel supply moving from oil to liquefied natural gas ("LNG"). However, this cannot be pursued until BELCO and the Bermuda Government agree on an acceptable regulatory framework fair to suit all stakeholders. The funding required for the capital expenditure associated with a switch to LNG or an alternative fuel supply such as propane, cannot be raised without such a regulatory framework. Whilst we expect financial results to continue to be depressed in the medium term, we believe that Ascendant is significantly undervalued and an agreement on the future energy needs of Bermuda may start the process of unlocking the inherent value in the Company.

Argus' share price decreased by 2.3% during the year ended June 30, 2014. During the year BFIC increased its holding in Argus by 262,900 shares.

For the year ended March 31, 2014 Argus announced earnings of $13.2 million (2013: $12.8 million) and declared an interim dividend of 7 cents a share. Shareholders' equity was $106.9 million (2013: $94.4 million). Argus reported a return on average shareholders' equity of 13.2% (2013: 14.5%), earnings per share were $0.63 (2013: $0.61) and total assets including segregated fund assets stood at $2.1 billion. Net premiums written increased by $3.0 million or two percent from a combination of new business and high client retention levels. Net benefits and claims decreased by seven percent and investment income decreased significantly compared to 2013. Argus reported an unrealised loss on its fixed income portfolio of $5.3 million compared to a $2.7 million gain in 2013. Operating expenses decreased by three percent.

These results were in line with our expectations and continue the theme over the last 24 months of a company repairing its balance sheet and reducing the impact of historical investments. The key to moving forward will be how Argus grows its bottom line particularly as it is primarily exposed to an economy which continues to experience stagnant growth.

Other Investments

The Company's other investments include small holdings in the BF&M Limited, Bermuda Aviation Services Limited, and Watlington Waterworks Limited.

Directors

J. Michael Collier - Chairman
Mr. Collier, a career banker, spent 33 years with the Bank of N.T. Butterfield & Son Limited and retired in 1994 as President and Chief Executive Officer. He is currently Chairman of West Hamilton Holdings Limited and Deputy Chairman of Somers Limited. He was formerly Chairman of Ascendant Group Limited and Bermuda Commercial Bank Limited.

Gavin Arton
Mr. Arton is a former senior executive of XL Capital Limited, previously serving as an executive of American International Group Inc. and CIGNA Corporation in the U.S. He is currently Chairman of BF&M Limited and a non-executive director of a number of Bermuda based companies, including Ascendant Group Limited, Bermuda Commercial Bank Limited, Bermuda Press (Holdings) Limited, Watlington Waterworks Limited and Compass Capital Partners Limited.

Alasdair Younie
Mr. Younie is a director of ICM Limited and a qualified accountant who has previously worked in corporate finance at Arbuthnot Securities Limited and PricewaterhouseCoopers in London. He is a director of Ascendant Group Limited, Bermuda Commercial Bank Limited, Somers Limited and West Hamilton Holdings Limited, and is a member of the Institute of Chartered Accountants in England and Wales.

Investment Team

Investment Policy
The Directors are responsible for the Company's investment policy and have overall responsibility for the Company's day-to-day activities. The Company has, however, entered into an Investment Management Agreement with ICM Limited ("ICM") under which ICM provides investment management services to the Company. ICM is primarily responsible for the Company's investments.

ICM is a Bermuda based fund manager and corporate finance adviser. ICM is the Investment Manager to the Company and is also the Investment Manager to Utilico Investments Limited and Utilico Emerging Markets Limited, both listed on the London Stock Exchange, Investment Manager to Zeta Resources Limited, listed on the Australian Stick Exchange and Investment Adviser to Bermuda Commercial Bank Limited and to the BSX listed Somers Limited.

Duncan Saville
Mr. Saville is a chartered accountant with over 30 years of experience in the securities industry and is a director of ICM. He is an experienced non-executive director and was formerly a non-executive director of Utilico Investment Trust plc and a number of companies in both the water and airport sectors. He is a director of listed companies Infratil Limited, New Zealand Oil and Gas Limited and West Hamilton Holdings Limited.

Alasdair Younie
Mr. Younie is a director of ICM Limited, and a qualified accountant who has previously worked in corporate finance at Arbuthnot Securities Limited and PricewaterhouseCoopers in London. He is a director of Ascendant Group Limited, Bermuda Commercial Bank Limited, Somers Limited and West Hamilton Holdings Limited and is a member of the Institute of Chartered Accountants in England and Wales.

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Report of Independent Auditors

The Shareholders and Board of Directors
Bermuda First Investment Company Limited

We have audited the accompanying financial statements of Bermuda First Investment Company Limited, which comprise the statement of financial position as at June 30, 2014, the statement of changes in shareholders' equity, the statement of comprehensive income, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Bermuda First Investment Company Limited as at June 30, 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Ernst & Young Ltd.

September 18, 2014

Statement of Financial Position

(Expressed in Bermuda Dollars)

As at June 30, 2014

		2014		2013*
Assets				
Investments – at fair value through profit or loss (Note 3)	$	31,511,435	$	36,686,945
Dividends receivable		491,159		627,820
Prepayments and other assets		3,123		3,498
Total assets	$	32,005,717	$	37,318,263
Liabilities				
Bank overdraft	$	492,701	$	351,797
Interest payable (Notes 9 and 10)		257,347		214,278
Accounts payable and accrued expenses (Note 4)		82,292		87,640
Dividends payable (Note 8)		-		342,844
Loans (Note 10)		5,100,000		-
Loan notes (Notes 4 and 9)		17,142,200		17,142,200
Total liabilities		23,074,540		18,138,759
Shareholders' Equity				
Share capital (Notes 4 and 6)		19,746		17,142
Share premium		19,726,244		17,125,068
Retained earnings		(10,814,813)		2,037,294
Total equity		8,931,177		19,179,504
Total liabilities and shareholders' equity	$	32,005,717	$	37,318,263

*The comparative figure covers the period from October 9, 2012 (date of commencement of operations) to June 30, 2013.

See accompanying notes.

Statement of Changes in Shareholders' Equity

(Expressed in Bermuda Dollars)

Year ended June 30, 2014

		2014		2013*
Balance at beginning of year	$	19,179,504	$	-
Issue of share capital (Note 6)		2,604		17,142
Share premium on issuance of share capital		2,601,176		17,125,068
Dividend (Note 8)		(756,237)		(342,844)
Net (loss) income for the year		(12,095,870)		2,380,138
Balance at end of year	$	8,931,177	$	19,179,504

*The comparative figure covers the period from October 9, 2012 (date of commencement of operations) to June 30, 2013.

See accompanying notes.

Statement of Comprehensive Income

(Expressed in Bermuda Dollars)

Year ended June 30, 2014

		2014		2013*
Investment income				
Dividend income	$	2,739,568	$	1,893,210
Expenses				
Interest expense (Notes 9 and 10)		1,239,785		604,739
Management fee (Note 4)		186,787		127,461
Directors' fees		36,000		27,000
Audit fees		27,500		27,500
Custodian fees (Note 4)		15,000		11,250
Legal fees		12,731		49,256
Administration fees (Note 4)		10,000		7,500
BSX listing fees		6,375		21,600
Corporate secretarial fees (Note 4)		3,500		2,625
Listing sponsor fees (Note 4)		2,500		2,500
Other operating expenses		33,770		5,327
		1,573,948		886,758
Net investment gain	$	1,165,620	$	1,006,452
Net realised gain and change in unrealised (loss) gain on investments				
Net realised gain on investment - at fair value through profit or loss		322,129		-
Net change in unrealised (loss) gain on investments - at fair value through profit or loss		(13,583,619)		1,373,686
		(13,261,490)		1,373,686
Net (loss) income for the year	$	(12,095,870)	$	2,380,138
Earnings per share				
Basic (Note 7)	$	6.39	$	1.39
Fully diluted (Note 7)	$	6.39	$	1.04

*The comparative figure covers the period from October 9, 2012 (date of commencement of operations) to June 30, 2013.

See accompanying notes.

Statement of Cash Flows

(Expressed in Bermuda Dollars)
Year ended June 30, 2014

		2014		2013*
Operating activities				
Net (loss) income for the year	$	(12,095,870)	$	2,380,138
Adjustment to reconcile net (loss) income for the year to net cash used in operating activities:				
Purchases of investments - at fair value through profit or loss		(9,579,630)		(1,028,849)
Sale of investments - at fair value through profit or loss		1,493,650		-
Net realised gain on investment - at fair value through profit or loss		(322,129)		-
Net change in unrealised loss (gain) on investments – at fair value through profit or loss		13,583,619		(1,373,686)
Net changes in operating assets and liabilities:				
Dividends receivable		136,661		(627,820)
Prepayments and other assets		376		(3,498)
Interest payable		43,069		214,278
Accounts payable and accrued expenses		(5,348)		87,640
Net cash used in operating activities		(6,745,602)		(351,797)
Financing activities				
Proceeds from loans		5,100,000		-
Proceeds from exercise of warrants		1,750,000		-
Dividend paid		(245,302)		-
Net cash provided by financing activities		6,604,698		-
Net change in cash and cash equivalents		(140,904)		(351,797)
Cash and cash equivalents at beginning of year		(351,797)		-
Cash and cash equivalents at end of year	$	(492,701)	$	(351,797)
Cash and cash equivalents consist of:				
Bank overdraft	$	(492,701)	$	(351,797)
Supplemental cash flow information				
Interest paid	$	1,196,716	$	390,461
Dividends received	$	2,876,229	$	1,265,390
Non-cash transactions				
Exchange of investments for loan notes and share capital (Notes 6 and 9)	$	-	$	34,284,410
Shares issued through dividend reinvestment (Notes 8)	$	853,780	$	-

*The comparative figure covers the period from October 9, 2012 (date of commencement of operations) to June 30, 2013.

See accompanying notes.

Notes to Audited Financial Statements

(Expressed in Bermuda Dollars)
June 30, 2014

1. Corporate Information

Bermuda First Investment Company Limited (the "Company") was incorporated as an exempted company under the laws of Bermuda on September 13, 2012. The Company commenced operations on October 9, 2012. Its registered address is at Bermuda Commercial Bank Building, 19 Par-La-Ville Road, Hamilton HM 11, Bermuda.

The Company carries on business as an exempt investment holding company with the objective of maximising shareholder value as measured by total return which includes both dividends received from its investments and capital appreciation of those assets. To achieve its investment objective, the Company invests in Bermuda companies listed on the Bermuda Stock Exchange ("BSX"). The Company's Investment Manager is ICM Limited ("Investment Manager"), a Bermuda-based fund manager and corporate finance adviser.

The Company's shares and loan notes are both listed on the BSX.

The financial statements of the Company were authorised for issue in accordance with a resolution of the Board of Directors (the "Board") on September 18, 2014.

2. Summary of Significant Accounting Policies

Basis of Preparation

These financial statements are prepared under the historical cost convention modified to include the fair valuation of financial assets and liabilities. These financial statements, except for cash flow information, are prepared using the accrual basis of accounting.

These financial statements are presented in Bermuda Dollars and all values are rounded to the nearest dollar.

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The following are the significant accounting and reporting policies adopted by the Company:

Use of Accounting Judgments, Estimates, and Assumptions

The preparation of financial statements in accordance with IFRS, requires management to make judgments, estimates and assumptions that affect the reported amounts and disclosures made in these financial statements and accompanying notes. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in the future.

Financial Assets and Liabilities at Fair Value Through Profit or Loss

(a) Classification

This category is comprised of investments – at fair value through profit or loss and is sub-divided into: (i) financial assets and liabilities held for trading and (ii) financial instruments designated by management at fair value through profit or loss at initial recognition. Financial assets and liabilities held for trading are acquired or incurred principally for the purpose of selling and/or repurchasing in the short term. This category includes equity instruments.

Financial instruments are designated by management at fair value through profit or loss at initial recognition on the basis that they are a part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Company, as set out in the Company's prospectus.

(b) Recognition

The Company recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

(c) Initial Measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

(d) Subsequent Measurement

After initial measurement, the Company measures financial instruments, which are classified as at fair value through profit or loss, at their fair values. Subsequent changes in the fair value of those financial instruments are recorded in net change in unrealised gains or losses on investments – at fair value through profit or loss in the statement of comprehensive income.

(e) Derecognition

Financial assets are derecognised when the Company has transferred substantially all the risks and rewards of those assets or the right to receive those assets has expired.

Financial liabilities are derecognised when the obligations of the Company under those liabilities are discharged, cancelled, or expire.

Impairment of Financial Assets - Other Than Investments at Fair Value Through Profit or Loss

The Company assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event), and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The losses arising from impairment are recognised in the statement of comprehensive income in other operating expenses.

If there is objective evidence that an impairment loss has been incurred, the financial asset is written down to its realisable value, with the impairment loss being recognised in the statement of comprehensive income. Any subsequent increase in the fair value of such assets that can be objectively related to an event that occurred after the impairment was recognised will result in a reversal of the impairment loss in the period in which the event occurs.

Investment Transactions and Valuation

Investment transactions are accounted for on a trade date basis. Realised gains and losses are calculated on a first in-first out ("FIFO") basis. Assets are initially recognised at their purchase price. Both realised and changes in unrealised gains and losses, net of foreign exchange, are included in the statement of comprehensive income.

The Company follows the below valuation methodology:

- The fair value of financial instruments traded in active markets (such as publicly trading debt instruments and derivatives) at the reporting date, is based on an average of the bid and ask from quoted market prices without any deduction for transaction costs.
- If the ask price is not available, the bid price is used.
- If the bid price is not available, the last trade price is used.

The Company's valuation methodology is in accordance with IFRS 13, Fair Value Measurement.

The Company may from time to time, invest in financial instruments that are not traded in an active market. The fair value of these financial instruments is determined based on observable inputs, such as current interest or currency rates, or in case of no observable inputs, fair value is determined using appropriate valuation techniques. Fair values of such investments may differ from the values that would have been used had a ready market for these investments existed, and the differences could be material.

Translation of Foreign Currencies

Functional and Presentational Currency

The primary objective of the Company is to generate returns in Bermuda dollars, its capital-raising currency. The liquidity of the Company is managed on a day-to-day basis in Bermuda dollars. The Company's performance is also evaluated in Bermuda dollars.

Therefore, as Bermuda dollars is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions, management has assessed that the Company's functional and presentational currency is Bermuda dollars.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at period-end exchange rates of monetary assets and liabilities, denominated in foreign currencies, are recognised in the statement of comprehensive income as part of net change in unrealised gains on investments - at fair value through profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents in the statement of cash flows comprise of bank overdraft, cash at bank, including any demand and term deposits, which are readily convertible to known amounts of cash, and are subject to an insignificant risk of changes in value, and have original maturities of three months or less.

At June 30, 2014 the net amount included a bank overdraft of $495,629 (2013 - $351,807) in the statement of financial position, which was held with Bermuda Commercial Bank Limited ("BCB" or the "Custodian") where the Company had a $500,000, 4.50% interest rate, unsecured overdraft facility expiring on June 5, 2015.

Dividend Distribution

Dividend distributions are at the discretion of the Company. A dividend distribution to the Company's shareholders is accounted for as a deduction from the Company's distributable income to shareholders. A proposed dividend is recognised as a liability in the period in which it is declared by the Board.

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Basic and Fully Diluted Earnings Per Share

Basic earnings per share is calculated by dividing the net earnings for the period attributable to the Company's shareholders by the number of common shares outstanding.

Diluted earnings per share is calculated by dividing the net earnings for the period by the weighted average number of shares during the period plus the weighted average number of shares that would have been issued on the conversion of all the dilutive potential shares into shares during the period.

Dividend Income

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

Interest Income and Expense

Interest income and expense are recognised in the statement of comprehensive income on an accrual basis, in line with the contractual terms, calculated using the effective interest ("EIR") method.

Expenses

All expenses are recognised in the statement of comprehensive income on an accrual basis.

New Standards, Interpretations, Amendments to Published Standards Relevant to the Company

The following new standards and amendments to standards are relevant, but not yet effective, for the Company:

IAS 32 *Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*

IFRS 9 *Financial Instruments – Classification and Measurement*

Standards Expected to Have a Significant Effect on the Financial Statements

IAS 32 – Offsetting Financial Assets and Financial Liabilities (Amendment)

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off". The amendment also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment is effective for annual periods beginning on or after January 1, 2014. Management is still assessing the impact of this amendment on the Company's financial position or performance.

IFRS 9 – Financial Instruments – Classification and Measurement

In November 2009 the IASB issued IFRS 9, Financial Instruments, which introduced new requirements for the classification and measurement of financial instruments. IFRS 9 is the IASB's planned replacement of IAS 39 Financial Instruments: Recognition and Measurement with a less complex and improved standard for financial instruments. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 is subject to European Union endorsement, the timing of which is uncertain. The impact of IFRS 9 may also change as a consequence of further developments resulting from the IASB's project to replace IAS 39. The Company continues to monitor developments relating to IFRS 9, but in the absence of a finalised standard it is not practical to quantify the impact of IFRS 9, on the Company's financial statements.

3. Investments – at Fair Value Through Profit or Loss

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Valuation techniques for inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly or quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 – Valuation techniques for inputs are unobservable inputs for the asset or liability.

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of reporting period.

As at June 30, 2014 the Company held the following classes of financial instruments measured at fair value:

	Level 1	Level 2	Level 3	Total
Assets				
Investments - at fair value through profit and loss -held for trading				
Equity Shares	$ –	$ 31,511,435	$ –	$ 31,511,435
	$ –	$ 31,511,435	$ –	$ 31,511,435

As at June 30, 2013 the Company held the following classes of financial instruments measured at fair value:

	Level 1	Level 2	Level 3	Total
Assets				
Investments - at fair value through profit and loss - held for trading				
Equity Shares	$ –	$ 36,686,945	$ –	$ 36,686,945
	$ –	$ 36,686,945	$ –	$ 36,686,945

4. Related Parties

As of June 30, 2014 BCB is a significant investor of the Company, holding 15.60% (2013 - 26.70%) equity interest 308,835 (2013 - 458,835) shares and 41.53% (2013 - 32.80%) of issued loan notes $7,118,600 (2013 - $5,618,600). BCB serves as the Company's Custodian.

As of June 30, 2014 Utilico Investments Limited ("Utilico") is also a significant investor of the Company, holding 78.60% (2013 - 67.20%) equity interest for 1,551,333 (2013 - 1,152,360) shares and 57.89% (2013 - 67.20%) of issued loan notes $9,923,600 (2013 - $11,523,600) and whose ultimate parent undertaking is General Provincial Life Pension Fund (L) Limited. Utilico's Investment Manager is also the Company's Investment Manager.

BCB's subsidiaries also serve as the Company's Administrator and Registrar and Transfer Agent and Corporate Secretary. The Company's Investment Manager is also the investment advisor of BCB. The Investment Manager, Custodian, and Administrator each maintain separate business units, roles and responsibilities to ensure segregation between different functions. The details of the fees paid to these entities are as follows:

Management Fees and Performance Fees

The Company pays the Investment Manager for its investment management services a management fee based on the gross asset value of the portfolio of 0.50% per annum, payable quarterly in arrears. Management fees for the year amounted to $186,787 (2013 - $127,461), of which $38,667 (2013 - $44,015) remained outstanding and is included under the accounts payable and accrued expenses account in the statement of financial position at June 30, 2014.

The Investment Manager may be paid additional performance fees at the discretion of the Company, as approved by the Board of Directors. No performance fees were paid during the year.

Administration Fees and Corporate Secretarial Fees

The Company pays BCB Asset Management Limited (the "Administrator") for its administration and registrar and transfer agency services a fixed administration fee of $10,000 per annum, payable quarterly in arrears. In addition, the Administrator provides certain other services to the Company which will be charged for, at the Administrator's normal commercial rates from time to time. Administration fees for the year amounted to $10,000 (2013 - $7,500), of which $2,500 (2013 - $2,500) remained outstanding and is included under the accounts payable and accrued expenses account in the statement of financial position at June 30, 2014.

The Company also pays BCB Charter Corporate Services Limited (the "Corporate Secretary"), for its corporate secretarial services, a fixed fee of $3,500 per annum, payable quarterly in arrears. Corporate secretarial fees for the year amounted to $3,500 (2013 - $2,625), of which $875 (2013 - $875) remained outstanding and is included under the accounts payable and accrued expenses account in the statement of financial position at June 30, 2014.

Listing Sponsor Fees

The Company also pays the Administrator for its services. Listing fees for the year in the statement of comprehensive income, amounted to $2,500 (2013 - $2,500), and none of which remained outstanding at June 30, 2014.

Custodian Fees

The Company pays the Custodian, for its custodian services, a custodian fee of $15,000 per annum, payable quarterly in arrears. The Custodian will also be reimbursed for all reasonable out-of-pocket expenses incurred on behalf of the Company. Custodian fees for the year amounted to $15,000 (2013 - $11,250), of which $3,750 (2013 - $3,750) remained outstanding and included under the accounts payable and accrued expenses in the statement of financial position at June 30, 2014.

5. Financial Risk Management

Overall Risk Management

In order to achieve the Company's investment objective, the Company seeks to take on a certain level of financial risk. The Company's investment activities expose it to various types of financial risks such as market risk, price risk, credit risk, and liquidity risk.

Risk management can be segregated into pre-investment and post-investment risk management. Pre-investment risk management involves determining asset allocation and portfolio construction. Thereafter, risk management involves conducting risk and return analyses; monitoring the relevant Company-specific portfolio restrictions and investment guidelines; managing credit, liquidity risks, and making relevant adjustments to asset allocation; and portfolio construction.

Capital Management

The Company invests the majority of its capital in what management believes to be under-valued Bermuda equities as set forth in its prospectus. On a periodic basis, the Investment Manager monitors the Company's investment and cash position, and future cash flow from various transactions, which can be from the Company's operating expenses, and shareholder transactions to maintain the Company's operations.

Market Risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate, due to changes in market variables such as equity prices and market volatility. The Company is exposed to the Bermuda market through its investments.

Concentration Risk

As of June 30, 2014 the investment portfolio of the Company is concentrated in two listed companies with a total market value of $27,840,060 (2013 - $33,444,095) or 88% (2013 - 91%) of total investments.

Price Risk

Price risk is the risk that the price of a financial instrument will fluctuate due to changes in market conditions influencing, directly or indirectly, the value of the instrument. The Company is exposed to price risk from its investments. Price risk is managed through the overall risk management processes described above. A 15% movement in fair values of its investments would impact the Company's net income by an increase or decrease of $4,726,715. 15% was estimated by management as an appropriate threshold for sensitivity testing based on an average price movement of the portfolio over a twelve-month period.

Credit Risk

Credit risk is the risk that an issuer or counterparty will be unable to meet a commitment that it has entered into with the Company.

The Company's maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event that the counterparties fail to perform their obligations as of June 30, 2014 in relation to each class of recognised financial assets, is the carrying amount of those assets in the statement of financial position.

The Investment Manager performs due diligence on all counterparties before they become a service provider or counterparty to the Company, and credit quality checks are part of this process. The credit quality of the Company's banks, brokers, guarantor, and any lenders is regularly monitored, and factored into allocation decisions.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not significantly exposed to interest rate risk, which only applies to cash at bank. The Company's loan note is based on fixed interest thus, not susceptible to interest rate fluctuations.

Liquidity Risk

Liquidity risk is the risk that the Company may be unable to generate or obtain sufficient funds in a timely and cost-effective manner to meet its commitments as they come due. To limit this risk, management has adopted a policy of managing assets with liquidity in mind, and of monitoring future cash flows and liquidity on a regular basis.

Maturity Profile

The maturity profile of the Company's assets and liabilities at June 30, 2014 is as follows:

		Within 1 year		2-5 Years		5-10 Years		Total
Assets								
Investments - at fair value through profit or loss	$	31,511,435	$	–	$	–	$	31,511,435
Dividends receivable		491,159		–		–		491,159
Prepayments and other assets		3,123		–		–		3,123
	$	32,005,717	$	–	$	–	$	32,005,717
Liabilities								
Bank overdraft	$	492,701	$	–	$	–	$	492,701
Interest payable		257,347		–		–		257,347
Accounts payable and accrued expenses		82,292		–		–		82,292
Loans		100,000		5,000,000		–		5,100,000
Loan notes		–		–		17,142,200		17,142,200
	$	932,340	$	5,000,000	$	17,142,200	$	23,074,540
Net assets (liabilities)	$	31,073,377	$	(5,000,000)	$	(17,142,200)	$	8,931,177

The maturity profile of the Company's assets and liabilities at June 30, 2013 was as follows:

		Within 1 year		2-5 Years		5-10 Years		Total
Assets								
Investments- at fair value through profit or loss	$	36,686,945	$	–	$	–	$	36,686,945
Dividends receivable		627,820		–		–		627,820
Prepayments and other assets		3,498		–		–		3,498
	$	37,318,263	$	–	$	–	$	37,318,263
Liabilities								
Bank overdraft	$	351,797	$	–	$	–	$	351,797
Dividends payable		342,844		–		–		342,844
Interest payable		214,278		–		–		214,278
Accounts payable and accrued expenses		87,640		–		–		87,640
Loan Notes		–		–		17,142,200		17,142,200
	$	996,559	$	–	$	17,142,200	$	18,138,759
Net assets (liabilities)	$	36,321,704	$	–	$	(17,142,200)	$	19,179,504

6. Equity

On September 13, 2012 the Company had an authorised share capital of $100 divided into 10,000 ordinary shares having a par value of $0.01 each. On October 9, 2012 the Company increased its authorised share capital to $100,000 divided into 10,000,000 ordinary shares having a par value of $0.01 each by the creation of 9,990,000 ordinary shares having a par value of $0.01 each.

Each shareholder is entitled to enjoy all rights attached to each share including voting rights and dividends. In the event of liquidation of the Company, the shareholder is entitled to the surplus assets of the Company.

Pursuant to the share transfer agreements dated October 9, 2012 BCB, Utilico and Eclectic Investment Company Limited disposed of certain investments valued in aggregate at approximately $34.29 million to the Company. On the same date, they received in exchange 1,714,221 shares in the Company (Utilico: 1,152,360 shares, BCB: 560,436 shares, and Eclectic: 1,425 shares) at an issue price of $10 per share and 17,142,200 5% 2019 unsecured loan notes from the Company (Utilico: $11,523,600, BCB: $5,604,350, and Eclectic: $14,250) with a par value of $1 each.

On June 3, 2013 the Company issued 571,407 unlisted warrants to shareholders on a one-for-three basis with an exercise price of $10 per share and a maturity of June 30, 2014. Utilico exercised 100,000 warrants on September 23, 2013, 70,000 warrants on October 25, 2013, and 5,000 warrants on November 20, 2013 with an exercise price of $10. All unexercised warrants expired on June 30, 2014.

On January 13, 2014 BCB sold 150,000 shares to Utilico at a value of $10 per share. Refer to Note 9 for further details on the loan notes.

7. Earnings per share

The following table presents the computation of basic and diluted earnings per share:

		Net Earnings	2014 Weighted Average Shares		Earnings Per Share
Basic earnings per share	$	(12,095,870)	1,974,599	$	(6.39)
Diluted earnings per share	$	(12,095,870)	1,974,599	$	(6.39)

		Net Earnings	2013 Weighted Average Shares		Earnings Per Share
Basic earnings per share	$	2,380,138	1,714,221	$	1.39
Diluted earnings per share	$	2,380,138	2,285,628	$	1.04

8. Dividends

It is the intention of the Company to distribute income to shareholders by way of dividend payments. Distributions will be paid to shareholders on a semi-annual basis, unless otherwise specified, and subject to the discretion of the Board.

On June 3, 2013 the Board declared dividends of $342,844 ($0.20 per share), payable to shareholders of record as at June 21, 2013. As part of the dividend reinvestment plan, 25,107 new shares were issued representing 73% ($251,070) of the dividend declared on July 12, 2013.

On September 18, 2013 the Board declared dividends of $367,850 ($0.20 per share), payable to shareholders of record as at September 30, 2013. As part of the dividend reinvestment plan, 27,609 new shares were issued representing 75% ($276,090) of the dividend declared on October 25, 2013.

On February 21, 2014 the Board declared dividends of $388,387 ($0.20 per share), payable to shareholders of record as at March 14, 2014. As part of the dividend reinvestment plan, 32,662 new shares were issued representing 84% (326,620) of the dividend declared on March 31, 2014.

9. Loan Notes

On October 9, 2012, the Company issued and subsequently listed on the BSX $17,142,200 Loan Notes of a par value of $1.00 per note ("Loan Notes"), which represents 100% of the issued Loan Notes of the Company. The Company can create up to $40 million Loan Notes. The Loan Notes rank pari passu equally and ratably with each other without discrimination or preference. All Loan Notes not previously purchased and cancelled will be redeemed by the Company on September 30, 2019, at their nominal amount. On June 3, 2013, the Board and its Loan Note Holders approved the amendment of the interest rate on the Loan Notes to 6% from 5%, with effect on July 1, 2013. The interest on the Loan Notes is paid semi-annually at 6% per annum. Interest expense relating to the Loan Notes for the year amounted to $1,028,532 (2013 - $604,739), of which $257,133 (2013 - $214,278) remained outstanding at June 30, 2014. At June 30, 2014 and 2013 holders of the Loan Notes are the major shareholders of the Company.

On October 1, 2013 Utilico sold 100,000 Loan Notes to an employee of BCB at a value of $1.00 per note. On January 13, 2014 Utilico sold 1,500,000 Loan Notes to BCB at a value of $1.00 per note.

10. Loans

On July 24, 2013 the Company signed a revolving credit facility of up to a maximum principal amount of $5,000,000 with the Bank of N.T. Butterfield Company Limited for a period ending on July 31, 2014. The interest on the Loan is paid monthly at 1.5% per annum above the Bank's Bermuda Dollar Base Rate. Interest expense relating to the Loan for the year amounted to $198,493, of which none remained outstanding at June 30, 2014. As security for the Loan, the Company pledged investments with market value of $15,625,000 as collateral. On June 17, 2014 the Company signed a loan facility of an amount of $100,000 with Utilico Investments Limited for a period ending on July 31, 2014.

The interest on the Loan is paid at maturity at 6% per annum. Interest expense relating to the loan for the year amounted to $217 of which all remained outstanding at June 30, 2014.

11. Taxation

Under current Bermuda law, the Company is not obligated to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda, pursuant to the provisions of the Exempted Undertakings Tax Protection Act 1966, which exempts the Company from any such Bermuda taxes, at least until March 31, 2035.

12. Subsequent Events

On July 22, 2014 the $5,000,000 revolving credit facility signed with the Bank of N.T. Butterfield Company Limited was renewed for a further 12 months.

On July 22, 2014 the $100,000 loan signed with Utilico was repaid entirely.

On August 28, 2014 the Company entered into a $1,000,000 loan facility with Utilico, $600,000 of which was drawn down on August 29, 2014.


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