



FG FINANCIAL PREFERRED INCOME FUND

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 2012

INVESTMENT OBJECTIVE

FG Financial Preferred Income Fund (the "Fund") is a fixed income Fund that aims to provide the highest possible level of return while still maintaining liquidity and preserving capital. The Fund seeks to provide stable returns to unit holders in excess of average term deposit rates.

INVESTMENT STRATEGY

FG Financial Preferred Income Fund invests predominantly in government bonds and bank deposits but enhances its yield through investing in a diversified portfolio of mortgages, preference shares and corporate bonds. Its emphasis is on principal protection and constant income generation.

The Fund carries a low level of risk to the investor based primarily on investment in a combination of short-term financial instruments and government guaranteed securities.

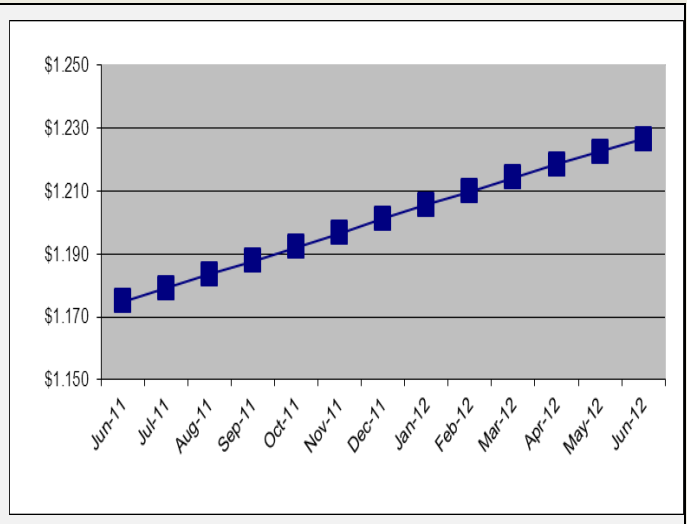
SECOND QUARTER REVIEW

During the second quarter, the Fund's net asset value (NAV) increased by 1.00% to \$1.2264 per share, outperforming its benchmark, the weighted average bank term deposit rate, by 48 basis points, which yielded 0.52% over the same period. Year-to-date, the Fund returned 2.11%, outperforming its benchmark by 1.03%. Over the last 12 months, three years and since inception the Fund has returned 4.38%, 5.15% and 5.33% respectively. Since inception, the Fund has outperformed its benchmark by 2.07% per annum.

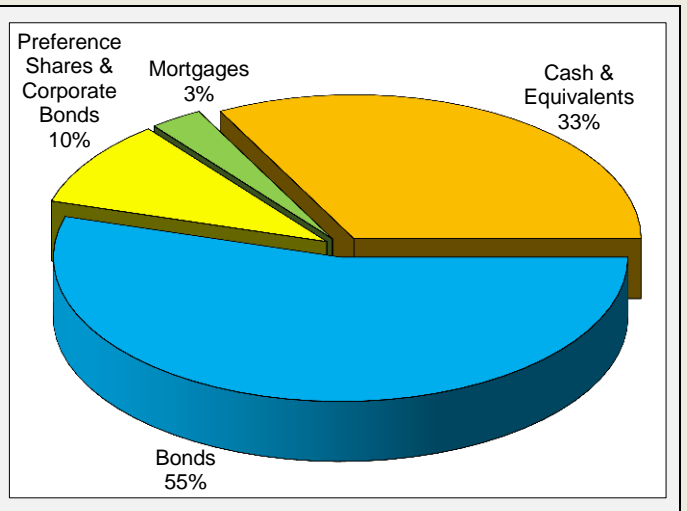
During the quarter, excess market liquidity continued to place downward pressure on the weighted average rate of interest on bank deposits. As a result, investors are still seeking low risk investment alternatives that offer higher yields than bank deposits. The Fund's solid returns in excess of bank term deposit rates coupled with its capital protection feature continues to entice an influx of investors. Consequently, year-to-date, net assets available to unit-holders increased by approximately \$653,000 attributable to net subscriptions of \$547,000 and net investment income of \$106,000.

Approximately 33% of the Fund's assets are invested in short-term bank deposits. During the second half of the year, we will endeavor to invest an appropriate portion of this cash in higher yielding bonds, preferred shares and high quality mortgages.

Net Asset Value Performance



Fund Composition



| | |
|---------------------------|----------------------------------|
| INVESTMENT MANAGER | FAMILY GUARDIAN INSURANCE |
| Analysis Period: | Mar. 31, 2012 — Jun. 30, 2012 |
| Benchmark: | WEIGHT AVERAGE TERM DEPOSIT RATE |

This document is prepared by FG Financial Limited, which is licensed by the Securities Commission of The Bahamas as a Fund Administrator. FG Financial Limited is the parent company of FG Financial Fund Limited SAC and a subsidiary of FamGuard Corporation Limited. This quarterly review is for informational purposes only. Please note that past performance and rates of return are not indicative of future records.

| PERFORMANCE | QTR-2 | YTD | 1 YR | 3 YRS | INCEPTION (PER ANNUM) |
|---------------|--------|--------|--------|--------|-----------------------|
| Fund | +1.00% | +2.11% | +4.38% | +5.15% | +5.33% |
| Benchmark | +0.52% | +1.08% | +2.41% | +3.00% | +3.26% |
| +/- Benchmark | +0.48% | +1.03% | +1.97% | +2.15% | +2.07% |