NEW ISSUE – BOOK-ENTRY-ONLY **Ratings: See "RATINGS" herein.**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2012A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Series 2012A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Series 2012A Bonds is exempt from personal income tax imposed by the United States Virgin Islands or by any state, territory, or possession or by any political subdivision thereof or by the District of Columbia. See "TAX MATTERS."

$142,640,000
VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
Revenue Bonds
(Virgin Islands Matching Fund Loan Note),
Series 2012A
(Working Capital)

Dated: Date of Delivery **Due: October 1, as shown on the inside cover page**

The Virgin Islands Public Finance Authority Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2012A (Working Capital) (the "Series 2012A Bonds") are being issued pursuant to (i) the Act (as defined herein), (ii) Resolution No. 12-009, adopted by the Virgin Islands Public Finance Authority (the "Authority") on August 14, 2012, and (iii) the Indenture of Trust, dated as of May 1, 1998, as previously amended and supplemented, and as further supplemented by the Seventh Supplemental Indenture of Trust, dated as of September 1, 2012 (collectively, the "Senior Indenture"), each by and between the Authority and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). The Trustee is located in Jacksonville, Florida, and also will act as Bond Registrar, Paying Agent and Special Escrow Agent (each as defined herein) for the Series 2012A Bonds.

The Series 2012A Bonds will be secured by a special limited obligation Series 2012A Matching Fund Loan Note (the "Series 2012A Loan Note"), which will be issued to the Authority by the Government of the United States Virgin Islands (the "Government") pursuant to the Loan Agreement, dated as of September 1, 2012, by and among the Authority, the Trustee and the Government (the "Series 2012A Loan Agreement").

The Series 2012A Bonds will bear interest at a fixed rate as described herein and are issuable in minimum denominations of $100,000 and integral multiples of $5,000 in excess thereof and will be issued initially as a single registered bond for each maturity registered in the name of Cede & Co., the nominee of The Depository Trust Company ("DTC"), New York, New York. Beneficial ownership interests in the Series 2012A Bonds will be available for purchase in book-entry-only form. Purchasers of the Series 2012A Bonds will not receive physical delivery of the Series 2012A Bond certificates, as further described herein. Principal of, redemption price, if applicable, of, and interest on the Series 2012A Bonds will be paid by the Paying Agent to DTC, and DTC will remit payment to DTC Participants, with such payments to be subsequently disbursed to the beneficial owners of the Series 2012A Bonds, as further described herein.

The Series 2012A Bonds will be subject to redemption prior to maturity as described herein. Interest on the Series 2012A Bonds will be payable semiannually on April 1 and October 1, commencing April 1, 2013.

The Series 2012A Bonds are being issued by the Authority to (i) provide a loan to the Government to be used for working capital required to finance certain operating expenses and other obligations of the Government (the "Working Capital Costs"), (ii) fund the Series 2012A Senior Lien Debt Service Reserve Subaccount in an amount necessary to meet the Series 2012A Debt Service Reserve Requirement, and (iii) pay the costs of issuing the Series 2012A Bonds.

The Series 2012A Bonds are special limited obligations of the Authority payable from and secured by a pledge of the Trust Estate, which includes certain funds established under the Senior Indenture, including the Pledged Revenue Account, the Series 2012A Debt Service Subaccount and the Series 2012A Debt Service Reserve Subaccount. The Series 2012A Loan Note is a special limited obligation of the Government and is solely secured by a pledge of revenues received by the Government from the United States Department of the Treasury (the "Matching Fund Revenues") as a transfer of a portion of the Federal excise taxes imposed and collected under the Code in any fiscal year on rum that is produced in the United States Virgin Islands and exported to the United States and that is subject to a Federal excise tax that qualifies for transfer to the Government. The Series 2012A Bonds are being issued on a parity basis with all outstanding Senior Lien Bonds and any additional Senior Lien Bonds hereafter issued pursuant to the Senior Indenture.

The Series 2012A Bonds shall under no circumstances constitute a general obligation of the Authority, the United States Virgin Islands or the United States of America nor shall the Series 2012A Bonds be evidence of a debt of the United States of America or the United States Virgin Islands nor shall the United States of America or the United States Virgin Islands be liable thereon. The taxing power of the Government is not pledged to the Series 2012A Loan Note or the Series 2012A Bonds. The Authority has no taxing power.

The Series 2012A Bonds are being offered to purchasers through a private placement. Each purchaser, by placing an order for the purchase of the Series 2012A Bonds, will be deemed to have acknowledged that the Co-Placement Agents (as defined herein and identified below) and the Authority are relying on the representations and warranties made by purchasers of the Series 2012A Bonds so that the offering may qualify for the private placement exemption set forth in Section (d)(1) of Rule 15c2-12 (as defined herein). Each purchaser will be deemed to have made to the Co-Placement Agents and the Authority the representations and warranties set forth herein under the caption "PLAN OF DISTRIBUTION – Purchaser Representations" and the sale of the Series 2012A Bonds to each purchaser is made in reliance on such representations and warranties. Such representations and warranties include the following: (i) that each purchaser is purchasing the Series 2012A Bonds entirely for its own account, (ii) that each purchaser understands that there is currently no public market for the Series 2012A Bonds and that no such public market may exist in the future, (iii) that each purchaser was, at the time the purchaser was offered the Series 2012A Bonds, and is, on the date it purchases the Series 2012A Bonds, a Qualified Buyer (as defined herein), (iv) that each purchaser is not a broker-dealer registered under Section 15(a) of the Exchange Act (as defined herein) or an entity engaged in the business of being a broker-dealer, and (v) that each purchaser has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Series 2012A Bonds and has so evaluated the merits and risks of such investment. Each purchaser will be deemed to have agreed that any transfer or resale of the Series 2012A Bonds, until such time as the transfer and resale restrictions are eliminated, will be restricted to Qualified Buyers. Upon the occurrence of certain events as described herein, the transfer and resale restrictions on the Series 2012A Bonds will be eliminated; however, there can be no guarantees that such events will occur or that the transfer and resale restrictions for the Series 2012A Bonds will be eliminated. See "PLAN OF DISTRIBUTION – Elimination of Transfer and Resale Restrictions."

The purchase and ownership of the Series 2012A Bonds involve certain investment risks. The information contained on the cover of this Private Placement Memorandum is a summary only. Prospective purchasers of the Series 2012A Bonds are advised to read this Private Placement Memorandum in its entirety.

The Series 2012A Bonds are offered subject to prior sale, when, as and if issued by the Authority and accepted by the Co-Placement Agents, subject to the approval of legality by Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed upon for the Authority by its counsel, Birch, deJongh & Hindels PLLC, St. Thomas, Virgin Islands. Certain legal matters will be passed upon for the Government by the Office of the Attorney General of the Government. Hawkins Delafield & Wood LLP, Disclosure Counsel to the Authority, will deliver an opinion regarding certain matters to the Authority, the Government and the Co-Placement Agents. Certain legal matters will be passed upon for the Co-Placement Agents by their counsel, Orrick, Herrington & Sutcliffe LLP, Washington, D.C. It is expected that the Series 2012A Bonds will be available for delivery through the facilities of DTC in New York, New York on or about September 13, 2012.

Jefferies **Bostonia Global Securities LLC**

Serving as Co-Placement Agents

September 7, 2012

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, AND PRICES

$142,640,000
VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
Revenue Bonds
(Virgin Islands Matching Fund Loan Note),
Series 2012A
(Working Capital)

$8,825,000 4.00% Term Bonds due October 1, 2022, yield 3.80%, price 101.656%, CUSIP† 927676RH1
$7,500,000 5.00% Term Bonds due October 1, 2027, yield 4.30%*, price 105.661%*, CUSIP† 927676RJ7
$126,315,000 5.00% Term Bonds due October 1, 2032, yield 4.50%*, price 104.004%*, CUSIP† 927676RK4

* Yield and price to the first par call date of October 1, 2022.

† The CUSIP numbers for the Series 2012A Bonds are provided by Standard & Poor's CUSIP Service Bureau, a division of McGraw-Hill Companies, Inc., and are set forth herein for convenience of reference only. The Authority assumes no responsibility for the accuracy of such numbers, nor is any representation made as to their correctness on the Series 2012A Bonds or as indicated above.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

32-33 Kongens Gade
Charlotte Amalie
St. Thomas, United States Virgin Islands 00802
www.USVIPFA.com
Angel E. Dawson, Jr., Acting Director of Finance and Administration

BOARD OF DIRECTORS

The Honorable John P. deJongh, Jr., Governor – Chairman (*ex-officio*)
Angel E. Dawson, Jr., Commissioner of Finance – Executive Director (*ex-officio*)
Debra E. Gottlieb, Director of the Office of Management and Budget – Secretary (*ex-officio*)
Pablo O'Neill – St. Croix Representative
Keith C. O'Neale, Jr. – St. Croix Representative

TRUSTEE, BOND REGISTRAR, PAYING AGENT AND SPECIAL ESCROW AGENT

The Bank of New York Mellon Trust Company, N.A.
Jacksonville, Florida

BOND COUNSEL AND DISCLOSURE COUNSEL

Hawkins Delafield & Wood LLP

FINANCIAL ADVISOR

Fiscal Strategies Group
Berkeley, California

This Private Placement Memorandum is furnished in connection with the sale of securities as referred to herein and may not be reproduced or be used, in whole or in part, for any other purpose. The information and expressions of opinion herein are subject to change without notice. The delivery of this Private Placement Memorandum, including the Appendices attached hereto, does not imply that there has been no change in the affairs of the Authority, the Government or the other matters described herein since the date hereof or that the information herein is correct as of any time subsequent to its date.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Government or the Co-Placement Agents to give any information or to make representations other than as contained in this Private Placement Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the Government or the Co-Placement Agents. This Private Placement Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2012A Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information contained in this Private Placement Memorandum has been obtained from the Authority, the Government, Cruzan VIRIL, Ltd. ("Cruzan"), Diageo USVI, Inc. ("Diageo USVI"), IHS Global Insight (USA), Inc. ("Global Insight") and other sources which are believed to be reliable, based primarily on a review of such information and discussions with representatives of the Government, the Authority, Cruzan, Diageo USVI and Global Insight. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Private Placement Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Government since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party.

The order and placement of materials in this Private Placement Memorandum, including the appendices, are not to be deemed a determination of relevance, materiality or importance, and this Private Placement Memorandum, including the appendices, must be considered in its entirety. The captions and headings in this Private Placement Memorandum are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provisions or sections of this Private Placement Memorandum. The offering of the Series 2012A Bonds is made only by means of this entire Private Placement Memorandum.

The statements contained in this Private Placement Memorandum and appendices hereto and in any other information provided by the Authority, the Government, the Co-Placement Agents, Cruzan, Diageo USVI, Global Insight and other parties to the transactions described herein that are not purely historical are forward-looking statements. Such forward-looking statements can be identified, in some cases, by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "illustrate," "example," and "continue," or the singular, plural, negative or other derivations of these or other comparable terms. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Private Placement Memorandum are based on information available to such parties on the date hereof, and the Authority, the Government, and the Co-Placement Agents assume no obligation to update any such forward-looking statements. The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including, but not limited to, risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and

possible changes or developments in various important factors. Accordingly, actual results may vary from the projections, forecasts and estimates contained in this Private Placement Memorandum and such variations may be material, which could affect the ability to fulfill some or all of the obligations under the Series 2012A Bonds.

The Co-Placement Agents have reviewed the information in this Private Placement Memorandum in accordance with, and as part of, its responsibilities to investors under the Federal securities laws as applied to the facts and circumstances of this transaction, but the Co-Placement Agents do not guarantee the accuracy or completeness of such information.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS PRIVATE PLACEMENT MEMORANDUM IS BEING PROVIDED TO PROSPECTIVE PURCHASERS EITHER IN BOUND PRINTED FORM ("ORIGINAL BOUND FORMAT") OR IN ELECTRONIC FORMAT ON THE FOLLOWING WEBSITE: HTTP://WWW.MUNIOS.COM. THIS PRIVATE PLACEMENT MEMORANDUM MAY BE RELIED UPON ONLY IF IT IS IN ITS ORIGINAL BOUND FORMAT OR IF IT IS PRINTED IN FULL DIRECTLY FROM SUCH WEBSITE.

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APPENDICES

PRIVATE PLACEMENT MEMORANDUM

$142,640,000
VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
Revenue Bonds
(Virgin Islands Matching Fund Loan Note),
Series 2012A
(Working Capital)

INTRODUCTION

The Virgin Islands Public Finance Authority (the "Authority") has prepared this Private Placement Memorandum in connection with the sale of its $142,640,000 Virgin Islands Public Finance Authority Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2012A (Working Capital) (the "Series 2012A Bonds").

This Private Placement Memorandum consists of the cover page, inside cover page, the Table of Contents and each of the Appendices attached hereto. This Private Placement Memorandum is dated as of the date set forth on the cover page. The Series 2012A Bonds may not be suitable for all investors. Prospective purchasers of the Series 2012A Bonds should read this Private Placement Memorandum in its entirety. The descriptions and summaries of the various documents referred to herein do not purport to be comprehensive or definitive, and all such descriptions or summaries are qualified in their entirety by reference to the complete documents. Copies of the referenced documents are available at the offices of the Trustee (as defined below) at 10161 Centurion Parkway, Jacksonville, Florida 32256 (904-645-1912), and at the offices of the Authority at 32-33 Kongens Gade, Charlotte Amalie, St. Thomas, United States Virgin Islands 00802 (340-714-1635); Attention: Acting Director of Finance and Administration.

GENERAL DESCRIPTION OF THE BONDS

Authorization

The Series 2012A Bonds are being issued pursuant to (i) the Virgin Islands Revised Organic Act, 48 U.S.C. 1574, et seq. (West 1987) (the "Revised Organic Act"), the laws of the Virgin Islands including Title 29, Chapter 15 of the Virgin Islands Code, 2012 V.I. Act 7342, as amended, and other applicable law, as the same may be amended from time to time (collectively, with the Revised Organic Act, the "Act"), (ii) Resolution No. 12-009, adopted by the Authority on August 14, 2012 (the "Resolution"), and (iii) the Indenture of Trust, dated as of May 1, 1998, as previously amended and supplemented, and as further supplemented by the Seventh Supplemental Indenture of Trust, dated as of September 1, 2012 (collectively, the "Senior Indenture"), each by and between the Authority and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). The Trustee is located in Jacksonville, Florida, and will also act as Bond Registrar, Paying Agent, and Special Escrow Agent (each as defined herein) for the Series 2012A Bonds.

The Series 2012A Bonds will be secured by a special limited obligation Series 2012 Matching Fund Loan Note (the "Series 2012A Loan Note"), which will be issued to the Authority by the Government of the United States Virgin Islands (the "Government") pursuant to the Loan Agreement, dated as of September 1, 2012, by and among the Authority, the Trustee and the Government (the "Series 2012A Loan Agreement").

All capitalized terms not defined in this Private Placement Memorandum have the meanings ascribed to them in APPENDIX A – "Glossary of Certain Defined Terms."

Purpose of the Issue

The Series 2012A Bonds are being issued by the Authority to (i) provide a loan to the Government to be used for working capital required to finance certain operating expenses and other obligations of the Government (the "Working Capital Costs"), (ii) fund the Series 2012A Senior Lien Debt Service Reserve Subaccount (as defined herein) in an amount necessary to meet the allocable portion of the Series 2012A Debt Service Reserve Requirement (as defined herein), and (iii) pay the costs of issuing the Series 2012A Bonds. For more information on the Working Capital Costs to be financed by the proceeds of the Series 2012A Bonds, see "SOURCES AND USES OF FUNDS – Working Capital."

Security and Source of Payment

The Series 2012A Bonds, together with all outstanding Bonds issued under the Senior Indenture (the "Outstanding Senior Lien Bonds") and any Additional Bonds hereafter issued under the Senior Indenture, are payable and secured by a pledge of the Trust Estate (as defined herein), including, without limitation, the Series 2012A Loan Note. The Series 2012A Loan Note is a special limited obligation of the Government and is secured by the pledge and assignment of Federal excise taxes collected on rum produced in the Virgin Islands and exported to the United States (the "Matching Fund Revenues"). The Series 2012A Loan Note is secured on a parity basis with prior Matching Fund Loan Notes securing Outstanding Senior Lien Bonds and any Matching Fund Loan Notes securing any Additional Senior Lien Bonds issued under the Senior Indenture. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2012A BONDS."

Matching Fund Revenues

"Matching Fund Revenues" are those revenues received by the Government from the United States Department of the Treasury (the "Treasury"), through the Secretary of the United States Department of Interior ("DOI"), as a transfer of Federal excise taxes imposed and collected under the Internal Revenue Code of 1986, as amended (the "Code"), on any product that is subject to Federal excise tax that is produced in the Virgin Islands and exported to the United States, referred to herein as the "Matching Fund Act." Rum is the only product currently produced in the Virgin Islands and exported to the United States that is subject to the Matching Fund Act. In accordance with Federal law, Matching Fund Revenues have been transferred to the Government every year since 1954. See "MATCHING FUND REVENUES" and "THE RUM INDUSTRY."

PLAN OF DISTRIBUTION

Purchaser Representations

Each purchaser, by placing an order for the purchase of the Series 2012A Bonds, will be deemed to have made the following representations to the Co-Placement Agents (as defined below) and the Authority, and the sale of the Series 2012A Bonds to each purchaser is made in reliance thereon:

(i) Each purchaser of the Series 2012A Bonds has confirmed that the Series 2012A Bonds will be acquired for investment for such purchaser's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that such purchaser has no present intention of selling, granting any participation in, or otherwise distributing the Series 2012A Bonds. By purchasing the Series 2012A Bonds, each purchaser has further represented that such purchaser does not currently have any contract, undertaking, agreement, or arrangement with any person to sell, transfer, or grant participations to such person or to any third-party, with respect to any of the Series 2012A Bonds.

(ii) Each purchaser of the Series 2012A Bonds has confirmed its understanding that the offering of the Series 2012A Bonds is being made (a) in reliance on the private placement exemption of Rule 15c2-12 ("Rule 15c2-12") of the Securities Exchange Act of 1934 (the "Exchange Act"), (b) without registration under, and in reliance upon an exemption from, the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") and (c) only to institutional investors under applicable state "blue sky" securities laws, which are Qualified Buyers. A "Qualified Buyer," for purposes of this Private Placement Memorandum, means a Qualified Institutional Buyer as defined within the meaning of Rule 144A under the Securities Act (17 C.F.R. § 230.144A) ("Rule 144A"); provided, however, that, in the case of a family of investment companies as defined in Rule 144A that have the same investment adviser and own in the aggregate at least $100 million in securities other than the Series 2012A Bonds, each investment company member shall be considered a Qualified Buyer; and provided, however, that, a purchaser during the primary offering who, in the opinion of the Co-Placement Agents, otherwise satisfies the requirements of Section (d)(1) of Rule 15c2-12 without regard to their status as "qualified institutional buyer" shall (upon consent of the Authority) also be considered a Qualified Buyer. Each purchaser has also confirmed its understanding that any transfer or resale of the Series 2012A Bonds will be restricted to a Qualified Buyer until such time as the transfer and resale restrictions described herein are eliminated. See "– Elimination of Transfer and Resale Restrictions." There can be no guarantees that the events described in this paragraph will occur or that the transfer and resale restrictions for the Series 2012A Bonds will be eliminated.

(iii) Each purchaser of the Series 2012A Bonds has confirmed its understanding that no public market currently exists for the Series 2012A Bonds and that the Authority makes no assurances that any such public market for the Series 2012A Bonds will exist in the future.

(iv) Each purchaser of the Series 2012A Bonds has confirmed that at the time such purchaser was offered the Series 2012A Bonds, it was, and on the date it purchases the Series 2012A Bonds it is, a Qualified Buyer. Each purchaser has confirmed that it is not a broker-dealer registered under Section 15(a) of the Exchange Act or an entity engaged in the business of being a broker dealer.

(v) Each purchaser of the Series 2012A Bonds, either alone or together with its representatives, has represented that it has such knowledge, sophistication, and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Series 2012A Bonds and has so evaluated the merits and risks of such investment.

Each purchaser understands that it may be required to bear the economic risk of this investment in the Series 2012A Bonds indefinitely. Each purchaser has represented that it is able to bear such economic risk and would be able to afford a complete loss of its investment in the Series 2012A Bonds.

(vi) Each purchaser has acknowledged that the Co-Placement Agents are relying on the representations and warranties made by such purchaser to qualify for the private placement exemption set forth in Section (d)(1) of Rule 15c2-12.

Other Private Placement Information

It is expected that delivery of the Series 2012A Bonds will be made only in book-entry form through the same day funds settlement system of the Depository Trust Company ("DTC") on or about September 13, 2012. See "THE SERIES 2012A BONDS – Book-Entry-Only System."

There can be no assurance that a secondary market for the Series 2012A Bonds will develop or, if it does develop, that it will continue or that the prices at which the Series 2012A Bonds will sell in the market after this offering will not be lower or higher than the initial offering price.

Jefferies & Company, Inc. ("Jefferies") and Bostonia Global Securities LLC are serving as the co-placement agents for the Series 2012A Bonds (the "Co-Placement Agents") and may be contacted at their respective principal offices as follows: (i) Jefferies & Company, Inc., 520 Madison Avenue, 8th Floor, New York, NY 10022, telephone: (212) 336-7022 and (ii) Bostonia Global Securities LLC, One Exeter Plaza, 699 Boylston Street, 7th Floor, Boston, MA 02116, telephone: (617) 437-0150.

Elimination of Transfer and Resale Restrictions

Pursuant to the Placement Agreement (as defined herein), the Authority and the Government will advise in writing Jefferies, as Co-Placement Agent, or another qualified underwriter, when they determine that they are in compliance with their existing continuing disclosure agreements under Rule 15c2-12. Upon such determination, the Authority, at its own cost and expense, will engage the services of an independent third party, mutually agreeable to the Authority and Jefferies (or another qualified underwriter) to prepare a report as to whether the Authority and the Government are in compliance with their existing continuing disclosure agreements. If the report concludes that such compliance has been achieved, the Authority will prepare a notice that the requirements of Rule 15c2-12 have been satisfied (such notice to be posted on EMMA (as defined herein)). Upon (i) the receipt of the independent third party report that the Authority and the Government are in compliance with their respective continuing disclosure agreements, (ii) the posting of the notice described above, and (iii) the posting on EMMA of this Private Placement Memorandum (as the same may be amended or supplemented) plus any more recent disclosure documents prepared by the Authority or the Government relating to securities that are payable (on a senior or subordinate basis) from Matching Fund Revenues, the transfer and resale restrictions on the Series 2012A Bonds will cease. There can be no guarantees that the events described in this paragraph will transpire or that the transfer and resale restrictions for the Series 2012A Bonds will be eliminated.

Since 2005, the Government has not satisfied its continuing disclosure agreements to provide audited financial statements within 270 days after the end of its fiscal year. The filings for fiscal years 2005-2011 were made, or are expected to be made, between 20 and 30 months after the end of the respective fiscal years, and the next filing relating to fiscal year 2010 is expected to be made not earlier than 26 months after the end of that fiscal year. The Government's current aspiration is to file when due (June 30, 2014) the audited financial statements for the fiscal year ending September 30, 2013. The

Government advised in July 2010 that it had "established new policies and procedures that [it] believe[s] will ensure full and timely compliance with all continuing disclosure obligations in the future." However, although all other filing requirements have been met, the Government's failures to file timely annual audited financial statements nevertheless continued. Accordingly, the current aspirational date of compliance by June 30, 2014, must be read in that light. The Series 2012A Bonds are subject to transfer and resale restrictions until such time as the Authority and the Government are in compliance with their continuing disclosure agreements and meet all of the requirements set forth in the preceding paragraph.

There can be no assurances that the current aspirational date of compliance will be achieved or that the transfer and resale restrictions on the Series 2012A Bonds will be eliminated. The chart below summarizes the Government's actual and projected filings of its audited financial statements over the period covering fiscal years 2005 through 2011.

Fiscal Year Ending Sept. 30,	Filing Deadline under applicable Continuing Disclosure Agreement (270 Days after End of Fiscal Year)	Actual / Projected Date Filed	Period after Fiscal Year Ends
2005	June 30, 2006	January 18, 2008	28 months
2006	June 30, 2007	March 16, 2009	30 months
2007	June 30, 2008	October 15, 2009	25 months
2008	June 30, 2009	September 1, 2010	23 months
2009	June 30, 2010	July 25, 2011	22 months
2010	June 30, 2011	November 30, 2012	26 months
2011	June 30, 2012	May 31, 2013	20 months

See "CONTINUING DISCLOSURE" for more information on the continuing disclosure obligations of the Authority and Government.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

Purposes and Powers

The Authority was created by the Government Capital Improvement Act of 1988 (United States Virgin Islands Act No. 5365, as amended), as a public corporation and governmental instrumentality for the purposes of aiding the Government in the performance of its fiscal duties and effective carrying out of its governmental responsibility of raising capital for essential public projects. Under its enabling legislation, the Authority is vested with, but not limited to, the following powers: (i) to have perpetual existence as a corporation, (ii) to borrow money and issue bonds, (iii) to lend the proceeds of its bonds or other money to the Government or any agency, instrumentality, commission, authority, or political subdivision thereof or private enterprise in the Virgin Islands subject to the approval of the Legislature, (iv) to establish one or more revolving loan funds with the proceeds of bonds issued by the Authority or issued by the Government or any agency, instrumentality, commission, authority, or political subdivision thereof, (v) to encourage economic development through the issuance of special obligations to finance a project for the benefit of private parties which special obligations are payable out of revenue generated by the involved project and are payable to the Authority by said private party, (vi) to invest its funds and to arrange for the investment of the funds of the Government or any agency, instrumentality, commission, authority, or political subdivision thereof, (vii) to make contracts and issue guarantees and to execute all instruments necessary or convenient in the exercise of any of its powers, (viii) to accept grants or loans from, and enter into contracts and agreements with the government of the United States and any agency,

instrumentality, commission, authority, or political subdivision thereof and the Government and any agency, instrumentality, commission, authority, or political subdivision thereof and to apply the proceeds of any such grants or loans for any of its corporate purposes, (ix) to make, modify and repeal bylaws, rules and regulations, (x) to acquire, sell, lease, mortgage, pledge, dispose of or encumber property or interests therein, and (xi) to sue and be sued.

Management

The powers of the Authority are exercised by a board of directors (the "Board") consisting of seven members. The Governor of the Virgin Islands (the "Governor"), the Commissioner of Finance, and the Director of the Office of Management and Budget of the Virgin Islands ("OMB") are members of the Board, and serve ex-officio. The remaining members are appointed by the Governor with the advice and consent of the Legislature of the Virgin Islands (the "Legislature"). Of these remaining members, two must be residents of the District of St. Thomas-St. John and two must be residents of the District of St. Croix. Such remaining members must be experienced in municipal finance and not salaried officials or employees of the government of the United States or the Government. The Governor serves as Chairman of the Board. The Commissioner of Finance serves as the Authority's Executive Director. The Director of OMB serves as Secretary to the Authority.

The table below lists the current Board with their governmental positions or, for private sector representatives, their island of residency, and date of expiration of their current terms on the Board. The Governor of the Virgin Islands, the Commissioner of Finance and the Director of OMB serve terms that are coterminous with their terms in such offices. The Board members who represent the private sector serve four-year terms. Currently, there are two vacancies on the Board.

Name	Government Post or Profession/Residency	Term Expiration
The Honorable John P. deJongh, Jr., Chairman	Governor of the Virgin Islands	Ex-officio*
Angel E. Dawson, Jr., Executive Director	Commissioner of Finance	Ex-officio**
Debra E. Gottlieb	Director of the Office of Management and Budget	Ex-officio
Pablo O'Neill	Certified Public Accountant, St. Croix	2013
Keith C. O'Neale, Jr.	Business Owner, St. Croix	2013

* Term as Governor expires January 1, 2015.

** Serves at pleasure of Governor with advice and consent of the Legislature.

Angel E. Dawson, Jr. also serves as the Acting Director of Finance and Administration, which is the senior management position of the Authority, and is responsible for the administration and operation of the Authority. The Director of Finance and Administration is appointed by, and serves at the pleasure of, the Board.

Outstanding Indebtedness of the Authority

The table below lists the outstanding indebtedness of the Authority, including the name of the bonds or notes issued, the initial principal amount of such bonds or notes, and the principal amount of such bonds or notes outstanding as of July 1, 2012.

Name of Bonds/Notes	Initial Principal Amount	Amount Outstanding (July 1, 2012)
Senior Indenture and Subordinate Indenture Bonds Secured by Matching Fund Revenues[1]		
Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2004A	$94,000,000	$71,430,000
Revenue and Refunding Bonds (Virgin Islands Matching Fund Loan Notes), Series 2009A-1 (Senior Lien/Capital Projects/Tax-Exempt)	86,350,000	83,385,000
Revenue and Refunding Bonds (Virgin Islands Matching Fund Loan Notes), Series 2009B (Senior Lien/Refunding)	266,330,000	247,685,000
Revenue and Refunding Bonds (Virgin Islands Matching Fund Loan Notes), Series 2009C (Subordinate Lien/Refunding)	97,510,000	89,660,000
Revenue Bonds (Virgin Islands Matching Fund Loan Notes), Series 2010A (Senior Lien/Working Capital)	305,000,000	305,000,000
Revenue Bonds (Virgin Islands Matching Fund Loan Notes), Series 2010B (Subordinate Lien/Working Capital)	94,050,000	94,050,000
Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Note – Diageo Project), Series 2009A[2]	250,000,000	250,000,000
Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Note – Cruzan Project), Series 2009A[3]	39,190,000	38,075,000
The Authority also has issued the following series of bonds, none of which are secured by Matching Fund Revenues:		
Senior Indenture and Subordinate Indenture Bonds and Notes Secured by Gross Receipts Taxes[4]		
Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 1999A	299,880,000	74,165,000
Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2003A	268,020,000	245,325,000
Revenue Bonds (Virgin Islands Gross Receipts Taxes Loan Note), Series 2006	219,490,000	211,680,000
Subordinate Lien Revenue Bond Anticipation Notes (Virgin Islands Gross Receipts Taxes Loan Note), Series 2009A	8,000,000	5,053,133
Subordinate Lien Revenue Bond Anticipation Notes (Virgin Island Gross Receipts Taxes Loan Notes), Series 2009B (the "Series 2009B Notes")[5]	250,000,000	131,400,000
Subordinate Lien Revenue Bond Anticipation Note (Virgin Islands Gross Receipts Taxes Term Loan Note - Broadband Project)[6]	32,235,000	30,850,646
2011 Property Tax Revenue Anticipation Note (Virgin Islands Property Tax Revenue/Subordinate Lien Gross Receipts Taxes Loan Note)[7]	13,000,000	10,614,046
Tax Increment Revenue Bond Anticipation Notes (Virgin Islands Tax Increment Revenue Loan Note Island Crossings Shopping Center), Series 2009A	15,700,000	15,700,000
General Obligation Subordinate Lien Note (IGF)[8]	45,000,000	35,000,000

1. The Senior Indenture Bonds, which include the Series 2012A Bonds, have a lien on Matching Fund Revenues that is superior to the lien securing all bonds issued pursuant to the Subordinated Indenture of Trust, dated as of June 1, 2009, entered into with respect to the issuance of the Diageo Matching Fund Revenue Bonds (as defined below) (the "Diageo Subordinated Indenture"), and the Subordinated Indenture of Trust, dated as of December 1, 2009, entered into with respect to the issuance of the Cruzan Matching Fund Revenue Bonds (as defined below) (the "Cruzan Subordinated Indenture").
2. The Subordinated Diageo Matching Fund Revenue Bonds (the "Diageo Matching Fund Revenue Bonds") are special limited obligations of the Authority payable from and secured by a pledge of only that portion of Matching Fund Revenues collected on rum produced by Diageo USVI (the "Diageo Matching Fund Revenues").
3. The Subordinated Cruzan Matching Fund Revenue Bonds (the "Cruzan Matching Fund Revenue Bonds") are special limited obligations of the Authority payable from and secured by a pledge of only that portion of Matching Fund Revenues collected on rum produced by Cruzan VIRIL, Ltd. (the "Cruzan Matching Fund Revenues").
4. The Gross Receipts Taxes Bonds and Gross Receipts Taxes Notes are secured by Gross Receipts Taxes Loan Notes issued by the Government, which are payable primarily from Gross Receipts Taxes imposed and collected by the Government from individuals and entities doing business in the Virgin Islands (the "Gross Receipts Taxes Loan Notes"). The Gross Receipts Taxes Loan Notes constitute general obligations of the Government secured by the full faith and taxing power of the Government.
5. The Authority authorized the issuance of the Series 2009B Notes pursuant to the terms of the Working Capital Credit Facility (as defined below). The Series 2009B Notes mature, and the Working Capital Credit Facility expires, on October 1, 2012.
6. The Subordinate Lien Revenue Bond Anticipation Note issued for the Broadband Project is secured by a subordinate lien on Gross Receipts Taxes.
7. The 2011 Property Tax Revenue Anticipation Note is secured by a first priority lien on real property tax receipts and a second subordinate lien on Gross Receipt Taxes.
8. On October 12, 2010, the Authority entered into a standby credit facility with Banco Popular, issuing a draw-down note for an aggregate principal amount of up to $45,000,000 secured by a subordinate lien on Gross Receipts Taxes, in order to provide financial liquidity for payments from the Virgin Islands Insurance Guaranty Fund. No amounts are currently outstanding and the Authority expects to negotiate the termination of this facility, as required by 2012 V.I. Act 7342.

Future Borrowings

Subject to legislative approval, the Government expects to finance within fiscal year 2013 certain energy projects totaling approximately $35 million to further advance ongoing Territory-wide energy conservation efforts for Government facilities (the "Energy Conservation Project"). In addition, the Working Capital Credit Facility matures on October 1, 2013 and may be extended, at the option of the lenders upon the written request by the Government 240 days prior to such date, or refinanced with bonds secured by Matching Fund Revenues or Gross Receipts Taxes, subject to legislative approval. The Government also expects to refinance the $32,235,000 Subordinate Lien Revenue Bond Anticipation Note (Virgin Islands Gross Receipts Taxes Term Loan Note - Broadband Project) issued April 29, 2011 (the "Broadband Project") within the next two fiscal years. The financing of the Energy Conservation Project and the refinancing of the Broadband Project may be secured by either Matching Fund Revenues or Gross Receipts Taxes.

In 2012, the Government also anticipates refinancing the Tax Increment Revenue Bond Anticipation Notes (Virgin Islands Tax Increment Revenue Loan Note/Island Crossings Shopping Center), Series 2009A, which will be secured by incremental Gross Receipts Taxes and incremental real property taxes associated with such project.

The Government also expects to finance certain capital projects in 2012 and is seeking legislative approval for such a financing, which financing may be secured by Matching Fund Revenues or Gross Receipts Taxes.

THE SERIES 2012A BONDS

General

The Series 2012A Bonds will be dated their date of delivery, and will bear interest at the rates and will mature on the dates set forth on the inside cover of this Private Placement Memorandum. Interest on the Series 2012A Bonds will be payable on April 1 and October 1, commencing on April 1, 2013. The Series 2012A Bonds are subject to redemption at the times and in the manner set forth in "– Redemption" below. Pursuant to the Senior Indenture, the Authority has appointed the Trustee as Bond Registrar, Paying Agent, and Special Escrow Agent for the Series 2012A Bonds. Interest on the Series 2012A Bonds shall be calculated on the basis of a 360-day year consisting of twelve 30-day months and will be payable to Cede & Co., or such other owner of record as shown in the registration books of the Authority maintained by the Paying Agent as Registrar. The Series 2012A Bonds will be available in minimum denominations of $100,000 and integral multiples of $5,000 in excess thereof, in book-entry-only form as described below.

Book-Entry-Only System

DTC will act as securities depository for the Series 2012A Bonds. The Series 2012A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2012A Bonds, and will be deposited with DTC. For more information regarding the book-entry only system, see APPENDIX G – "Book-Entry-Only System."

Redemption

Optional Redemption. The Series 2012A Bonds maturing on or after October 1, 2023, are subject to optional redemption by the Authority on or after October 1, 2022, in whole or in part at any time, from such maturities as directed by the Authority, from any moneys that may be available for such purpose, at a redemption price of 100% of the principal amount thereof plus interest accrued to the redemption date.

Mandatory Sinking Fund Redemption. The Series 2012A Bonds maturing on October 1, 2022 are required to be redeemed prior to maturity on October 1 in the years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

Year (October 1)	Amount	Year (October 1)	Amount
2014	$800,000	2019	$1,000,000
2015	$825,000	2020	$1,100,000
2016	$850,000	2021	$1,150,000
2017	$900,000	2022†	$1,250,000
2018	$950,000		

†Final maturity.

The Series 2012A Bonds maturing on October 1, 2027, are required to be redeemed prior to maturity on October 1, in the years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

Year	Amount
2023	$1,300,000
2024	$1,400,000
2025	$1,500,000
2026	$1,600,000
2027†	$1,700,000

†Final maturity.

The Series 2012A Bonds maturing on October 1, 2032, are required to be redeemed prior to maturity on October 1, in the years and amounts upon payment of 100% of the principal amount thereof plus interest accrued to the redemption date, as follows:

Year	Amount
2028	$1,800,000
2029	$1,900,000
2030	$38,845,000
2031	$40,835,000
2032†	$42,935,000

†Final maturity.

Other Redemption. Pursuant to the Series 2012A Loan Agreement and in accordance with 2009 V.I. Act 7064, as amended, the Government has covenanted, commencing October 1, 2012, to (i) annually set aside 4% of the Matching Fund Revenues transferred to the Government pursuant to the Cruzan and Diageo Agreements and the Cruzan and the Diageo Subordinated Indentures, and (ii) apply that amount first toward repayment of the outstanding principal due on the Working Capital Credit Facility (as defined below), if any, and next for early optional redemption or purchase of outstanding bonds issued for working capital purposes, including the Series 2012A Bonds. Such early redemption of the Series 2012A Bonds, however, will not occur prior to October 1, 2022.

Selection; Notice of Redemption

If less than all of the Series 2012A Bonds are called for redemption, they will be called in such order of maturity as the Authority may determine. If less than all of the Series 2012A Bonds of any maturity are called for redemption, such Series 2012A Bonds to be redeemed will be selected by DTC or any successor securities Depository pursuant to its rules and procedures or, if the book-entry system is discontinued, will be selected by the Trustee by lot in such manner as the Trustee in its discretion may determine. The portion of any Series 2012A Bond to be redeemed will be in the principal amount of $100,000 and integral multiples of $5,000 in excess thereof. In selecting Series 2012A Bonds for redemption, each Series 2012A Bond will be considered as representing that number of Series 2012A Bonds which is obtained by dividing the principal amount of such Series 2012A Bond by $100,000. If a portion of a Series 2012A Bond will be called for redemption, a new Series 2012A Bond in the principal

amount equal to the unredeemed portion thereof will be issued to the registered owner upon the surrender thereof.

Notice of any redemption will be mailed by the Trustee not more than 60 nor less than 30 days prior to the date fixed for the redemption thereof, to each registered holder of the Series 2012A Bonds selected for redemption. The Authority, so long as a book-entry-only method is used for the Series 2012A Bonds, will send any such notice of redemption only to DTC.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2012A BONDS

General

The Series 2012A Bonds are payable from, and secured by, a pledge of the Trust Estate which includes certain funds and accounts established under the Senior Indenture and the Series 2012A Loan Note.

Series 2012A Bonds

The Series 2012A Bonds are payable from and secured by a pledge of the Trust Estate which includes: (i) all amounts deposited or required to be deposited in the Pledged Revenue Account, the Series 2012A Debt Service Subaccount and the Series 2012A Debt Service Subaccount created under the Senior Indenture; (ii) the Series 2012A Loan Note, and the proceeds and collections therefrom; (iii) all of the Authority's right and title to, and interest in the Series 2012A Loan Agreement; (iv) all of the Authority's right and title to, and interest in, the Matching Fund Revenues; and (v) any and all other property or security interest therein, of every name and nature from time to time hereafter by delivery or by writing of any kind granted, bargained, sold, conveyed, transferred, mortgaged, pledged and assigned as and for additional security under the Senior Indenture.

The Series 2012A Bonds are secured on a parity basis with all Outstanding Senior Lien Bonds and any Additional Senior Lien Bonds.

THE SERIES 2012A BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY. PRINCIPAL, PREMIUM, IF ANY AND INTEREST ON THE SERIES 2012A BONDS ARE PAYABLE SOLELY FROM THE PROCEEDS OF REPAYMENT OF THE SERIES 2012A LOAN NOTE AND OTHER AMOUNTS PLEDGED PURSUANT TO THE SENIOR INDENTURE AS DESCRIBED HEREIN.

THE SERIES 2012A BONDS DO NOT CONSTITUTE A GENERAL OBLIGATION OF THE AUTHORITY, THE GOVERNMENT OR THE UNITED STATES OF AMERICA. THE AUTHORITY HAS NO TAXING POWER. THE MATCHING FUND REVENUES PLEDGED TO PAY DEBT SERVICE ON THE SERIES 2012A BONDS ARE DERIVED FROM THE SERIES 2012A LOAN NOTE WHICH IS A SPECIAL LIMITED OBLIGATION OF THE GOVERNMENT. THE TAXING POWER OF THE GOVERNMENT IS NOT PLEDGED TO THE SERIES 2012A LOAN NOTE OR THE SERIES 2012A BONDS. THE SERIES 2012A LOAN NOTE IS SECURED SOLELY BY A PLEDGE OF THE MATCHING FUND REVENUES. THE SERIES 2012A LOAN NOTE DOES NOT CONSTITUTE A GENERAL OBLIGATION OF THE UNITED STATES OF AMERICA, NOR SHALL THE UNITED STATES OF AMERICA BE LIABLE THEREON.

Series 2012A Loan Note

The Series 2012A Bonds will be secured by the Series 2012A Loan Note issued by the Government pursuant to the Series 2012A Loan Agreement. The Government will be obligated under the Series 2012A Loan Note (i) to make payments to the Authority solely from the Matching Fund Revenues in amounts sufficient to pay all principal, premium, if any, and interest on the Series 2012A Bonds when due and (ii) to make the amount on deposit in the Series 2012A Debt Service Reserve Subaccount, equal to the Series 2012A Debt Service Reserve Requirement, pursuant to the terms of the Seventh Supplemental Indenture and the Senior Indenture.

The Series 2012A Loan Note is a special limited obligation of the Government, secured solely by a pledge and assignment of the Matching Fund Revenues on a parity basis with the prior Matching Fund Loan Notes securing Outstanding Senior Lien Bonds and any Matching Fund Loan Notes securing any Additional Senior Lien Bonds. The Series 2012A Loan Note shall bear interest from the issue date, payable semi-annually, with principal payable annually from the Matching Fund Revenues on deposit in the Special Escrow Fund, but in no event later than the second Business Day preceding April 1 and October 1 of each year, commencing the second Business Day next preceding April 1, 2013, and ending on the second Business Day next preceding the final maturity of the Series 2012A Loan Note. The Series 2012A Loan Note may, at the option of the Government, be redeemed, in whole or in part, prior to maturity at the times, in the manner of and in the same maturities as any optional redemption of the Series 2012A Bonds and at a redemption price equal to the Series 2012A Bonds.

The Government will issue the Series 2012A Loan Note in anticipation of the receipt of the Matching Fund Revenues in an amount in excess of that which is required to (i) pay the Matching Fund Loan Note previously issued to secure the Outstanding Senior Lien Bonds and the Outstanding Subordinate Lien Bonds and (ii) pay the principal of, premium, if any and interest due on the Series 2012A Loan Note. No assurances can be given, however, as to the sufficiency of Matching Fund Revenues for such purposes. See "MATCHING FUND REVENUES."

Series 2012A Loan Agreement

Under the Series 2012A Loan Agreement, the Authority will lend to the Government the sum of $142,640,000, and the Government's obligation to repay such loan will be evidenced by the Series 2012A Loan Note. Pursuant to the Series 2012A Loan Agreement, the Government will pledge and assign its interests in the Matching Fund Revenues and the Special Escrow Agreement (as defined below) to the Trustee as security for the payment of the Series 2012A Loan Note. The Government is obligated to repay the Series 2012A Loan Note in annual installments in accordance with a principal maturity schedules corresponding to the Series 2012A Bonds.

Pursuant to the Series 2012A Loan Agreement, the Government has covenanted, among other things, to take all actions necessary to preserve, protect and enhance the pledge of the Matching Fund Revenues and to request that the United States deliver and take all steps necessary to ensure the receipt, and the maximization, of the Matching Fund Revenues to be received pursuant to Section 28(b) of the Revised Organic Act. The Government has further covenanted not to take any action or fail to take any actions that would in any way impair the Government's right to receive the maximum amount of Matching Fund Revenues to which it may be entitled. In the event that the Federal government discontinues the payment of Matching Fund Revenues to the Government, the Government covenants to substitute another stream of revenues in lieu thereof (the "Substitute Revenues") and to use its best efforts to pledge such Substitute Revenues to repayment of the Series 2012A Loan Note. The Authority also has covenanted in the Series 2012A Loan Agreement to use its best efforts to cause the Government to comply with the terms and the covenants set forth in the Series 2012A Loan Agreement. The

Government also has covenanted to comply with the requirements of the Cruzan Agreement and the Diageo Agreement (as defined below) to provide certain economic development incentives. See APPENDIX C – "Summary of Certain Provisions of the Series 2012A Loan Agreement", "CRUZAN – The Cruzan Agreement" and "DIAGEO – The Diageo Agreement."

Pursuant to the Series 2012A Loan Agreement and in accordance with 2009 V.I. Act 7064, as amended, the Government has covenanted, commencing October 1, 2012, to (i) annually set aside 4% of the Matching Fund Revenues transferred to the Government pursuant to the Cruzan and Diageo Agreements and the Cruzan and the Diageo Subordinated Indentures, and (ii) apply that amount first toward repayment of the outstanding principal due on the Working Capital Credit Facility, if any, and next for early optional redemption or purchase of outstanding bonds issued for working capital purposes, including the Series 2012A Bonds. Such early redemption of the Series 2012A Bonds, however, will not occur prior to October 1, 2022.

Special Escrow Agreement

The Government, the Authority and The Bank of New York Mellon Trust Company, N.A., as Special Escrow Agent, have entered into a Special Escrow Agreement dated as of May 1, 1998, as previously amended and supplemented, and the Amended and Restated Special Escrow Agreement, dated as of September 1, 2012, by and among the same parties (collectively, the "Special Escrow Agreement"), which provides for the deposit of Matching Fund Revenues into the Special Escrow Account to be transferred to the Trustee for payment of debt service on all Bonds outstanding under the Senior Indenture that are due in the next fiscal year, and the funding of any deficiencies in the Debt Service Reserve Account for the Bonds issued under the Senior Indenture, prior to the transfer of any excess Matching Fund Revenues to the Government, the Cruzan Special Escrow Agent and the Diageo Special Escrow Agent for application pursuant to the Cruzan Special Escrow Agreement and the Diageo Special Escrow Agreement (each as defined and discussed below), respectively.

The Government has notified the DOI, Office of Insular Affairs of the execution of the Special Escrow Agreement and has instructed the DOI to transmit all Matching Fund Revenues to the Special Escrow Agent. See "MATCHING FUND REVENUES" for a description of the process of collection and remittance of Matching Fund Revenues to the Government.

Diageo Matching Fund Revenues

In connection with the issuance of the Diageo Matching Fund Revenue Bonds, the Government, the Authority and The Bank of New York Mellon Trust Company, N.A., as Diageo Special Escrow Agent (the "Diageo Special Escrow Agent"), entered into the Diageo Special Escrow Agreement, dated as of June 1, 2009 ("Diageo Special Escrow Agreement"), pursuant to which Diageo Matching Fund Revenues not required to satisfy any payment obligations related to the Bonds issued under the Senior Indenture are transferred by the Special Escrow Agent to the Diageo Special Escrow Agent, in the amount certified by the Diageo Calculation Agent (as defined below), and are used to pay debt service on the Diageo Matching Fund Revenue Bonds and to make other payments to the Government and Diageo USVI as required pursuant to the Diageo Agreement (the "Diageo Incremental Cover Over Revenues"). See "DIAGEO – The Diageo Agreement."

In connection with the issuance of the Diageo Matching Fund Revenue Bonds, the Government, the Authority, Diageo USVI, the Diageo Special Escrow Agent and Deloitte (Virgin Islands) LTD., as Calculation Agent (the "Diageo Calculation Agent"), have entered into a Calculation Agent Agreement, dated as of August 1, 2011, to provide for the calculation and certification of the Diageo Matching Fund Revenues and the Diageo Incremental Cover Over Revenues.

Cruzan Matching Fund Revenues

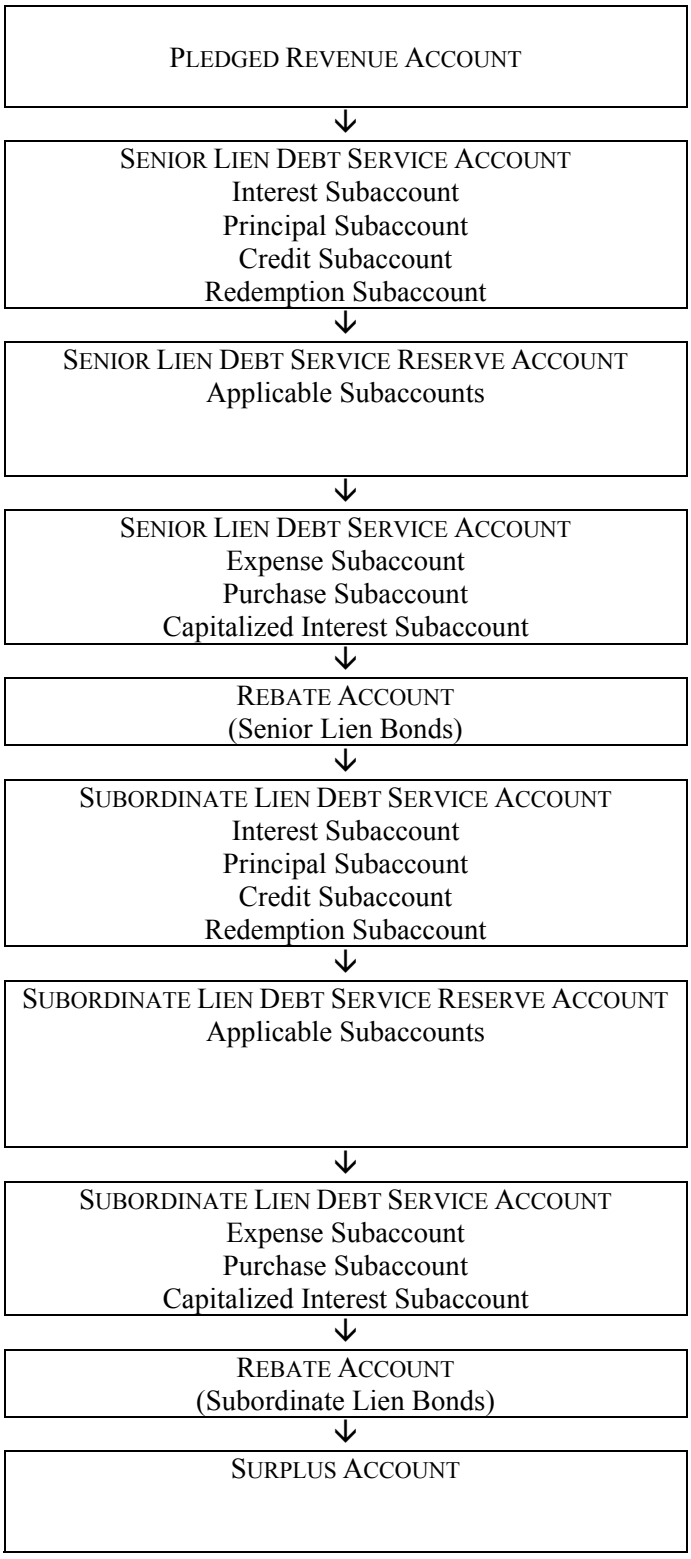
In connection with the issuance of the Cruzan Matching Fund Revenue Bonds, the Government, the Authority and The Bank of New York Mellon Trust Company, N.A., as Cruzan Special Escrow Agent (the "Cruzan Special Escrow Agent"), entered into the Cruzan Special Escrow Agreement, dated as of December 1, 2009 (the "Cruzan Special Escrow Agreement"), pursuant to which Cruzan Matching Fund Revenues not required to satisfy any payment obligations related to the Bonds issued under the Senior Indenture are transferred by the Special Escrow Agent to the Cruzan Special Escrow Agent, in the amount certified by the Cruzan Calculation Agent (as defined below), and are used to pay debt service on the Cruzan Matching Fund Revenue Bonds and to make other payments to the Government and Cruzan as required pursuant to the Cruzan Agreement (the "Cruzan Incremental Cover Over Revenues"). See "CRUZAN – The Cruzan Agreement."

In connection with the issuance of the Cruzan Matching Fund Revenue Bonds, the Government, the Authority, Cruzan, the Cruzan Special Escrow Agent and Bert Smith & Co., as Calculation Agent (the "Cruzan Calculation Agent"), have entered into a Calculation Agent Agreement, dated as of August 1, 2011, to provide for the calculation and certification of the Cruzan Matching Fund Revenues and the Cruzan Incremental Cover Over Revenues.

Flow of Funds

Matching Fund Revenues collected by the Treasury on rum exported to the United States are transferred through DOI to the Government. At the direction of the Government and in accordance with the provisions of the Special Escrow Agreement, the Matching Fund Revenues are deposited into the Special Escrow Account held by the Special Escrow Agent and applied to make payments in accordance with the Senior Indenture. Pursuant to the Senior Indenture, Matching Fund Revenues are deposited into the Pledged Revenue Account and then applied as set forth on the following page.

Flow of Matching Fund Revenues - Senior Indenture Bonds



Deposit All Matching Fund Revenues, including Cruzan Matching Fund Revenues and Diageo Matching Fund Revenues

(1) to the Senior Lien Debt Service Account, and the subaccounts therein, to pay interest, principal, credit facility obligations and redemption price of Senior Lien Bonds

(2) to the Senior Lien Debt Service Reserve Account, and any subaccounts therein, to pay any amounts required to satisfy the Debt Service Requirement on the applicable Senior Lien Bonds

(3) to the Senior Lien Debt Service Account, and the subaccounts therein, to pay expenses, purchase price and capitalized interest on Senior Lien Bonds

(4) to the Rebate Account to pay rebate on Senior Lien Bonds

(5) to the Subordinate Lien Debt Service Account, and any subaccounts therein, to pay interest, principal, credit facility obligations and redemption price of Subordinate Lien Bonds

(6) to the Subordinate Lien Debt Service Reserve Account, and any subaccounts therein, to pay any amounts required to satisfy the Debt Service Reserve Requirement on the applicable Subordinate Lien Bonds

(7) to the Subordinate Lien Debt Service Account, and any subaccounts therein, to pay expenses, purchase price and capitalized interest on Subordinate Lien Bonds

(8) to the Rebate Account to pay rebate on Subordinate Lien Bonds

(9) to the Surplus Account for use pursuant to the Senior Indenture, the Cruzan Agreement and the Diageo Agreement

Pursuant to the Senior Indenture, amounts in the Surplus Account may be (i) transferred to the Debt Service Accounts and the Debt Service Reserve Accounts to maintain the required balances if no other funds are available for such purposes, (ii) transferred to the Construction Account to pay cost of approved projects and (iii) used for any other purpose as directed by the Authority or authorized by law. Pursuant to the Special Escrow Agreement, however, the Authority and the Government have agreed to transfer all amounts in the Surplus Account to the Government, the Cruzan Special Escrow Agent and the Diageo Special Escrow Agent for application in accordance with the respective terms of the Cruzan Special Escrow Agreement and the Diageo Special Escrow Agreement, as described below.

Amounts in the Surplus Account equal to the surplus Diageo Matching Fund Revenues after payment of all amounts required under the Senior Indenture, including the replenishment of any deficiency in a Debt Service Reserve Subaccount (the "Available Diageo Matching Fund Revenues"), as certified by the Diageo Calculation Agent, will be transferred to the Diageo Special Escrow Agent for deposit into the Diageo Pledged Revenue Account and will be applied by the Diageo Special Escrow Agent in accordance with the terms of the Diageo Agreement.

Amounts in the Surplus Account equal to the Cruzan Matching Fund Revenues after payment of all amounts required under the Senior Indenture, including the replenishment of any deficiency in a Debt Service Reserve Subaccount (the "Available Cruzan Matching Fund Revenues"), as certified by the Cruzan Calculation Agent, will be transferred to the Cruzan Special Escrow Agent for deposit into the Cruzan Pledged Revenue Account and will be applied by the Cruzan Special Escrow Agent in accordance with the Cruzan Agreement.

Debt Service Reserve Account

In connection with the issuance of the Series 2012A Bonds, the Trustee will fund the Series 2012A Debt Service Reserve Subaccount with a deposit from the proceeds of the Series 2012A Bonds in an amount equal to the allocable portion of the Series 2012A Debt Service Reserve Requirement. A valuation of the Series 2012A Debt Service Reserve Subaccount will be made on September 1 in each year pursuant to the Senior Indenture. In the event the amount on deposit in the Series 2012A Debt Service Reserve Subaccount is less than the Series 2012A Debt Service Reserve Requirement because of any valuation of the investment securities or due to a payment made from such subaccount to cure any deficiency on any Interest Payment Date or Principal Payment Date, the Authority is required to restore the deficiency with transfers of Matching Fund Revenues as described below. The Trustee shall notify the Authority and the Special Escrow Agent of the amount of the deficiency or excess, if any, in the Series 2012A Debt Service Reserve Subaccount.

No later than the second Business Day preceding the first day of the next Bond Year (which is defined in the Senior Indenture as the fiscal year commencing October 1) (after the transfers, if any, to the Series 2012A Debt Service Reserve Subaccount pursuant to the Senior Indenture), the Authority shall transfer or provide for the transfer of Matching Fund Revenues then on deposit in the Special Escrow Fund established under the Special Escrow Agreement with respect to the Senior Lien Debt Service Reserve Account to the Trustee for deposit in the Series 2012A Debt Service Reserve Subaccount an amount not exceeding the aggregate amount necessary, together with the amount already on deposit in the Series 2012A Debt Service Reserve Subaccount to make the amount on deposit in the Series 2012A Debt Service Reserve Subaccount equal to the Series 2012A Debt Service Reserve Requirement. The Trustee shall send written direction to the Special Escrow Agent (with a copy to the Authority) to transfer such amount, to the extent available after transfer pursuant to the Senior Indenture, from the Special Escrow Fund established under the Special Escrow Agreement.

The Series 2012A Debt Service Reserve Requirement is the amount equal to the least of (i) the maximum principal and interest due on the Series 2012A Bonds in the current or any future fiscal year, (ii) 10% of the original stated principal amount of the Series 2012A Bonds (or 10% of the issue price of the Series 2012A Bonds if required by the Code), or (iii) 125% of the average annual principal and interest due on the Series 2012A Bonds in the current and each future fiscal year. The Series 2012A Debt Service Reserve Requirement is equal to $14,826,836.96.

Additional Bonds

As provided in the Senior Indenture, all Senior Lien Bonds issued under a Supplemental Indenture collectively shall have a first lien upon the Trust Estate. So long as no Event of Default has occurred and is continuing, the Authority may from time to time enter into a Supplemental Indenture providing for the issuance of Additional Bonds pursuant to the Senior Indenture, which Additional Bonds will be on parity with other Bonds of the same lien issued under the Senior Indenture.

Additional Senior Lien Bonds may be issued if the conditions set forth in the Senior Indenture are met, including that (i) the average Matching Fund Revenues received by the Government for the immediately preceding three fiscal years prior to the issuance of such Additional Senior Lien Bonds equaled or exceeded 150% of the amount of maximum annual Adjusted Debt Service Requirement (including such proposed Additional Senior Lien Bonds) in the current or any subsequent Bond Year, (ii) the average Matching Fund Revenues projected to be received by the Government in the next succeeding two fiscal years following the issuance of the Additional Bonds, without regard to the projected Diageo Incremental Cover Over Revenues or the projected Cruzan Incremental Cover Over Revenues, as certified by the Calculation Agent, are equal to or exceed 150% of the Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Senior Lien Bonds and such Additional Senior Lien Bonds, and (iii) the average Matching Fund Revenues projected to be received by the Government for the next succeeding two fiscal years following the issuance of the Additional Senior Lien Bonds, without regard to the projected Diageo Incremental Cover Over Revenues or the projected Cruzan Incremental Cover Over Revenues, as certified by the Calculation Agent, is projected to equal or exceed 120% of the Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Senior Lien Bonds, such Additional Senior Lien Bonds and Outstanding Subordinate Lien Bonds.

The Authority has the ability to issue other bonds, notes or other evidences of indebtedness that are not secured by the Senior Indenture and are not secured by a pledge of Matching Fund Revenues.

SOURCES AND USES OF FUNDS

The sources and uses of the proceeds of the Series 2012A Bonds are set forth below:

SOURCES OF FUNDS	
Par Amount	$142,640,000.00
Original Issue Premium	5,628,369.60
Total Sources	**$148,268,369.60**
USES OF FUNDS	
Deposit to Government's General Fund	$ 70,000,000.00
Deposit to the Series 2012A Project Subaccount	60,000,000.00
Deposit to Series 2012A Debt Service Reserve Subaccount	14,826,836.96
Costs of Issuance[1]	3,441,532.64
Total Uses[2]	**$148,268,369.60**

1. The Costs of Issuance of the Series 2012A Bonds include legal fees, Trustee fees, financial advisor fees, Placement Fee, and other costs incurred in connection with the issuance of the Series 2012A Bonds.
2. Totals may not add due to rounding.

Working Capital

In recent fiscal years, the Government has experienced substantial fluctuations in revenues and expenditures and recurring deficits.

To finance working capital needs and other Government obligations since fiscal year 2009, the Government has used multiple working capital financings, including drawings from a working capital credit facility entered into in fiscal year 2009 with FirstBank Puerto Rico for up to $150 million and Banco Popular de Puerto Rico for up to $100 million (collectively, the "Initial Working Capital Credit Facility") and the issuance of $399 million of working capital bonds under the Senior Indenture in fiscal year 2010 (the "Series 2010 Bonds"). In fiscal year 2010, the Initial Working Capital Credit Facility was refunded in part with proceeds of the Series 2010 Bonds and reinstated in an aggregate principal amount of $131.4 million (the "Working Capital Credit Facility"). As of the date hereof, the Government has drawn down the full balance of the $131.4 million from the Working Capital Credit Facility.

Historically, the Government has had difficulty producing audited financial statements in a timely manner. Its most recent audited financial statements are those for fiscal year 2009. Based on unaudited results, however, the Government estimates it ended fiscal year 2010 with a shortfall of revenues over expenditures of approximately $302.5 million. The Government funded approximately $299 million of the shortfall from the Working Capital Credit Facility and proceeds of the Series 2010 Bonds.

The Government estimates it ended fiscal year 2011 with a shortfall of revenues over expenditures of approximately $215.7 million. The Government funded approximately $212.8 million of the shortfall from draws under the Working Capital Credit Facility, internal borrowing, delayed income tax refunds, draws from the stabilization funds from the American Recovery and Reinvestment Act of 2009 and transfers from other funds and accounts established for other than working capital purposes.

Currently, OMB projects a shortfall of revenues over expenditures of approximately $60 million in fiscal year 2012, approximately $35 million in fiscal year 2013 and approximately $25 million in fiscal year 2014. The Authority expects to use a portion of the proceeds of the Series 2012A Bonds to make a

loan to the Government to finance a portion of the Government's working capital expenditures for each of fiscal years 2012, 2013 and 2014. The Government intends to meet the balance of any revenue shortfalls in those fiscal years through continued expenditure reductions and revenue initiatives. See "CERTAIN BONDHOLDER RISKS – Transfer and Resale Restrictions, No Public Market, and Financial Condition of the Government" and APPENDIX D – "INFORMATION REGARDING THE UNITED STATES VIRGIN ISLANDS – Financial Position of the Government."

DEBT SERVICE REQUIREMENTS

The table below sets forth the debt service on all Bonds outstanding under the Senior Indenture and the Series 2012A Bonds.

		Debt Service on the Series 2012A Bonds			
Fiscal Year (September 30)	Outstanding Debt Service	Principal	Interest	Total	Total Debt Service
2013	$58,136,306		$3,874,063	$ 3,874,063	$ 62,010,369
2014	58,131,706		7,043,750	7,043,750	65,175,456
2015	58,132,581	$ 800,000	7,027,750	7,827,750	65,960,331
2016	58,136,513	825,000	6,995,250	7,820,250	65,956,763
2017	58,133,875	850,000	6,961,750	7,811,750	65,945,625
2018	58,131,406	900,000	6,926,750	7,826,750	65,958,156
2019	58,135,972	950,000	6,889,750	7,839,750	65,975,722
2020	58,134,019	1,000,000	6,850,750	7,850,750	65,984,769
2021	58,132,588	1,100,000	6,808,750	7,908,750	66,041,338
2022	58,133,644	1,150,000	6,763,750	7,913,750	66,047,394
2023	58,132,519	1,250,000	6,715,750	7,965,750	66,098,269
2024	58,134,550	1,300,000	6,658,250	7,958,250	66,092,800
2025	58,134,488	1,400,000	6,590,750	7,990,750	66,125,238
2026	58,133,000	1,500,000	6,518,250	8,018,250	66,151,250
2027	58,135,125	1,600,000	6,440,750	8,040,750	66,175,875
2028	58,134,625	1,700,000	6,358,250	8,058,250	66,192,875
2029	58,135,500	1,800,000	6,270,750	8,070,750	66,206,250
2030	58,131,500	1,900,000	6,178,250	8,078,250	66,209,750
2031	5,481,000	38,845,000	5,159,625	44,004,625	49,485,625
2032	5,481,125	40,835,000	3,167,625	44,002,625	49,483,750
2033	5,477,375	42,935,000	1,073,375	44,008,375	49,485,750
2034	5,479,250	-	-	-	5,479,250
2035	5,481,125	-	-	-	5,481,125
2036	5,477,625	-	-	-	5,477,625
2037	5,478,250	-	-	-	5,478,250
2038	5,477,375	-	-	-	5,477,375
2039	5,479,375	-	-	-	5,479,375
2040	5,478,625	-	-	-	5,478,625
Total	$1,101,201,041	$142,640,000	$127,273,938	$269,913,938	$1,371,114,978

MATCHING FUND REVENUES

General

Pursuant to the Matching Fund Act, the Secretary of the Treasury is directed to make transfers to the Government of certain excise taxes imposed and collected under the Code in any fiscal year on certain products produced in the Virgin Islands and exported to the United States mainland from the Virgin Islands. Rum is the only product currently produced in the Virgin Islands and exported to the United States that is subject to Federal excise tax that qualifies for transfer to the Government under the applicable provisions of the Revised Organic Act and the Code. The term "Matching Fund Revenues" is used to denote the payments that are transferred to the Government.

The Treasury collects the Federal excise taxes levied on rum exported to the United States from the Virgin Islands, whether the rum is shipped to the United States in bulk or the rum is bottled in the Virgin Islands, and submits monthly reports of the Federal excise tax revenues collected to the DOI.

In September of each year, the Governor requests a Matching Fund Revenue prepayment from the DOI that is calculated by OMB based on an estimate of the amount of Federal excise taxes to be collected in the ensuing fiscal year taking into account any required adjustments. Based on the Governor's request, the DOI calculates the amount of the Federal excise taxes that will be transferred to the Virgin Islands and requests the Treasury to transfer the prepayment for the ensuing fiscal year to the Special Escrow Account of the Government held by the Special Escrow Agent prior to September 30 of that fiscal year. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2012A BONDS – Special Escrow Agreement" and "– Flow of Funds."

This prepayment is subject to subsequent adjustment based on the amount of Matching Fund Revenues actually received by the Government and the amount of Federal excise taxes actually collected by the Treasury during each fiscal year. Any adjustments to such prepayment are made in the second succeeding fiscal year after the prepayment is received by the Government. Adjustment payments also may be requested by the Governor and made by the DOI during a fiscal year. The amount required to be remitted to the Government by the Secretary of the Treasury is limited to an amount no greater than the total amount of local duties, taxes and fees collected by the Government in the applicable fiscal year.

The Federal excise tax on rum exports from the Virgin Islands to the United States currently accounts for all of the Matching Fund Revenues. Until recently, the only producer of rum in the Virgin Islands was Cruzan. Pursuant to the Diageo Agreement, Diageo USVI agreed to build the Diageo Project on St. Croix for production of all of its Captain Morgan rum for export to the United States. The Diageo Project, including the Visitors Center, was completed in March 2012 and shipments of rum to the United States produced from the Diageo Project commenced in or around February 2012. See "CRUZAN", "DIAGEO", "THE RUM INDUSTRY" and APPENDIX E – "Global Insight Report – Verification and Projection of Matching Fund Revenues from Rum Shipments to the U.S."

Cover Over Rate

The Federal excise tax and the Federal excise tax per proof gallon remitted by the Treasury back to the Government (the "Cover Over Rate") are set by Congress and codified in Sections 5001(a)(1) and 7652(f) of the Code. The Federal excise tax on distilled spirits produced in, or imported into, the United States has over the years ranged from $10.50 per proof gallon to $13.50 per proof gallon. Until 1984, the entire amount of such excise tax qualified for transfer to the Government. As part of the Deficit Reduction Act of 1984, Congress increased the Federal excise tax on distilled spirits from $10.50 per proof gallon to $12.50 per proof gallon, but capped the Cover Over Rate at $10.50 per proof gallon. As part of the Omnibus Budget Reconciliation Act of 1990, Congress again increased the Federal excise tax rate on distilled spirits to $13.50 per proof gallon, but maintained the cap on the Cover Over Rate at $10.50. As part of the Omnibus Budget Reconciliation Act of 1993, Congress increased the Cover Over Rate paid to the Government, through September 30, 1998, from $10.50 per proof gallon to $11.30 per proof gallon. As part of the Tax Relief Extension Act of 1999, Congress increased the Cover Over Rate to $13.25 per proof gallon from July 1, 1999, through December 31, 2001. Congress, thereafter, has continued to extend the $13.25 per proof gallon Cover Over Rate from January 1, 2002, through December 31, 2011, pursuant to legislation described in the table below.

On August 2, 2012, the Senate Finance Committee approved the increase of the Cover Over Rate to $13.25 per proof gallon. However, it is not anticipated that Congress will approve of this increase of the Cover Over Rate prior to the issuance of the Series 2012A Bonds. The advance payment for 2012, based on the $13.25 per proof gallon Cover Over Rate, was remitted by the Treasury to the Government in September 2011. A supplemental request, based upon increased exports of rum, was made by the Government in December 2011. Payment of the supplemental request, based on the $13.25 per proof gallon Cover Over Rate, was remitted by the Treasury to the Government in December 2011.

Set forth below is a brief synopsis of the history of the Federal excise tax rates and corresponding Cover Over Rates per proof gallon of rum since 1984.

Year	Excise Tax Rate*	Cover Over Rate*	Legislation
1984	$12.50	Lesser of $10.50 or the excise tax rate	The Deficit Reduction Act of 1984
1990	$13.50	$10.50	Omnibus Budget Reconciliation Act of 1990
1993	$13.50	$11.30	Omnibus Budget Reconciliation Act of 1993
1998	$13.50	Lesser of $10.50 or the excise tax rate	Section 7652(f) of the U.S. Code
1999-2001	$13.50	$13.25	Tax Relief Extension Act of 1999
2002-2003	$13.50	$13.25	Job Creation and Worker Assistance Act of 2002
2004-2005	$13.50	$13.25	Working Families Tax Relief Act of 2004
2006-2007	$13.50	$13.25	Tax Relief and Health Care Act of 2006
2008-2009	$13.50	$13.25	Tax Extenders and Alternative Minimum Tax Relief Act of 2008
2010-2011	$13.50	$13.25	Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010

* Per proof gallon.

Proposed Legislation

Prior to December 31, 2011, all rum used by Diageo USVI in Captain Morgan branded products sold in the U.S. was procured through an exclusive supply contract with a Puerto Rican third-party supplier, which contract expired on December 31, 2011. In accordance with the Diageo Agreement, Diageo USVI commenced production on St. Croix in or around November 2010 and, as of February 2012, all rum used in Captain Morgan branded products sold in the U.S. has been produced at the Diageo Project.

The Commonwealth of Puerto Rico ("Puerto Rico") also is eligible to receive, and prior to December 31, 2011 had received, Matching Fund Revenues on rum produced by the Diageo Group in Puerto Rico. Since the Diageo Agreement was executed in 2008, certain elected and appointed officials in Puerto Rico and the U.S. Congress have publicly objected to the amount of benefits provided by the Government to Diageo USVI. In April 2009, Puerto Rico's Resident Commissioner to the U.S. House of Representatives, Pedro R. Pierluisi, introduced H.R. 2122, and in April 2010, U.S. Senator Bob Menendez introduced S. 3208, two proposed acts that would limit the amount of any subsidy paid from Matching Fund Revenues by either the Virgin Islands or by Puerto Rico to any private company to a maximum of ten percent (10%) of such revenues. The 111th Congress adjourned without taking action on either bill.

In the 112th Congress, Resident Commissioner Pierluisi and Senator Menendez introduced new legislation, H.R. 1883 and S. 986, respectively, that would limit the amount of any subsidy paid from Matching Fund Revenues to any private company to a maximum of fifteen percent (15%) of such revenues. In addition, the Pierluisi and Menendez bills would set minimum and maximum percentages with respect to the allocation of total Cover-Over Revenues apportioned to the Virgin Islands and Puerto Rico. Under these bills, the Virgin Islands would receive a minimum of 30 percent of total Cover-Over Revenues attributable to total rum shipments from both the Virgin Islands and Puerto Rico, regardless of the total amount of rum shipments from the Virgin Islands to the United States; similarly, the Virgin Islands would receive a maximum of 35 percent of such total revenues, regardless of the total amount of such Virgin Islands shipments. As of the date of this Private Placement Memorandum, no committee of the House or Senate has taken action on either H.R. 1883 or S. 986. See "CERTAIN BONDHOLDER RISKS – Proposed Legislation."

Historical Matching Fund Revenues

The following table sets forth (i) the total Matching Fund Revenues received by the Government, (ii) the Senior Indenture Senior Lien Bonds debt service and (iii) the Senior Indenture Senior Lien Bonds debt service coverage for fiscal years 2007 through 2011.

Historical Matching Fund Revenues
Fiscal Years 2007 - 2011
($000's)

	2007	2008	2009	2010	2011
Total Matching Fund Revenues	$86,710	$91,939	$106,820	$103,666	$123,901
Senior Indenture Senior Lien Bonds Debt Service	$36,249	$36,245	$36,248	$37,398	$42,862
Senior Indenture Senior Lien Bonds Debt Service Coverage	2.39x	2.54x	2.95x	2.77x	2.89x

Source: The Global Insight Report.

Verification and Projection of Matching Fund Revenues

IHS Global Insight (USA), Inc. ("Global Insight"), an economic consulting firm, was engaged to verify Matching Fund Revenues received by the Government from fiscal year 1992 through fiscal year 2011 and to project Matching Fund Revenues for fiscal years 2012 through 2041. A copy of their report, entitled the "Global Insight Report – Verification and Projection of Matching Fund Revenues from Rum Shipments to the U.S." (the "Global Insight Report"), is attached to this Private Placement Memorandum as APPENDIX E.

Global Insight's review of the records that document the Matching Fund Revenue collection and transfer process concluded that annual Matching Fund Revenues transferred to the Virgin Islands during the fiscal year 1992 through fiscal year 2011 period were consistent with excise taxes collected from United States distillers on purchases of bulk rum produced in the Virgin Islands and Customs duties levied on cased Virgin Islands rum.

In connection with its revenue projections, Global Insight developed three models to project future Matching Fund Revenues.

The first model, the "Constant Market Share Model," projects Matching Fund Revenues as a function of historical rum excise tax revenues, assumes a $13.25 Cover Over Rate, and forecasts Matching Fund Revenues growing from approximately $192.9 million in fiscal year 2012 to approximately $377.6 million in fiscal year 2041. The table below shows projections of Matching Fund Revenues as calculated under the Constant Market Share Model for fiscal years 2012-2017.

The second model, the "Growing Market Share Model," bases future revenue projections on historical rum production in the Virgin Islands, assumes a $13.25 Cover Over Rate, and forecasts Matching Fund Revenues growing from approximately $194.9 million in fiscal year 2012 to $377.6 million in fiscal year 2041. The table below shows projections of Matching Fund Revenues as calculated under the Growing Market Share Model for fiscal years 2012-2017.

The third model, the "Alternative $10.50 Cover Over Rate Model," bases future revenue projections on the assumption that the Cover Over Rate remains at $10.50 per proof gallons and forecasts Matching Fund Revenues growing from approximately $152.8 million in fiscal year 2012 to $299.3 million in fiscal year 2041. The table below shows projections of Matching Fund Revenues as calculated under the Alternative $10.50 Cover Over Rate Model for fiscal years 2012-2017.

For all of the projections for each of the foregoing models for fiscal years 2012 through 2041, please refer to the Global Insight Report in APPENDIX E.

Constant Market Share Model[1]
Fiscal Years 2012 - 2017

	2012	2013	2014	2015	2016	2017
Projected Cruzan Matching Fund Revenues at $13.25 Cover Over Rate	$113,898,558	$115,615,145	$118,120,881	$121,113,907	$124,138,036	$127,383,657
Projected Diageo Matching Fund Revenues at $13.25 Cover Over Rate	78,954,346	158,164,262	161,938,428	166,446,555	171,001,530	175,890,119
Total Revenues	**$192,852,904**	**$273,779,406**	**$280,059,309**	**$287,560,462**	**$295,139,566**	**$303,273,776**
Total Senior Indenture Senior Lien Bonds Debt Service[2]	$62,943,306	$62,010,369	$65,175,456	$65,960,331	$65,956,763	$65,945,625
Senior Indenture Senior Lien Bonds Debt Service Coverage	3.06x	4.42x	4.30x	4.36x	4.47x	4.60x

Growing Market Share Model[1]
Fiscal Years 2012 - 2017

	2012	2013	2014	2015	2016	2017
Projected Cruzan Matching Fund Revenues at $13.25 Cover Over Rate	$115,971,030	$119,259,631	$123,193,635	$127,175,814	$131,467,486	$135,284,635
Projected Diageo Matching Fund Revenues at $13.25 Cover Over Rate	78,954,346	161,896,079	168,094,884	175,612,231	183,331,387	191,752,688
Total Revenues	**$194,925,376**	**$281,155,710**	**$291,288,519**	**$302,788,044**	**$314,798,873**	**$327,037,323**
Total Senior Indenture Senior Lien Bonds Debt Service[2]	$62,943,306	$62,010,369	$65,175,456	$65,960,331	$65,956,763	$65,945,625
Senior Indenture Senior Lien Bonds Debt Service Coverage	3.10x	4.53x	4.47x	4.59x	4.77x	4.96x

Alternative $10.50 Cover Over Rate Model[1]
Fiscal Years 2012 - 2017
($000's)

	2012	2013	2014	2015	2016	2017
Projected Cruzan Matching Fund Revenues at $10.50 Cover Over Rate	$90,259,235	$91,619,548	$93,605,226	$95,977,058	$98,373,537	$100,945,539
Projected Diageo Matching Fund Revenues at $10.50 Cover Over Rate	62,567,595	125,337,717	128,328,566	131,901,044	135,510,647	139,384,623
Total Revenues	**$152,826,829**	**$216,957,265**	**$221,933,792**	**$227,878,102**	**$233,884,184**	**$240,330,162**
Senior Indenture Senior Lien Bonds Debt Service[2]	$62,943,306	$62,010,369	$65,175,456	$65,960,331	$65,956,763	$65,945,625
Senior Indenture Senior Lien Bonds Debt Service Coverage	2.43x	3.50x	3.41x	3.45x	3.55x	3.64x

1. Revenue projections calculated by Global Insight and included in the Global Insight Report. Amounts may not total due to rounding.
2. Includes debt service on the Series 2012A Bonds.

CRUZAN

General

Rum has been produced in the Virgin Islands for more than 300 years. Cruzan was founded in 1946 and has produced rum in St. Croix since its inception. Until 2012, Cruzan was the only rum producer located in St. Croix. Cruzan offers a wide range of dark and light rum as well as flavored varieties ("Cruzan Rum"). The varieties of rum produced by Cruzan were expanded and rejuvenated with the launch of Cruzan Strawberry in April 2011 and the re-launch of Cruzan Orange in September 2011.

Pursuant to an Agreement dated October 6, 2009, as amended pursuant to the Amendments dated March 22, 2012 (the "Amendments"), each entered into by and between the Government and Cruzan, and ratified by the Legislature on October 27, 2009, and April 25, 2012, respectively (the "Cruzan Agreement"), the Government agreed to provide to Cruzan certain economic development incentives (including molasses, marketing and production subsidies) and grant funds to pay the costs of various improvement projects at the distillery, including the installation of a wastewater treatment facility (the "Cruzan Wastewater Treatment Project") and certain alteration, upgrade, expansion and renovation projects (the "Cruzan Expansion Project" and, together with the Cruzan Wastewater Treatment Project, the "Cruzan Project"). In exchange for those incentives, Cruzan agreed, subject to certain conditions, to undertake the Cruzan Project and to distill at the Cruzan Facility (as described below) all Bulk Rum, Branded Rum and Ronrico Rum (as such terms are defined in the Cruzan Agreement) for sale into the United States for the term of the Cruzan Agreement. See "CRUZAN – The Cruzan Agreement."

Ownership

Cruzan is a wholly-owned indirect subsidiary of Beam Inc. ("Beam"), the largest United States based distilled spirits company. A Beam subsidiary acquired Cruzan on October 1, 2008, from V&S Vin & Sprit AB, a distilled spirits company owned by Pernod Ricard S.A. of France. Beam has a portfolio of recognized brands including Jim Beam bourbon, Sauza tequila, Courvoisier cognac, DeKuyper cordials (in the United States), Maker's Mark bourbon, Canadian Club whiskey, Teacher's scotch and Ronrico rum. Additionally, in 2012, Beam expanded its spirits portfolio to include Kilbeggan Irish whiskey, Pinnacle vodka and Calico Jack rum. Calico Jack rum is sourced from the Cruzan Facility and will be Branded Rum for Cover-Over purposes.

In 2011, Fortune Brands, Inc. ("Fortune Brands"), the former parent of Beam and a diversified consumer brands company then operating in three distinct segments – distilled spirits, home and security products, and golf equipment, separated its three businesses. Accordingly, Fortune Brands sold its golf business in July 2011 and spun off the home and security products business in October 2011. The remaining entity was renamed Beam Inc., which is now a leading global spirits company traded on the New York Stock Exchange under the symbol BEAM.

In 2011, Beam's sales were $2.8 billion. Neither Beam nor Fortune Brands is a party to or obligated under any of the agreements described in this Private Placement Memorandum, including the Cruzan Agreement.

Cruzan Facilities

The Cruzan facility (the "Cruzan Facility") consists of (i) a distillery (the "Cruzan Distillery"), (ii) a fermenter bottom and stillage cooling treatment facility (the "Cruzan Original WWTP"), (iii) a partially commissioned evaporative wastewater treatment plant (the "Cruzan Wastewater Treatment Facility"), and (iv) eight separate barrel maturation warehouses (the "Cruzan Warehouses"). The Cruzan Facility consists of 12 principal buildings totaling approximately 160,000 square feet located on an approximately 33 acre parcel of land in Frederiksted, St. Croix (the "Cruzan Site"). Cruzan owns the Cruzan Site and operates the Cruzan Facility for the production and storage of bulk rum to be sold to third parties and for use in Cruzan branded products and other branded rums.

The Cruzan Distillery has the capacity to produce 10.6 million proof gallons of rum per year at a production rate of 35,000 proof gallons of rum per day on the basis of 305 days per year of operation. The Cruzan Distillery includes a molasses receiving area, a main distillery and ancillary operations. The Cruzan Warehouses have the capacity to store 50,000 barrels of rum, and currently store approximately 43,000 barrels. The Cruzan Site also houses an administrative office, a visitors pavilion, a laboratory and work space and amenities for up to 58 employees.

Cruzan is currently treating Cruzan Distillery effluents (wastewater) via the Cruzan Original WWTP. Cruzan commissioned and constructed the Cruzan Wastewater Treatment Facility, and, following satisfactory testing and inspection, anticipates having the ability to consistently use it to treat the Cruzan Distillery effluents beginning in 2013. The Cruzan Wastewater Treatment Facility was designed to accommodate effluents resulting from the production of up to 16 million proof gallons of rum per year.

Permits. Cruzan currently holds all permits necessary for the operation of the Cruzan Facility, including a Territorial Pollutant Discharge Elimination System ("TPDES") permit. The TPDES permit requires monitoring of discharges and enforcement of regulations controlling discharges of water from specific sites, including industrial, commercial and some residential sites that discharge into the waters of the Virgin Islands. In connection with the construction of the Cruzan Wastewater Treatment Facility, Cruzan obtained a permit modification which will replace Cruzan's current TPDES permit in February 2013. Cruzan's current TPDES permit is in good standing with all applicable regulatory agencies.

Maintenance and Hurricane Preparedness. In order to run the Cruzan Distillery more than 300 days per year, Cruzan has taken steps to minimize interruptions to operations by building redundancies into its processes and by trying to anticipate and prepare for possible disruptions.

Insurance Coverage Regarding Operations. Cruzan maintains commercially reasonable insurance against the risks of hurricane, earthquake, fire and other causes of potential damage that might result in business interruption or a commercially significant reduction in the output of rum that can be produced at the Cruzan Facility. FM Global is the current underwriter for Cruzan's property insurance policy secured through Cruzan's parent company, Beam.

The Cruzan Agreement

Pursuant to the Cruzan Agreement, Cruzan has agreed to undertake the Cruzan Project and distill at the Cruzan Facility all Branded Rum, Ronrico Rum and Bulk Rum for sale in the United States, in return for, and subject to, certain economic development incentives from the Government, including: (i) a grant of up to $30 million to pay the cost of the Cruzan Wastewater Treatment Project; (ii) a grant of up to $75 million to pay the cost of the Cruzan Expansion Project; (iii) reduction or elimination of certain taxes, including corporate income tax, taxes on dividends and interest, taxes on all real property or any

interest in real property to the extent such property is used for the Cruzan Project, gross receipts taxes, all excise or similar taxes on materials and equipment utilized in the Cruzan Project, customs duties on raw materials and component parts imported into the Virgin Islands for use in developing and constructing the Cruzan Project; (iv) various molasses subsidy payments; (v) various marketing support payments; (vi) various rum promotion support payments; and (vii) various production support payments.

The Cruzan Agreement also provides that, after making annual deposits to satisfy debt service payments on the Cruzan Matching Fund Revenue Bonds, (a) between 54% and 60% of the Cruzan Matching Fund Revenues from branded rum sales, depending on the number of proof gallons of rum produced by Cruzan in the preceding year, and (b) between 60% and 75% of Cruzan Matching Fund Revenues from bulk rum sales or between 78% and 80% of Cruzan Matching Fund Revenues from strategic third-party bulk rum sales, depending on the fiscal year and the number of proof gallons of rum produced by Cruzan in the preceding year, will be transferred to the Government to be used for any lawful purpose. Based upon the Amendments to the Cruzan Agreement, in September 2018, the Government share of Cruzan Matching Fund Revenues from bulk rum sales will revert to between 78% and 82%, depending on the number of proof gallons of rum produced by Cruzan in the preceding year.

If the amount of the Cover Over Rate is reduced below the level of $10.50 per proof gallon or the economic development incentives provided by the Government to Cruzan are reduced or unavailable for a period of more than 12 months, Cruzan is not obligated to produce rum at the Cruzan Facility in accordance with the Cruzan Agreement and has the right to terminate the Cruzan Agreement, in each case without the payment of liquidated damages. The Cruzan Agreement expires 30 years from the later of (i) its effective date of October 27, 2009, the date that the Virgin Islands Legislature ratified the Cruzan Agreement, or (ii) the date on which no Cruzan Matching Fund Revenue Bonds remain outstanding, but is subject to extension at the option of Cruzan for an additional 30-year term.

The Cruzan Project

The Cruzan Project consisted of the acquisition, construction and installation of the Cruzan Wastewater Treatment Facility and the Cruzan Expansion Facility, each located on the Cruzan Site in Fredricksted, St. Croix and owned and operated by Cruzan. The Cruzan Wastewater Treatment Project involved the installation of an evaporative wastewater treatment plant that was designed to eliminate undesirable discharge into the ocean. The Cruzan Expansion Project involved the purchase and installation of certain distillery equipment and associated materials that allow for improved efficiencies. The Cruzan Project also included all necessary utilities, transportation improvements and related facilities. The Government made a grant of approximately $35 million to Cruzan to finance the cost of the Cruzan Wastewater Treatment Project and a portion of the Cruzan Expansion Project. See "THE CRUZAN AGREEMENT."

Cruzan Wastewater Treatment Project

Cruzan was notified by the U.S. Environmental Protection Agency ("EPA") that the process wastewater discharge from the Cruzan Distillery operations, herein referred to as the "Vinasse," may be harmful to certain marine life. Cruzan, the Government, the Virgin Islands Department of Planning and Natural Resources ("DPNR") and the EPA have identified and agreed to the use of evaporation technology to treat the Vinasse, which will result in the cessation of Vinasse discharge into the ocean. As agreed, Cruzan constructed the Cruzan Wastewater Treatment Facility and is in the process of implementing the new evaporation technology.

The Cruzan Wastewater Treatment Facility was constructed on the Cruzan Site, located on Estate Diamond in Frederiksted, St. Croix. The Cruzan Wastewater Treatment Facility consists of housing for

the evaporator and the mechanical vapor recompression turbine, diesel powered electric generators, boiler and ancillary equipment such as tanks, pumps and the reverse osmosis system. Additionally, a 2.0 million gallon Condensed Molasses Solubles ("CMS") storage tank was installed adjacent to the existing molasses holding tanks at the St. Croix Molasses Pier, together with related piping and pumps to allow for CMS loading and unloading.

Cruzan Expansion Project

Cruzan added fermentation capacity, constructed a new beer well, made improvements to its fire protection system, and improved certain distillation equipment at the Cruzan Site. Additionally, Cruzan initiated the reconfiguration of a rum processing column to serve as a rectifying column to be incorporated into the Cruzan Distillery. The Cruzan Expansion Facility currently produces all of the rum required to meet Cruzan Rum, Ronrico, Calico Jack and bulk and other rum requirements. Cruzan directly funded a majority of the cost of repairs and alterations to the Cruzan Expansion Facility. Cruzan has the right, but does not currently intend, to finance any additional expansion in furtherance of the Cruzan Expansion Project through the remaining amount of the Government grant capacity available under the Cruzan Agreement. Cruzan may, in the future, continue further aspects of the Cruzan Expansion Project.

Required Permits for the Cruzan Project

A number of permits were required for the construction and the operation of the Cruzan Wastewater Treatment Facility and the Cruzan Expansion Facility. Such permits include, but were not limited to, the following: soil boring, land clearing, major earth change, building construction, air modification, and coastal zone management. Additional plans and assessments such as Stormwater Pollution Prevention Plans and an environmental assessment report also were required in connection with the Cruzan Project. Cruzan also obtained a TPDES Permit Modification, which will be effective in February 2013.

DIAGEO

General

In order to significantly expand the rum industry in the Virgin Islands, the Government entered into the Diageo Agreement with Diageo USVI. Pursuant to the Diageo Agreement, in exchange for various economic development incentives, Diageo USVI agreed to develop in St. Croix (i) a distillery for the production of bulk rum used in the production of Captain Morgan branded products sold in the United States, with, when fully operational, a maximum capacity to produce 20 million proof gallons of rum per year (the "Diageo Distillery"), together with an on site washwater treatment facility (the "Diageo Washwater Treatment Facility"), and (ii) barrel maturation warehouse facilities for the storage of rum, with 200,000 square feet of barrel warehouse capacity (the "Diageo Warehouses").

The Diageo Project consists of the Diageo Distillery, the Diageo Washwater Treatment Facility and the Diageo Warehouses, constructed on two separate parcels of land in Christiansted, St. Croix and owned and operated by Diageo USVI. The Diageo Project also included all related utilities, transportation improvements and facilities necessary and appurtenant thereto, as well as a "Visitors Center." The Government made a grant to Diageo USVI to finance substantially all of the costs of the design, construction and start-up of operations of the Diageo Project. See "– The Diageo Agreement" and "– The Diageo Project."

The Diageo Group

Diageo plc ("Diageo plc") and the entities that are controlled by or directly or indirectly owned in whole or in part by Diageo plc (collectively referred to herein as the "Diageo Group") constitute the world's leading premium drinks business with a broad collection of beverage alcohol brands across spirits, wine and beer categories. Members of the Diageo Group other than Diageo USVI are not legally or contractually obligated to support any of the obligations of Diageo USVI under the Diageo Agreement or otherwise, except as described below under "– Diageo Holdings Comfort Letter."

Diageo USVI. Diageo USVI is a corporation duly organized and validly existing under the laws of the Virgin Islands. Diageo USVI was formed in June 2008, for the purpose of owning and operating the Diageo Project. Diageo USVI is a direct, wholly-owned subsidiary of Selviac Nederland B.V. ("Selviac"). Selviac's shares are held by Diageo Holdings Netherlands B.V. ("Diageo Holdings"), whose ultimate parent company is Diageo plc. Diageo Holdings' net financial income for year 2011 was $3.8 billion. As of June 30, 2011, Diageo Holdings had total assets of approximately $26.7 billion, share capital of approximately $6.0 million (at a rate of €1.56), share premium of approximately $18.7 billion, retained earnings of approximately $8.0 billion and current liabilities of approximately $25.3 million.

Diageo plc. Diageo plc is incorporated as a public limited company in England and Wales and its principal executive office is located in London. It is a major participant in the branded beverage alcohol industry and operates on an international scale, producing and/or distributing internationally known brands including Smirnoff vodka, Johnnie Walker scotch whiskey, Guinness stout, Baileys Irish Cream, J&B scotch whiskey, Jose Cuervo tequila, Tanqueray gin, Ketel One vodka, Crown Royal Canadian whiskey, Beaulieu Vineyards and Sterling Vineyards wines, Bushmills Irish whiskey as well as Myers and Captain Morgan rums. It currently expects to continue to invest in global brands, expand internationally and launch innovative new products and brands.

Diageo Holdings Comfort Letter. Pursuant to a Comfort Letter dated June 17, 2008, issued by Diageo Holdings (the "Comfort Letter"), Diageo Holdings acknowledged and consented to the Diageo Agreement and stated its intention to continue to support Diageo USVI for such time as any financial obligations or performance obligations may be owed by Diageo USVI under the Diageo Agreement. While Diageo Holdings has provided the Comfort Letter with respect to the payment obligations of Diageo USVI, none of Diageo plc, Diageo Holdings nor any other corporate affiliate of Diageo plc, except Diageo USVI, is legally obligated to make any payments pursuant to the Comfort Letter, the Diageo Agreement or otherwise.

The Diageo Agreement

Pursuant to the agreement between Diageo USVI and the Government, dated as of June 17, 2008, as ratified by Act No. 7012 of the Legislature of the Virgin Islands, as the same may be amended and supplemented in accordance with the terms thereof (the "Diageo Agreement"), Diageo USVI agreed to build and operate the Diageo Project, in return for certain economic development incentives from the Government, including: (i) a grant of up to $250 million to pay the cost of the Diageo Project; (ii) reductions or elimination of certain taxes otherwise due from Diageo USVI including corporate income tax, taxes on all dividends and interest Diageo USVI otherwise may be required to pay, taxes on all real property or any interest in real property to the extent such property is used for the Diageo Project, gross receipts taxes, all excise or similar taxes on materials and equipment utilized in the Diageo Project, customs duties on raw materials and component parts imported into the Virgin Islands for use in developing and constructing the Diageo Project; and (iii) receipt of annual payments to pay the costs of (x) a molasses subsidy, (y) marketing efforts for the Captain Morgan brand rum and (z) production incentive payments in the event that Diageo Matching Fund Revenues in any fiscal year beginning in fiscal year 2012, exceed certain production thresholds, all of which are capped at a maximum percent of Diageo Matching Fund Revenues in any year.

In exchange for such incentives, in addition to agreeing to develop the Diageo Project, Diageo USVI agreed (i) that on or about January 1, 2012, all bulk rum used in the production of Captain Morgan branded products sold in the United States will be produced at the Diageo Distillery, (ii) to minimum rum production thresholds starting at 1.5 million proof gallons in fiscal year 2012, and (iii) to certain liquidated damages payable to the Government in the event there is a material default of Diageo USVI's obligation to meet certain rum production thresholds within the timeframes set forth in the Diageo Agreement and the Diageo Agreement is terminated.

The Diageo Agreement also provides that, after making annual deposits to satisfy debt service payable on the Diageo Matching Fund Revenue Bonds and to replenish the debt service reserve account related to those bonds, between 49.5% and 57% of the Diageo Matching Fund Revenues, depending on the number of proof gallons of rum produced by Diageo USVI in the preceding year, will be transferred to the Government to be used for any lawful purpose.

If the amount of the Cover Over Rate is reduced below the level of $10.50 per proof gallon or the economic development incentives provided by the Government to Diageo USVI are reduced or unavailable, Diageo USVI has the right to terminate the Diageo Agreement, in each case without the payment of liquidated damages. The Diageo Agreement expires 30 years from the later of (i) its effective date of July 10, 2008, the date that the Virgin Islands Legislature ratified the Diageo Agreement, or (ii) the date on which no Diageo Matching Fund Revenue Bonds remain outstanding, but is subject to extension at the option of Diageo USVI for an additional 30-year term.

The Diageo Project

Diageo Distillery and Diageo Washwater Treatment Facility

The Diageo Distillery and the Diageo Washwater Treatment Facility are being constructed on approximately 23acres of land (the "Diageo Distillery Site") at the St. Croix Renaissance Industrial Park (the "Park"), a 1200-acre industrial park owned by the St. Croix Renaissance Group LLP ("Renaissance") located on the southern coast of St. Croix. When fully operational at maximum capacity, the Diageo Distillery will have capacity to produce 20 million proof gallons of rum per year at a production rate of 70,000 liters per day on the basis of 250 to 300 days per year of operation. The Diageo Distillery Site also houses an administrative office, a laboratory and work space and amenities for up to 70 employees. Construction of the Diageo Distillery included the development of two separate plots at the Diageo Distillery Site with a molasses receiving area, a main distillery and ancillary operations.

Construction of the Diageo Washwater Treatment Facility included the development of a plot at the Diageo Distillery Site with all equipment and systems employed for the treatment of the Diageo Distillery effluents (washwater).

Lease Agreement. Diageo USVI has executed a lease agreement with Renaissance to lease the Diageo Distillery Site. The lease agreement provides for a leasehold term of up to 60 years assuming the exercise of five optional 10-year extensions, which are at the sole discretion of Diageo USVI (provided that no monetary event of default shall have occurred and be continuing). These options allow Diageo USVI, at its sole discretion, to maintain possession of the Diageo Distillery Site throughout the 60-year period of the lease agreement.

Diageo USVI also has the option to lease additional land adjacent to the Diageo Distillery Site should additional production capacity be needed in the future, provided that Renaissance and Diageo USVI mutually agree upon the location of a vacant parcel of real property at the Park. By locating the Diageo Distillery in the Park, the Diageo Project will benefit from existing infrastructure, including access to port and certain existing permits. The Park is zoned for heavy industry, which permits distillery use.

The Diageo Warehouses

Diageo USVI has built two warehouses on 20.1 acres of land located at Plot 25 Estate Diamond, Prince Quarter (the "Diageo Warehouse Site"), located approximately four miles from the Diageo Distillery Site. Diageo USVI acquired the Diageo Warehouse Site in May 2009. The zoning of the Diageo Warehouse Site is designated as "C-Commercial," which allows for warehouse use. The Diageo Warehouse Site provides 200,000 square feet of barrel warehousing capacity. The bulk rum produced in the Diageo Distillery will be warehoused in maturation barrels at the Diageo Warehouse. After maturation, the rum will be returned to the Diageo Distillery and transferred to isotankers or other vessels for shipment to the United States.

Construction Schedule

Construction of the Diageo Project, including the Visitors Center, was completed in March 2012.

Management/Service Contracts

Each of Diageo North America, Inc., Diageo Supply Americas, Inc. ("Diageo Supply") and Diageo Canada, Inc. entered into an agreement with Diageo USVI to provide management services in the construction and start-up phase of the Diageo Project, including project general administration, treasury and financial services, corporate relations, information technology and legal, human resources and other corporate services. Oversight of the construction and operation of the Diageo Distillery and the Diageo Warehouses will be managed internally by Diageo USVI staff, each of which has a number of years of experience in project management, engineering and operations in the alcohol beverage industry.

Utilities, Services and Materials

Diageo USVI has arranged for the provision of all utilities, services and consumable materials needed to operate the Diageo Project, including electricity, fuel oil, steam, potable water, cooling water, sanitary sewer, solid waste disposal, stormwater management and steam generation.

Insurance Coverage During Operation

Diageo USVI is responsible for maintaining insurance on the Diageo Project. Pursuant to the Diageo Agreement, Diageo USVI has agreed to maintain commercially reasonable insurance (either as part of Diageo plc's global insurance program or on a stand-alone basis) against the risks of hurricane, earthquake, fire or other damage to the Diageo Project that might result in a commercially significant reduction in the output of rum that can be produced at the Diageo Project. Furthermore, Diageo USVI has agreed to rebuild the Diageo Project as soon as possible following the occurrence of an event that is insurable at the time of occurrence of the event at commercially reasonable rates.

THE U.S. SPIRITS INDUSTRY

The distilled spirits industry generally embarked on a period of expansion in the past two decades. Previously, U.S. consumption had been declining steeply since the early 1980s. According to the Beverage Information Group's 2012 Liquor Handbook Advance (the "Liquor Handbook"), which is a comprehensive source of information on U.S. spirits and sales trends, including consumption and projection information and historical data, by 1995 the volume of consumption had fallen to 137.3 million 9-liter cases, which was 28.1% less than the 190.9 million cases consumed in 1980. The year 1995 proved to be the trough of this cycle however. Since then, consumption has been steadily increasing, reaching 198.7 million 9-liter cases in 2011, following 3.4% growth over 2010. Industry projections are for further growth in 2012, of 2.9%.

Two broad socio-economic factors have been at work over this time. First, a growing health-consciousness among American consumers in the 1970s led to a reduction in alcohol consumption generally, and to a shift to beer and wine as hard liquor alternatives. Then, strong economic expansions boosted levels of disposable income. Consumer spending generally surged, and consumption shifted to more expensive, premium products. This refinement in tastes of the American consumer has been reflected in a shift in the composition of the distilled spirits market. Demand has shifted from whiskeys to non-whiskeys, particularly to vodka and rum.

This transition has mirrored the nation's demographics as the baby boom generation dominated consumption, replacing the habits of the previous generations. Subsequently, younger consumers with more disposable income have driven the bar and restaurant market for premium cocktails.

Distilled Spirits Market Share

	2007	2008	2009	2010	2011
Whiskeys	24.9%	24.5%	24.3%	23.8%	23.3%
U.S. Whiskeys	10.9	10.8	10.7	10.6	10.4
Scotch	5.0	4.8	4.7	4.5	4.3
Other Whiskeys[1]	9.0	8.9	8.9	8.7	8.6
Non-Whiskeys	75.1%	75.5%	75.7%	76.2%	76.7%
Rums	13.2	13.3	13.3	13.3	13.3
Vodka	28.9	29.8	31.0	32.3	33.5
Gin	6.2	6.1	6.0	5.8	5.5
Others[2]	26.9	26.3	25.4	24.8	24.5

Source: The Liquor Handbook.

Note: Numbers may not add to totals due to rounding.
1. Includes Canadian and Irish Whiskeys.
2. Includes brandies, cordials, liqueurs, tequila and prepared cocktails.

THE RUM INDUSTRY

According to the Liquor Handbook, U.S. rum consumption has increased for sixteen consecutive years. The two leading brands in the premium category are Bacardi and Captain Morgan. The rum for Bacardi is currently produced in Puerto Rico, while the rum for Captain Morgan is now produced in the Virgin Islands. Diageo North America, Inc. has been steadily increasing its share of the rum market due to the strong growth of Captain Morgan. In 2011, Captain Morgan remained the third largest spirits brand in the United States, selling 6.06 million 9-liter cases (including Captain Morgan's Parrot Bay), and the second largest rum brand in the United States.

Cruzan rum brand also has been gaining market share. With an average annual growth rate of 4.4% between 2007 and 2011, Cruzan's market share of U.S. rum consumption increased from 2.6% to 2.8% in 2011. In 2010, Cruzan's Light and Dark rum variants had notable sales growth, posting 22% and 7% gains, respectively. In 2009, Cruzan Light and Dark's also posted sales growth of 12% and 10%, respectively. Cruzan Single Barrel earned the honor of being awarded 91 out of 100 points in the 2011 Ultimate Spirits Challenge and was described as "Excellent, Highly Recommended." Most recently, Cruzan Single Barrel was awarded a Double Gold Medal at the 2012 San Francisco World Spirits competition. The most recent addition to the Beam rum portfolio, Calico Jack, also has been gaining market share. From 2010 to 2011, Calico Jack flavored rum grew 30.4% and from 2007 to 2011, Calico Jack flavored rums grew 67.6%.

Below is a chart showing the top ten leading rum brands in the United States in 2011, based on the number of 9-liter cases sold. The shaded rows show rum brands that are made in the Virgin Islands.

Brand	9-Liter Cases Sold (in thousands)
Bacardi	9,594
Captain Morgan (excludes Parrot Bay)	**5,515**
Malibu	1,744
Castillo	884
Admiral Nelson	725
Cruzan	**725**
Sailor Jerry	667
Captain Morgan's Parrot Bay	**545**
Ronrico	**422**
Jack Flavored Rum	**300**

Source: The Liquor Handbook.

Rum Production in the Virgin Islands

Rum currently produced in the Virgin Islands is exported to the United States mainland, primarily in bulk, and sold to local and regional bottlers and rectifiers for sale under a variety of private label and regional brand names, and to certain other bottlers for use in prepared cocktails, liqueurs and drink mixes. In recent years, Virgin Islands rum also has entered the more lucrative branded segment.

Cruzan

Until 2012, Cruzan was the only rum producer located in the Virgin Islands. The current total production capacity at the Cruzan Facility is approximately 10.6 million proof gallons per year. In fiscal year 2011, Cruzan produced approximately 9.6 million proof gallons of Cruzan rum, of which 8 million proof gallons were sold in the U.S.

Pursuant to the Cruzan Agreement, the Government has agreed to provide certain economic development incentives to Cruzan, including the grant to finance the costs of the Cruzan Project. In exchange for those incentives, Cruzan has agreed, subject to certain conditions, to undertake the Cruzan Project and to distill at the Cruzan Facility all Bulk Rum, Branded Rum and Ronrico Rum for sale in the United States for the term of the Cruzan Agreement. See "CRUZAN – The Cruzan Agreement."

Diageo USVI

The Government and Diageo USVI have entered into the Diageo Agreement pursuant to which Diageo USVI agreed to construct and operate a rum production and storage facility on St. Croix and to produce in the Virgin Islands all rum used in Captain Morgan branded products sold in the U.S. beginning in January 2012. Currently, all rum used in Captain Morgan branded products sold in the U.S. is produced at the Diageo Distillery in St. Croix. See "DIAGEO – The Diageo Agreement."

Based on current projections from Diageo USVI, the Government expects Diageo USVI to produce approximately 7 million proof gallons of rum in fiscal year 2012 and reach capacity of 18 million proof gallons in fiscal year 2024. Assuming a Cover Over Rate of $13.25 per proof gallon, Diageo Matching Fund Revenues should be approximately $93 million in fiscal year 2012 and approximately $239 million in fiscal year 2024.

Molasses Subsidy Payments

Molasses, the principal ingredient of rum, is a commodity traded in the international commodity markets. The price of molasses is therefore subject to fluctuation based upon supply and demand. All of the molasses used by, and expected to be used by, Cruzan and Diageo USVI is purchased on such commodity markets from sources outside the Virgin Islands.

The Government maintains a program, first established in 1967, by which it stabilizes the cost of molasses to Virgin Islands rum producers to compensate for the demise of the local sugar cane industry and ensure the competitive pricing of rum produced in the Virgin Islands. The effect of the molasses subsidy payments is to maintain the competitive position of Virgin Islands rum producers relative to the rum producers in other countries where local molasses supplies are readily available.

The following table sets forth the molasses subsidies that have been provided by the Government to the Virgin Islands rum producers since 1997. The molasses subsidy payments in fiscal years 2007 through 2012 were higher than in previous years due to the significant increase in the cost of fuel, resulting in an increase in shipping costs, the purchase of a larger quantity of hi-test molasses instead of blackstrap molasses in an effort to reduce the negative environmental impact from rum manufacturing waste disposal, and the purchase of a larger quantity of molasses due to increased demand for rum.

Molasses Subsidy Payments
Fiscal Years 1997 - 2012

Fiscal Year	Molasses Gallons	Amount of Molasses Subsidy
1997	5,296,588	$ 2,175,536
1998	8,289,330	$1,300,000
1999	7,763,675	$2,969,725
2000	8,790,630	$1,955,253
2001	8,622,054	$2,570,733
2002	8,607,398	$2,558,300
2003	6,765,893	$3,477,651
2004	7,065,528	$4,000,000
2005	7,214,391	$4,400,000
2006	8,731,734	$6,900,000
2007	8,322,254	$8,373,642
2008	9,089,615	$11,678,678
2009	11,035,074	$15,312,338
2010	11,095,830	$10,171,052
2011	10,102,636	$12,810,852
2012[1]	19,684,727	$31,250,216

Source: United States Virgin Islands Office of Management and Budget.

1. Based on estimated molasses gallons of 9,435,357 for Cruzan and 10,249,370 for Diageo USVI and estimated subsidy payments of $17,223,908 for Cruzan and $14,026,308 for Diageo USVI.

Prior to entering into the Cruzan Agreement and the Diageo Agreement, the molasses subsidy was administered by the Commissioner of Finance through the establishment of a legislatively mandated Molasses Subsidy Fund. The Molasses Subsidy Fund consisted of amounts appropriated from time to time by the Legislature exclusively for such purpose. Amounts available in the Molasses Subsidy Fund were requisitioned by Cruzan, verified by the Commissioner of Finance and then payable to Cruzan to the extent funds were available in the Molasses Subsidy Fund. Funding of the Molasses Subsidy Fund was based upon an estimate of molasses to be acquired by local producers for the next fiscal year and subject to annual appropriation. While not obligated to appropriate such amounts, the Legislature had never failed to appropriate an amount sufficient to satisfy the obligations of the Molasses Subsidy Fund.

Pursuant to the terms of the Cruzan Agreement and the Diageo Agreement, the molasses subsidy payable to Cruzan will be provided directly from Cruzan Matching Fund Revenues through the molasses subsidy payments under the Cruzan Agreement and to Diageo USVI directly from Diageo Matching Fund Revenues through the molasses subsidy payments under the Diageo Agreement.

Rum Promotion and Marketing Support Payments

The following table shows the rum promotion and marketing support payments made by the Government to Cruzan, for each of the five fiscal years included in the table, and to Diageo USVI for fiscal year 2012, in connection with its marketing support payments. Diageo USVI does not receive rum promotion payments from the Government. Rum promotion and marketing support payments are payable solely to the extent funds are available from Cruzan Matching Fund Revenues and Diageo Matching Fund Revenues, as applicable, after payment of debt service under the Cruzan Subordinated Indenture and the Diageo Subordinated Indenture, as applicable, and payment of the molasses subsidy.

Rum Promotion and Marketing Support Payments
Fiscal Years 2008-2012

	2008	2009	2010	2011	2012[1]
Rum Promotion	$1,487,248	$2,144,461	$20,772,173	$27,697,355	$ 712,504[2]
Marketing Support	694,466	3,878,110	15,511,089	15,667,847	24,720,491
Total	$2,181,714	$6,022,571	$36,283,262	$43,365,202	$25,432,995

Source: United States Virgin Islands Office of Management and Budget.

1. The fiscal year 2012 data is based on the reports from the Cruzan Calculation Agent and Diageo Calculation Agent from their preliminary review of rum shipments in fiscal year 2012 and may be subject to adjustment following final review of actual rum shipments for fiscal year 2012.
2. The fiscal year 2012 rum promotion support payments were substantially less due to the increase in the cost of molasses. See "– Molasses Subsidy Payments."

St. Croix Molasses Pier

In 1999, the Government completed construction of the St. Croix Molasses Pier, which has increased the capacity for deliveries and storing of molasses and has improved the safety and availability of molasses cargoes to the island of St. Croix. The improvements consist of the construction of a 560 foot sheet pile bulkhead, dredging of the harbor to a depth of 32 feet, construction of a concrete apron for loading and unloading the tankers, installation of apron lighting and potable water lines, security fencing, asphalt and molasses pipelines and a partial roadway complete with lighting and signage. A highway connecting the St. Croix Molasses Pier to the Container Port was completed in 2002. The on-pier molasses storage capacity for Cruzan currently is three million gallons.

The St. Croix Molasses Pier improvements have allowed the docking of larger cargo vessels and the delivery of larger molasses shipments thereby reducing the per gallon shipping cost of imported molasses. It is expected that these improvements will enable the Government to continue to provide favorable conditions within the Virgin Islands for both producers of rum to maintain their competitiveness in the United States rum market.

Notwithstanding the improvements to the St. Croix Molasses Pier, Diageo USVI utilizes the pier facilities at the Park for the delivery of its molasses shipments, which facilities are reasonably expected to accommodate all of Diageo USVI's needs.

CERTAIN BONDHOLDER RISKS

THE PURCHASE AND OWNERSHIP OF THE SERIES 2012A BONDS MAY INVOLVE INVESTMENT RISKS. PROSPECTIVE PURCHASERS OF THE SERIES 2012A BONDS ARE URGED TO READ THIS PRIVATE PLACEMENT MEMORANDUM IN ITS ENTIRETY. THIS SECTION ENTITLED "CERTAIN BONDHOLDER RISKS" DOES NOT PURPORT TO PROVIDE INVESTORS WITH A COMPREHENSIVE ENUMERATION OF ALL POSSIBLE INVESTMENT RISKS. THE FACTORS SET FORTH BELOW, AMONG OTHERS, MAY AFFECT THE SECURITY FOR THE SERIES 2012A BONDS. IN ADDITION TO POSSIBLE ADVERSE EFFECTS ON SECURITY FOR THE SERIES 2012A BONDS, PURCHASERS SHOULD BE AWARE THAT THESE FACTORS, AMONG OTHERS, MAY ADVERSELY AFFECT THE MARKET PRICE OF THE SERIES 2012A BONDS IN THE SECONDARY MARKET. SEE ALSO "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2012A BONDS" AND "CONTINUING DISCLOSURE."

Transfer and Resale Restrictions

The Series 2012A Bonds are being offered through a private placement (i) in reliance on the private placement exemption of Rule 15c2-12, (ii) without registration under, and in reliance upon an exemption from, the registration requirements of the Securities Act and (iii) only to institutional investors under applicable state "blue sky" securities laws, which are Qualified Buyers (as defined herein). Any transfer or resale of the Series 2012A Bonds, until such time as the transfer and resale restrictions are eliminated, will be restricted to such Qualified Buyers.

The transfer and resale restrictions may exist for an indefinite amount of time and will cease only at such time that the conditions described herein under "PLAN OF DISTRIBUTION – Elimination of Transfer and Resale Restrictions" are satisfied.

No Public Market

Currently, there is no public market for the Series 2012A Bonds and no assurances can be made that any such public market for the Series 2012A Bonds will exist in the future. A prospective purchaser may be required to bear the economic risk of the investment in the Series 2012A Bonds indefinitely and may realize a complete loss of its investment in the Series 2012A Bonds.

Matching Fund Revenues Sole Security for the Series 2012A Loan Note

The Series 2012A Bonds are secured solely by the Trust Estate, including the Series 2012A Loan Note. The Series 2012A Loan Note is a special limited obligation of the Government. The Government has not pledged its full faith and credit to the payment of the Series 2012A Loan Note. The Series 2012A Loan Note is secured solely by the Matching Fund Revenues, which are derived solely from the sale of rum produced in the Virgin Islands and exported to the United States. If Virgin Islands rum producers fail to meet their production targets, Matching Fund Revenues will be less than projected and may not be sufficient to pay debt service on the Bonds, including the Series 2012A Bonds.

There can be no assurance that the United States Congress will not reduce the rate of the Federal excise tax that qualifies for transfer to the Government under the applicable provisions of the Revised Organic Act and the Code or that the Congress will not amend or eliminate the Federal excise tax. There also can be no assurance as to the amount of local duties, taxes and fees which will be collected by the United States Treasury and Customs and which would be available for transfer to the Government. See "MATCHING FUND REVENUES."

Diageo Project and Cruzan Project Operational Risks

Any delay in, or interruption of the production of rum at the Cruzan Facility or the Diageo Distillery could cause a delay in collection, or a reduction of, Matching Fund Revenues and an inability of the Authority to pay debt service on the Bonds, including the Series 2012A Bonds. See "MATCHING FUND REVENUES," "CRUZAN – The Cruzan Project" and "DIAGEO – The Diageo Project." Cruzan and Diageo USVI are not obligated to pay debt service on the outstanding Bonds or the Series 2012A Bonds.

Outside Factors

The state of the world and/or the U.S. economy, particularly a recession, increased costs of fuel or personnel, terrorist attacks and international hostilities, among other things, could have an adverse impact on the Cruzan Facility, the Cruzan Project or the Diageo Facility in ways that may not be anticipated and currently cannot be quantified, all of which could adversely affect the Authority's ability to pay debt service on the Series 2012A Bonds.

Government's Obligation to Make Payments and Conditions to Rum Producers' Obligations

The Government is obligated to make certain annual payments and provide certain economic development incentives to Cruzan and Diageo USVI under the Cruzan Agreement and the Diageo Agreement, respectively. The Government has never failed to provide economic development incentives as agreed upon. If the Government fails to make the required payments or provide the required benefits to Cruzan or Diageo USVI, they can terminate their respective Agreements without paying liquidated damages in accordance with the provisions of such Agreements. If the Cover Over Rate is reduced below $10.50 per proof gallon for a period of more than one year, Cruzan and Diageo USVI also can terminate their respective Agreements without paying liquidated damages in accordance with the provisions of such Agreements. Either event would cause a reduction in Matching Fund Revenues, which could adversely affect the Authority's ability to pay debt service on the Series 2012A Bonds.

Financial Condition of the Government

In recent fiscal years, the Government has experienced substantial fluctuations in revenues and expenditures and recurring deficits. The Government has continued to experience a significant revenue shortfall in fiscal year 2012 and anticipates revenue shortfalls for fiscal years 2013 and 2014. The Government may continue to experience such revenue shortfalls in future fiscal years, as well. No assurances can be given as to whether or not the Government will continue to experience such revenue shortfalls in future fiscal years. See "SOURCES AND USES OF FUNDS – Working Capital" and APPENDIX D – "INFORMATION REGARDING THE UNITED STATES VIRGIN ISLANDS – Financial Position of the Government" for more information on the financial condition of the Government.

Proposed Legislation

In April 2009, Puerto Rico's Resident Commissioner, Pedro R. Pierluisi, introduced H.R. 2122 and in April 2010, U.S. Senator Bob Menendez introduced S. 3208, both of which bills would limit the amount of any subsidy paid to any private company from Matching Fund Revenues by either the Virgin Islands or by Puerto Rico to a maximum of ten percent (10%) of such revenues. Proposed legislation H.R. 2122 was referred to the House Ways and Means Committee, but no hearings were held and no other action was taken by the end of the 111th Congress. Similarly, the Senate took no action on S. 3208, and both bills died at the end of the 111th Congress. In the 112th Congress, Resident Commissioner Pierluisi and Senator Menendez introduced new legislation, H.R. 1883 and S. 986, respectively, which would limit the amount of any subsidy paid from Matching Fund Revenues to any private company to a maximum of fifteen percent (15%) of such revenues. In addition, the Pierluisi and Menendez bills would set minimum and maximum percentages with respect to the allocation of total Cover-Over Revenues apportioned to the Virgin Islands and Puerto Rico. Under these bills, the Virgin Islands would receive a minimum of 30 percent of total Cover-Over Revenues attributable to total rum shipments from both the Virgin Islands and Puerto Rico, regardless of the total amount of rum shipments from the Virgin Islands to the United States; similarly, the Virgin Islands would receive a maximum of 35 percent of such total revenues, regardless of the total amount of such Virgin Islands shipments. No assurance can be given as to whether or not the Congress will take any action on either proposed bill or similar legislation.

Seismic Risks and Other Natural Disasters

Since September 1989, the Virgin Islands has been affected by two major hurricanes that caused significant damage on all three islands, and three less severe storms. Although historically significant hurricanes had occurred in average intervals of 12 to 15 years, between 1916 and 1989 there had been no major hurricanes.

The Virgin Islands, which is in "Seismic Zone 3", also experiences fairly frequent earthquake tremors, including earthquakes measuring (i) 3.3 on the Richter Scale in March 2007, (ii) 4.0 in June 2007, (iii) one measuring 4.5 in April 2009, (iv) 2.6 in September 2011, (v) 3.2 in July 2012 , (vi) 3.3 in July 2012 and (vii) 4.2 in August 2012. There has not been, however, a major earthquake since the early 1900s. A "Seismic Zone 3" region is an area in immediate proximity to a major fault system. Damage from an earthquake in such a zone can include the collapse of buildings and other structures that are not designed to seismic standards.

If a hurricane were to strike or an earthquake to occur causing significant damage to the Cruzan Facilities or the Diageo Facilities, no assurance can be given as to how much time would be required to resume production and export of rum from either or both plants. Significant delays could adversely affect the Authority's ability to pay debt service on the Series 2012A Bonds.

Limited Production Source

All the rum currently produced in the Virgin Islands is produced by Cruzan and Diageo USVI. The ownership of Cruzan has changed six times in the past 25 years. There can be no assurance that another producer, in addition to Cruzan and Diageo USVI, will not enter the bulk rum market and compete with Cruzan or Diageo USVI or that Cruzan or Diageo USVI will maintain their current and planned production levels. See "THE RUM INDUSTRY."

Demand for Rum

The distilled spirits industry generally embarked on a period of expansion in the past decade. In 2011, total distilled spirits consumption in the United States increased 3.4% from 2010 to 198.7 million 9-liter cases. This gain marks the fourteenth consecutive year of volume growth for the distilled spirits industry and industry projections are for further growth in 2012 of 2.9%. The rum industry has exhibited robust growth in market share during this period and in particular there has been growth in premium brand products and flavored spirits. The U.S. rum consumption has risen for sixteen consecutive years. Both Cruzan and Diageo USVI expect to expand their production capacity and increase their market share, and the Cruzan Agreement and the Diageo Agreement are designed to promote and reward such increased production. No assurance can be given, however, as to the future level of consumption of distilled spirits, or rum consumption, or the future market share to be garnered by Virgin Islands rum. See "THE U.S. SPIRITS INDUSTRY" and "THE RUM INDUSTRY."

Fluctuating Price, Availability and Subsidy on Molasses

Molasses, the principal ingredient of rum, is traded in the international commodity markets. The market price of molasses is therefore subject to fluctuation based upon supply and demand. Substantially all of the molasses used for Virgin Islands rum production is purchased on such commodity markets from sources outside the Virgin Islands. While the Government has provided a subsidy to stabilize the price of molasses and has covenanted to take actions necessary to maintain the subsidy in the future, and, in the case of Cruzan and Diageo USVI, has contractually obligated itself to make subsidy payments to these rum producers so long as the respective agreements with the producers remain in effect, there can be no assurance that such subsidy will be available in the future, that the Virgin Islands Legislature, if required, will appropriate such funds in the future, or that funds will be available for appropriation; provided that the molasses subsidy for Diageo USVI is not subject to appropriation by the Legislature. There also can be no assurance that molasses will be available for the Virgin Islands rum production in the international commodity markets or, if available, will be at a price that the Government can afford to subsidize. Moreover, no assurances can be given as to the continued viability of Cruzan, Diageo USVI or other Virgin Islands rum producers in the event that the molasses subsidy payments are decreased or discontinued in the future. See "THE RUM INDUSTRY."

Competing Facility

Currently, rum is produced in the Virgin Islands by only Cruzan and Diageo USVI. Cruzan currently produces bulk and branded rum and, although Diageo USVI plans to produce bulk rum at its facility in the Virgin Islands, Diageo USVI currently plans to use a significant portion of that bulk rum for the production of all of its Captain Morgan branded products to be sold in the United States. Should the production plans of either company change so that they compete for market share, no assurance can be given that such action would not adversely affect rum production in the Virgin Islands and exports to the U.S., causing a reduction in the amount of Matching Fund Revenues available to pay debt service on the Series 2012A Bonds.

Change in Law

There can be no assurance that the United States Congress will not reduce the rate of the Federal excise tax that qualifies for transfer to the Government under the applicable provisions of the Revised Organic Act and the Code or that the Congress will not amend or eliminate the Federal excise tax. If the Cover Over Rate is reduced below $10.50 per proof gallon, Cruzan and Diageo USVI are permitted to terminate the Cruzan Agreement and the Diageo Agreement, respectively, and are not required to pay liquidated damages. There also can be no assurance as to the amount of local duties, taxes and fees which will be collected by the Treasury and Customs and which would be available for transfer to the Government. See "MATCHING FUND REVENUES."

From time to time, legislation is proposed that may have an adverse effect on the Matching Fund Revenues or the Diageo Agreement. See "MATCHING FUND REVENUES – Proposed Legislation."

Matching Fund Revenues Payment Procedures

Section 7652(b)(3)A) of the Code requires the Secretary of the Treasury, through the Secretary of the Interior, to provide the Virgin Islands an advance payment of the estimated amount of Matching Fund Revenues that will be collected in any fiscal year just prior to the commencement of such fiscal year. The pre-payment of such Matching Fund Revenues is based on the estimate provided by the Governor of the Virgin Islands. The law also requires that the Secretary shall deduct from, or add to, the advance payment "the difference between the Matching Fund Revenues actually collected during the prior fiscal year and the amount of such Matching Fund Revenues as estimated and remitted at the beginning of that prior fiscal year." 48 U.S.C. § 1645. There can be no assurance that these payment procedures will not be changed by statute or otherwise.

Federal Bankruptcy Code Currently Inapplicable

The Bankruptcy Reform Act of 1978, Title 11, United States Code, as amended (the "Federal Bankruptcy Code"), provides a codified regime for the reorganization, liquidation or debt adjustment of various types of insolvent debtors. Generally, only a "person" or a "municipality" may be debtor in a case under the Federal Bankruptcy Code.

The term "person" includes individuals, partnerships and corporations, but does not include any "governmental unit." For purposes of the Federal Bankruptcy Code, a governmental unit which cannot file for protection under the Federal Bankruptcy Code, would be (i) a Territory, such as the Government, or (ii) an instrumentality of a Territory, such as the Authority. The term "municipality" is defined to mean a political subdivision or public agency or instrumentality of a State.

Therefore, neither the Government nor the Authority may be a debtor in a case under the Federal Bankruptcy Code. Consequently, no Bondholder would be able to avail itself of Federal Bankruptcy Code provisions protecting rights of creditors since the Government and the Authority are both "governmental units" and neither of them is a "person" or a "municipality" for purposes thereof. Since neither the Authority nor the Government is subject to the Federal Bankruptcy Code, there can be no assurance as to how the pledge of Matching Fund Revenues would be treated by a court of law in the event of an insolvency or other inability to pay debt by the Government or the Authority.

LITIGATION

There is no litigation pending or, to the knowledge of the Authority and Government, threatened (i) seeking to restrain or enjoin the issuance of the Series 2012A Bonds or the collection of the Matching Fund Revenues pledged under the Senior Indenture, (ii) in any way contesting or affecting the authority for the issuance of the Series 2012A Bonds or the validity or the binding effect of the Series 2012A Bonds, the resolutions of the Authority authorizing and implementing the Series 2012A Bonds or the Senior Indenture, the Series 2012A Loan Agreement or the Series 2012A Loan Note or (iii) in any way contesting the creation, existence, powers or jurisdiction of the Authority or the validity or the effect of the Series 2012A Loan Agreement or the Series 2012A Loan Note or the application of the proceeds of the Series 2012A Bonds for the purposes planned.

INTERNAL REVENUE SERVICE AUDIT

On March 1, 2012, the Internal Revenue Service ("IRS") notified the Authority that it was conducting a random audit in connection with the $219,490,000 Virgin Islands Public Finance Authority Revenue Bonds (Gross Receipts Taxes Loan Note), Series 2006 issued on September 28, 2006 (the "2006 Bonds"). A portion of the 2006 Bonds partially refunded the $299,880,000 Virgin Islands Public Finance Authority Revenue Bonds (Gross Receipts Taxes Loan Note), Series 1999 issued on November 16, 1999 (the "1999 Bonds"). The 1999 Bonds were issued as long-term working capital bonds to address the Government's cashflow needs. As of the date hereof, the audit is ongoing.

The Series 2012A Bonds are being issued as long-term working capital bonds to address the Government's cashflow needs. The Government believes that the concerns raised by the IRS in connection with the analysis undertaken in respect of the 2006 Bonds are not present in the determination of the cashflow deficit to be financed with the proceeds of the Series 2012A Bonds. The Government is working with its counsel to address the audit. The Indenture and Series 2012A Loan Agreement have been structured to satisfy the requirements of federal tax laws currently in effect, as such laws apply to long-term working capital financings. In addition, the Government has covenanted in the Series 2012A Loan Agreement that it shall not "take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest payable on the Series 2012A Bonds under Section 103 of the Code." It is a condition to the delivery of the Series 2012A Bonds that Bond Counsel delivers an opinion that the interest thereon is excluded from gross income for federal income tax purposes and the form of such opinion is appended hereto as APPENDIX F.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2012A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2012A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Series 2012A Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2012A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Series 2012A Bonds is exempt from personal income tax imposed by the United States Virgin Islands or by any state, territory, or possession by any political subdivision thereof or by the District of Columbia.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2012A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2012A Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2012A Bonds in order that interest on the Series 2012A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2012A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2012A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2012A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2012A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2012A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2012A Bonds.

Prospective owners of the Series 2012A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2012A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Bond Premium

In general, if an owner acquires a Series 2012A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2012A Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2012A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor"

generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2012A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2012A Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2012A Bonds under Federal or state law or otherwise prevent beneficial owners of the Series 2012A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2012A Bonds.

Prospective purchasers of the Series 2012A Bonds should consult their own tax advisors regarding the foregoing matters.

FINANCIAL STATEMENTS

Audited financial statements of the Authority for the fiscal year ended September 30, 2010 and the audited financial statements of the Government for the fiscal year ended September 30, 2009 are available from (i) the Authority or the Government, as applicable or (ii) the Electronic Municipal Markets Access ("EMMA") system in electronic format, at www.emma.msrb.org, which is operated by the Municipal Securities Rulemaking Board (the "MSRB"). See "CONTINUING DISCLOSURE."

The Authority has not finalized or filed its audited financial statements for the fiscal year ending September 30, 2011, which were due on June 30, 2012. The Government has not finalized or filed its audited financial statements for the fiscal year ending September 30, 2010, which were due to be filed June 30, 2011, or for the fiscal year ending September 30, 2011, which were due on June 30, 2012.

The Series 2012A Bonds are secured solely by the Trust Estate established under the Senior Indenture, including amounts payable to the Authority by the Government under the Series 2012A Loan Note. Such amounts are to be derived solely from Matching Fund Revenues. The audited financial statements of the Government and the audited financial statements of the Authority do not contain detailed information regarding Matching Fund Revenues or any information related to the Series 2012A Bonds. The Series 2012A Bonds do not constitute a general obligation of the Government or the Authority. Consequently, the audited financial statements of the Government and the Authority may be of limited relevance to a prospective purchaser of the Series 2012A Bonds.

MATCHING FUND REVENUE VERIFICATION

Global Insight, an economic consulting firm, has been engaged to verify Matching Fund Revenues received by the Government from fiscal year 1992 through fiscal year 2011, and to project Matching Fund Revenues for fiscal year 2012 through fiscal year 2041. See APPENDIX E – "Global Insight Report – Verification and Projection of Matching Fund Revenues from Rum Shipments to the U.S."

LEGAL OPINIONS

The validity of the Series 2012A Bonds and certain other legal matters are subject to the approving opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority. The proposed form of Bond Counsel opinion is set forth as APPENDIX F hereto.

Certain legal matters will be passed on for the Authority by its counsel, Birch, deJongh & Hindels PLLC, St. Thomas, Virgin Islands. Certain legal matters will be passed upon for the Government by the Office of the Attorney General of the Government. Hawkins Delafield & Wood LLP, Disclosure Counsel to the Authority, will deliver an opinion regarding certain matters to the Authority, the Government and the Co-Placement Agents. Certain legal matters will be passed upon for the Co-Placement Agents by their counsel, Orrick Herrington & Sutcliffe LLP, Washington, D.C.

FINANCIAL ADVISOR

The Authority has retained Fiscal Strategies Group of Berkley, California, as financial advisor in connection with the issuance of the Series 2012A Bonds. Although Fiscal Strategies Group has assisted in the preparation of this Private Placement Memorandum, Fiscal Strategies Group is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Private Placement Memorandum.

CONTINUING DISCLOSURE

Prior Continuing Disclosure Non-Compliance

The Authority and the Government have entered into a number of continuing disclosure agreements in connection with bonds previously issued by the Authority. During the past five years, the Authority and the Government have not complied with the majority of their obligations under such continuing disclosure undertakings. Specifically, the Authority and the Government consistently have provided incomplete annual continuing disclosure filings and have failed to provide disclosure on a timely basis. The Authority has not finalized its annual filings for the fiscal year ending September 30, 2011, which were due to be filed with EMMA by June 30, 2012. The Government has not finalized its annual filings for the fiscal year ending September 30, 2010, which were due to be filed with EMMA by June 30, 2011, or for the fiscal year ending September 30, 2011, which were due to be filed with EMMA by June 30, 2012. See "PLAN OF DISTRIBUTION – Elimination of Transfer and Resale Restrictions" for more information on the failure of the Authority and Government to provide continuing disclosure on a timely basis.

Continuing Disclosure Agreement

The Authority has entered into a continuing disclosure agreement for the Series 2012A Bonds that meets the requirements of Rule 15c2-12. See APPENDIX H – "Form of Continuing Disclosure Agreement."

RATINGS

Fitch Ratings Inc., Moody's Investor Service, Inc. and Standard & Poor's Ratings Service have assigned the Series 2012A Bonds a rating of "BBB+", "Baa2" and "BBB," respectively.

A rating, including any related outlook with respect to potential changes in such rating, reflects only the view of the Rating Agency giving such rating and is not a recommendation to buy, sell or hold the Series 2012A Bonds. An explanation of the procedure and methodology used by each Rating Agency and the significance of the above ratings may be obtained from the Rating Agencies. The above ratings may be changed at any time and there is no assurance that either rating will continue for any given period of time or that either rating will not be revised downward or withdrawn entirely by the Rating Agency furnishing the same, if in the judgment of such Rating Agency, circumstances so warrant. Any such downward revision or withdrawal of either rating is likely to have an adverse effect on the market price of the Series 2012A Bonds.

PLACEMENT AGREEMENT

The Authority and the Co-Placement Agents identified on the cover of this Private Placement Memorandum have entered into a placement agreement, dated as of September 7, 2012 (the "Placement Agreement"). Subject to the terms and conditions set forth therein, the Co-Placement Agents have agreed to solicit offers to purchase the Series 2012A Bonds from certain institutional investors. The Placement Agreement provides that the Co-Placement Agents will be paid a placement fee of $855,840.00 (the "Placement Fee").

Pursuant to the Placement Agreement, the Co-Placement Agents have agreed to accept delivery of and pay the purchase price for the Series 2012A Bonds at an aggregate price of $147,067,060.40, representing the $142,640,000.00 par amount of the Series 2012A Bonds, plus the original issue premium of $5,628,369.60, less the Placement Fee of $855,840.00, and less all expenses of the Co-Placement Agents in the amount of $345,469.20.

The obligation of the Co-Placement Agents to pay for and accept delivery of any Series 2012A Bonds is subject to, among other things, the sale of those Series 2012A Bonds to institutional investors, the receipt of certain legal opinions and the satisfaction of other conditions set forth in the Placement Agreement. The Placement Agreement also provides that the Authority, under certain circumstances, will indemnify the Co-Placement Agents and that the Co-Placement Agents, under certain circumstances, will indemnify the Authority against certain civil liabilities under Federal or state securities laws.

MISCELLANEOUS

In this Private Placement Memorandum, any summaries or descriptions of provisions in the Senior Indenture, the Series 2012A Loan Agreement, the Series 2012A Loan Note, the Cruzan Agreement, the Diageo Agreement and the Special Escrow Agreement and all references to other materials not purported to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is hereby made to the complete documents relating to such matters for further information, copies of which may be obtained from the principal corporate trust office of the Trustee.

Any statement in this Private Placement Memorandum involving matters of estimates or opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Private Placement Memorandum is not to be construed as a contract or agreement between the Authority and the owners or holders of, or of interests in, any of the Series 2012A Bonds.

Financial and statistical information has been provided by the Authority and the Government, certain of its agencies and instrumentalities and other sources deemed reliable by the Authority and the Government. The Co-Placement Agents are not responsible for any of such information nor have the Co-Placement Agents independently verified such information.

This Private Placement Memorandum is submitted in connection with the sale of the Series 2012A Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. The execution and delivery of this Private Placement Memorandum has been duly authorized by the Authority.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

By: /s/ John P. deJongh, Jr.
The Honorable John P. deJongh, Jr.
Chairman

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APPENDIX A

GLOSSARY OF CERTAIN DEFINED TERMS

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GLOSSARY OF CERTAIN DEFINED TERMS

Certain terms used in the Indenture, the Seventh Supplemental Indenture, the Amended and Restated Special Escrow Agreement and the Loan Agreement are defined below unless otherwise defined herein or the context clearly indicates otherwise. When and if such terms are used in this Preliminary Private Placement Memorandum they shall have the meanings set forth below. Any capitalized term used in this Preliminary Private Placement Memorandum regarding the Indenture, the Seventh Supplemental Indenture, the Amended and Restated Special Escrow Agreement and the Loan Agreement and not defined herein shall have the meaning given such term by the Indenture, the Seventh Supplemental Indenture, the Amended and Restated Special Escrow Agreement and the Loan Agreement.

Accreted Value means with respect to any Bond that is a Capital Appreciation Bond, for each authorized denomination, an amount equal to the principal amount of such Capital Appreciation Bond (determined on the basis of the initial offering price for such denomination at maturity thereof) plus the amount of earnings which would be produced on the investment of such principal amount, assuming compounding (as set forth in the applicable Supplemental Indenture) beginning on the dated date of such Capital Appreciation Bond and ending at the maturity date thereof, at a yield which, if produced until maturity, will produce an amount equal to such denomination at maturity. As of any Valuation Date, the Accreted Value of any Capital Appreciation Bond means the amount set forth for such date in the applicable Supplemental Indenture authorizing such Bond and as of any date other than a Valuation Date, the sum of (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, using for such calculation 30 day months and a 360 day year and (2) the difference between the Accreted Values for such Valuation Dates.

Act means, collectively, the Virgin Islands Revised Organic Act, 48 U.S.C. 1574, et seq. (West 1987), the laws of the Virgin Islands including Title 29, Chapter 15 of the Virgin Islands Code, 2012 V.I. Act 7342, as amended, and other applicable law, as the same may be amended from time to time.

Act of Bankruptcy means (i) the entity under consideration shall have applied for or consented to the appointment of a custodian, receiver, trustee or liquidator of all or substantially all of its assets; (ii) a custodian shall have been appointed with or without consent of such entity; (iii) such entity has made a general assignment for the benefit of creditors, or has filed a voluntary petition in bankruptcy, or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any insolvency law; (iv) such entity has filed an answer admitting the material allegations of a petition in any bankruptcy, reorganization or insolvency proceeding, or taken any action for the purpose of effecting any of the foregoing; (v) a petition in bankruptcy shall have been filed against such entity and shall not have been dismissed for a period of 60 consecutive days; (vi) an order for relief has been entered under the Bankruptcy Code with respect to such entity; (vii) an order, judgment or decree shall have been entered, without the application, approval or consent of such entity by any court of competent jurisdiction approving a petition seeking reorganization of such entity or appointing a receiver, trustee, custodian or liquidator of such entity or substantially all of its assets, and such order, judgment or decree shall have continued unstayed and in effect for any period of 60 consecutive days; or (viii) such entity shall have suspended the transaction of its usual business.

Additional Bonds means Bonds other than the Initial Series of Bonds.

Adjusted Debt Service Requirement means, for any period, as of any date of calculation, the aggregate Debt Service on Outstanding Senior Lien Bonds or Subordinated Lien Bonds, for such period taking into account the following adjustments:

(i) With respect to Bonds that bear interest at a Variable Interest Rate, the aggregate Debt Service thereon is determined as if each such Bond bore interest at the Certified Interest Rate; provided, however, (1) if the Authority (A) enters into a Qualified Swap Agreement with a Swap Provider requiring the Authority to pay a fixed interest rate on a notional amount, and (B) has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Bonds in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of such Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement, the interest rate on such Bonds shall be determined as if such Bonds bore interest at the fixed interest rate payable by the Authority under such Qualified Swap Agreement, and (2) if (A) Bonds of a specific maturity within a Series bear interest at a Variable Interest Rate and Bonds which bear a Variable Interest Rate of another Series with the same maturity are issued in an equal principal amount to the first such Series of Bonds of the same maturity and (B) the Variable Interest Rate of the first Series of such Bonds varies inversely to the Variable Interest Rate of the second Series of such Bonds of the same maturity so that the combined interest rate for the aggregate principal amount of such Bonds of the same specific maturity for both such Series is determined by the Authority to result in a combined fixed interest rate, then so long as the same principal amount of each maturity of such Series of Bonds remain Outstanding, the aggregate Debt Service thereon shall be determined as if all such Variable Rate Bonds of such Series and maturity bore interest at the combined fixed interest rate so determined by the Authority with respect to such aggregate principal amount of such Bonds.

(ii) With respect to Fixed Interest Rate Bonds, if the Authority (1) enters into a Qualified Swap Agreement with a Swap Provider requiring the Authority to pay a variable interest rate on a notional amount and (2) has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Bonds in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of such Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement the interest rate on such Bonds is determined as if such Bonds bore interest at the Certified Interest Rate on the notional amount of such Bonds.

(iii) Except to the extent described in (iv) below, with respect to Bonds secured by a Credit Facility, the aggregate Debt Service thereon shall be deemed to include all periodic Bond Related Costs and other payments to (including any payments required to reimburse) the related Credit Provider (including any Debt Service Reserve Account Credit Provider), but shall not include any amounts payable as principal of and interest and premium with respect to any reimbursement obligation to such Credit Provider except and to the extent that such payments on such reimbursement obligation are required to be made to the Credit Provider in excess of any corresponding Debt Service with respect to such Bonds during such period.

(iv) With respect to Optional Tender Bonds, the aggregate Debt Service thereon shall not include any amounts payable to a Credit Provider pursuant to any reimbursement obligation arising as the result of the payment of any purchase price with respect to such Bonds on a Purchase Date except to the extent that, and for any period during which, the Authority is obligated to reimburse the Credit Provider for payments made by such Credit Provider directly or indirectly in satisfaction of any obligation to purchase such Bonds on any Purchase Date following the application of any proceeds of any remarketing of such Bonds.

(v) The aggregate Debt Service for any period on any Bonds shall not include (1) any interest which is payable from Capitalized Interest which is to be transferred to the Debt Service Accounts for payment of interest on such Bonds or (2) the amount of Debt Service on Bonds to be paid from amounts in a Debt Service Reserve Account at the time of such computation for the period in question, but only if any such amount described in (1) or (2) is available and is to be applied under the applicable Supplemental Indenture to make interest payments on such Bonds when due.

(vi) If the Authority enters into a Qualified Swap Agreement with a Swap Provider requiring the Authority to pay any amount in excess of the amount to be received by the Authority in connection therewith for the period for which any calculation of Adjusted Debt Service Requirements is to be made hereunder, then, to the extent not taken into account in (i) and (ii) above, the net amount of such payments which may be required of the Authority (using the Certified Interest Rate or its equivalent for such purpose if such amount is subject to any variation and excluding any breakage fees or termination payments paid by the Authority) shall be included in Adjusted Debt Service Requirements.

For purposes of this definition of Adjusted Debt Service Requirements, the principal and interest portions of the Accreted Value of Capital Appreciation Bonds and the Appreciated Value of any Deferred Interest Bonds becoming due at maturity or by virtue of Mandatory Sinking Fund Requirements shall be included in the calculation of accrued and unpaid and accruing interest or principal installments on the date on which or for the period during which such amounts become due and payable unless otherwise specified in the Supplemental Indenture authorizing such Capital Appreciation Bonds or Deferred Interest Bonds.

Aggregate Debt Service for any period means, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to the Bonds.

Amended and Restated Special Escrow Agreement means the Amended and Restated Special Escrow Agreement by and among the Government, the Authority and the Special Escrow Agent, dated as of September 1, 2012, as the same may be supplemented or amended from time to time.

Annual Administrative Fee means the amount authorized to be transferred annually from the Senior Lien Expense Account and the Subordinated Lien Expense Account to the Authority to pay the Authority's expenses in accordance with the annual budget approved by the Board of the Authority.

Annual Debt Service means, as of any date of calculation with respect to a specified Bond Year, Debt Service plus any premium, if any, payable for the Bonds in the respective Bond Year.

Appreciated Value means with respect to any Bond that is a Deferred Interest Bond until the Interest Commencement Date thereon, for each authorized denomination, an amount equal to the principal amount of such Deferred Interest Bond (determined on the basis of the initial offering price for such denomination at the Interest Commencement Date thereof) plus the amount of earnings which would be produced on the investment of such principal amount, assuming compounding (as set forth in the applicable Supplemental Indenture) beginning on the dated date of such Deferred Interest Bond and ending on the Interest Commencement Date, at a yield which, if produced until the Interest Commencement Date, will produce an amount equal to such denomination at the Interest Commencement Date. As of any Valuation Date, the Appreciated Value of any Bond that is a Deferred Interest Bond means the amount set forth for such date in the Supplemental Indenture authorizing such Deferred Interest Bond and as of any date other than a Valuation Date accruing for that period or due and payable on that date, the sum of (i) the Appreciated Value on the preceding Valuation Date and (ii) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

Approved Project means any public improvement or public undertaking authorized by act of the Legislature of the Virgin Islands and by resolution of the Authority to be financed with the proceeds of Authority bonds.

Arbitrage and Use of Proceeds Certificate shall mean the Arbitrage and Use of Proceeds Certificate, dated September 13, 2012, from the Authority and the Government, relating to the requirements of Sections 148 and 103 of the Code for exemption of interest on the Series 2012A Bonds from Federal income tax..

Authority means the Virgin Islands Public Finance Authority, a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government of the Virgin Islands, or, if said Authority shall be abolished, any authority, board, body or officer succeeding to the principal functions thereof.

Authorized Officer means the Executive Director or Chairman of the Authority or any other person authorized by the Authority to perform an act or sign a document on behalf of the Authority for purposes of the Indenture or a Supplemental Indenture as set forth in a Supplemental Indenture or a certificate of the Authority which has been delivered to the Trustee.

Bankruptcy Code means the Federal Bankruptcy Code, 11 U.S.C. §§101, et seq. and any amendments thereto.

Board means the Board of Directors of the Authority.

Bond or **Bonds** means any bond or bonds, as the case may be, issued pursuant to the Indenture or any Supplemental Indenture, and may include notes, commercial paper, or other obligations and shall include Senior Lien Bonds and Subordinate Lien Bonds.

Bond Counsel means an attorney or firm of attorneys with nationally recognized expertise in matters relating to the issuance of obligations by states and local governments and political subdivisions thereof.

Bond Register means the register maintained by the Bond Registrar pursuant to the Indenture.

Bond Registrar means the Trustee, any successor trustee or bond registrar appointed as Bond Registrar pursuant to the Indenture.

Bond Related Costs means (i) all costs, fees and expenses of the Authority incurred or reasonably related to any Liquidity Facility, any Credit Facility, any remarketing or other secondary market transactions and any Qualified Swap Agreement (whether requiring the Authority to pay fixed or variable amounts and excluding breakage fees on or termination payments under such Qualified Swap Agreements) that the Authority has determined was entered into for the purposes of providing substitute interest payments for a particular Series or maturity of Bonds, (ii) initial and acceptance fees of any Fiduciary together with any fees of Bond Counsel, attorneys, feasibility consultants, engineers, financial advisors, Remarketing Agents, rebate consultants, accountants and other advisors retained by the Authority in connection with a Series of Bonds, and (iii) any other fees, charges and expenses that may be lawfully incurred by the Authority relating to Bonds, including, without limitation, any obligation of the Authority to a Credit Provider for a Series of Bonds to repay or reimburse any amounts paid by such Credit Provider due to payment under such Credit Facility and any interest on such repayment obligation.

Bond Service Charges means for any applicable time period or date, principal of and premium, if any, and interest payments due and the fees, expenses and costs of the Trustee, Bond Registrar and Paying Agent, if any, on any of the Bonds accruing for that period or due and payable on that date. In determining Bond Service Charges accruing for any period or due and payable on any date, Mandatory Sinking Fund Requirements accruing for that period or due on that date shall be included together with any amount required to be paid for the replenishment of any Bond Reserve Account.

Bond Year means for each Series of Bonds a period of twelve (12) consecutive months beginning on October 1 in any calendar year and ending on September 30 of the succeeding calendar year; provided that for purposes of Section 148 of the Code the Authority may elect a different Bond Year for any Series of Bonds.

Borrower means the Government of the Virgin Islands.

Business Day means any day that is not a Saturday, Sunday or legal holiday in the United States Virgin Islands or a day on which the Trustee, the Special Escrow Agent or banking institutions organized under the laws of the United States Virgin Islands are legally authorized to close.

Calculation Agent means, collectively, the Diageo Calculation Agent and the Cruzan Calculation Agent.

Capital Appreciation Bonds means any Bonds as to which interest is payable only at the maturity or prior redemption thereof. For the purposes of (i) receiving payment of the Redemption Price, if any, of a Capital Appreciation Bond that is redeemed prior to maturity, and (ii) computing the principal amount of Capital Appreciation Bonds held by the Owner thereof in giving any notice, consent, request, or demand pursuant to the applicable Supplemental Indenture for any purpose whatsoever, the Accreted Value of a Capital Appreciation Bond as of a specific date shall be deemed to be its principal amount as of such date.

Capitalized Interest means that portion of the proceeds of any Series of Bonds together with any available earnings thereon that are intended to be used to pay interest due or to become due on any Bonds.

Certified Interest Rate means a rate estimated and certified by the financial advisor to the Authority as the rate that would be borne by a Variable Rate Bond if on the date of such certification such Bond was issued as a Bond bearing interest at a fixed rate to its stated maturity.

Code means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a Code section herein shall be deemed to include the Treasury Regulations proposed or in effect thereunder and applicable to the Bonds.

Construction Account means the account of that name established pursuant to the Indenture.

Corporate Trust Office means the principal corporate trust office of the Trustee in which the corporate trust business of the Trustee shall, at any particular time, be principally administered, which office is, at the date as of which the Indenture is dated, located at 10161 Centurion Parkway, Jacksonville, FL 32256 except that, with respect to presentation of Bonds for payment or registration of transfer and exchange and the location of the Bond Register, such term means the office or agency of the Bond Registrar in said city at which at any particular time its corporate agency business shall be conducted, which is, at the date as of which the Indenture is dated, is the same address as the corporate trust office as indicated above.

Cost of Issuance means the items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, sale and issuance of Bonds which items of expense shall include without limiting the generality of the foregoing: travel expenses; printing costs; costs of reproducing documents; computer fees and expenses; filing and recording fees; initial fees and charges of the Trustee; initial fees and charges of Credit Providers or other parties (including specifically providers of bond insurance policies and surety policies) pursuant to remarketing, indexing or similar agreements; discounts; legal fees and charges; auditing fees and expense; financial advisor's fees and charges; costs of credit ratings; insurance premiums; fees and charges for execution, transportation and safekeeping of Bonds; and other administrative or other costs of issuing, carrying and repaying such Bonds and investing the proceeds thereof.

Cost of Issuance Account means the account of that name established pursuant to the Indenture.

Counsel's Opinion means an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds (who may be counsel to the Authority) selected by the Authority and reasonably satisfactory to the Trustee.

Credit Agreement means any reimbursement agreement or similar instrument between the Authority (and, if so drafted, the Trustee) and a Credit Provider with respect to a Credit Facility.

Credit Facility means a letter of credit, surety bond, liquidity facility, insurance policy or comparable instrument furnished by a Credit Provider which is rated in one of the two highest rating categories by the Rating Agency rating the Bonds with respect to all or a specific portion of one or more Series of Bonds to satisfy in whole or in part the Authority's obligation to maintain a Debt Service Reserve Requirement with respect thereto or to secure (a) the payment of Debt Service (which may include the premium due on payment of a Bond), on Bonds of a specified Series, or a specific portion thereof, (b) the payment of the purchase price (which may include accrued interest to the date of purchase) of Bonds of a specified Series, or a specific portion thereof, on the applicable purchase dates or tender dates, or (c) both the payment of Debt Service and the payment of the purchase price on a specified Series of Bonds, or a specific portion thereof.

Credit Provider means the bank, insurance company, financial institution or other entity providing a Credit Facility or Liquidity Facility pursuant to a Credit Agreement.

Cruzan shall mean Cruzan VIRIL, Ltd., a limited liability corporation, and its affiliates, duly organized and validly existing under the laws of the United States Virgin Islands.

Cruzan Agreement shall mean the Agreement, dated October 6, 2009, as amended pursuant to the Amendments dated March 22, 2012, each entered into by and between Cruzan and the Government, and ratified by the Legislature of the Virgin Islands on October 27, 2009 and April 25, 2012, respectively, as the same may be further amended and supplemented in accordance with the terms thereof.

Cruzan Calculation Agent shall mean Bert Smith & Co. or such other independent certified public accounting firm to be appointed pursuant to the Cruzan Calculation Agent Agreement.

Cruzan Calculation Agent Agreement shall mean the Calculation Agent Agreement, dated as of August 1, 2011, by and among the Government, the Authority, Cruzan, the Trustee, in its capacity as the Cruzan Special Escrow Agent, and the Cruzan Calculation Agent.

Cruzan Incremental Cover Over Revenues shall mean Matching Fund Revenues payable to or on behalf of Cruzan under the Cruzan Agreement.

Cruzan Project Implementation Agreement shall mean the Cruzan Project Implementation Agreement, by and among the Government, the Authority, Cruzan and the Cruzan Trustee, dated as of December 1, 2009.

Cruzan Special Escrow Agent shall mean The Bank of New York Mellon Trust Company, N.A., the special escrow agent under the Cruzan Special Escrow Agreement, or any successor thereto.

Cruzan Special Escrow Agreement shall mean the Cruzan Special Escrow Agreement by and among the Authority, the Cruzan Special Escrow Agent and the Government dated as of December 1, 2009, as the same may be supplemented or amended from time to time.

Cruzan Subordinated Indenture shall mean the Subordinated Indenture of Trust, dated as of December 1, 2009, by and between the Authority and the Cruzan Trustee, as the same may be supplemented or amended from time to time.

Cruzan Subordinate Lien Bonds shall mean the Authority's $39,190,000 aggregate principal amount of Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Note-Cruzan Project) issued under the Cruzan Subordinated Indenture.

Cruzan Trustee shall mean The Bank of New York Mellon Trust Company, N.A., as trustee under the Cruzan Subordinated Indenture.

Cumulative Available Revenues means, as of any October 1, commencing with October 1, 2013, the sum of (i) the Surplus Available Revenues as of such October 1 and (ii) the balance on deposit as of such October 1 in the Series 2012A Restricted Moneys Subaccount of the Series 2012A Redemption Subaccount.

Current Interest Bonds mean all Bonds which are not (a) Capital Appreciation Bonds or (b) prior to the Interest Commencement Date, Deferred Interest Bonds.

Debt Service for any period means, as of any date of calculation and with respect to any Series of Bonds then Outstanding, the Bond Service Charges on such series. For purposes of this definition, unless provided to the contrary in an applicable Supplemental Indenture authorizing the issuance of Capital Appreciation Bonds and Deferred Interest Bonds, the scheduled principal and interest portions of the Accreted Value of Capital Appreciation Bonds and the Appreciated Value of Deferred Interest Bonds becoming due at maturity or by virtue of Mandatory Sinking Fund Requirements shall be included in the

calculations of accrued and unpaid and accruing interest or principal payments in the year in which such payments are required to be made.

Debt Service Account or **Accounts** means the Senior Lien Debt Service Account or the Subordinate Lien Debt Service Account, or, collectively, the Senior Lien Debt Service Account and the Subordinate Lien Debt Service Account, as applicable.

Debt Service Reserve Account or **Accounts** means the Senior Lien Debt Service Reserve Account or the Subordinate Lien Debt Service Reserve Account, or, collectively, the Senior Lien Debt Service Reserve Account and the Subordinate Lien Debt Service Reserve Account established pursuant to the Indenture.

Debt Service Reserve Account Credit Facility means a Credit Facility provided to satisfy all or any portion of a Debt Service Reserve Requirement.

Debt Service Reserve Account Credit Provider means the Credit Provider of a Debt Service Reserve Account Credit Facility.

Debt Service Reserve Requirement means, as of any date of calculation, the sum of the Debt Service Reserve Requirements applicable to Series of Bonds then Outstanding. The Debt Service Reserve Requirement may be calculated individually for each Series of Bonds or in the aggregate if more than one Series of Bonds are issued at the same time, and as set forth in the applicable Supplemental Indenture. The Debt Service Reserve Requirement may be satisfied by cash, Permitted Investments or a Debt Service Reserve Account Credit Facility, or any combination thereof.

Defeasance Securities means

(i) direct and general obligations of, or obligations which as to principal and interest are unconditionally guaranteed as to full and timely payment by, the United States of America, to the payment of which the full faith and credit of the United States of America is irrevocably and unconditionally pledged. The obligations described in this paragraph are hereinafter called "United States Government Obligations."

(ii) pre-refunded municipal obligations meeting the following conditions:

(1) the municipal obligations (A) are not subject to redemption prior to maturity or (B) the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer of such municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions.

(2) the municipal obligations are secured by cash or non-callable United States Government Obligations that may be applied only to interest, principal and premium payments of such municipal obligations.

(3) the principal of and interest on such United States Government Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations.

(4) the cash and United States Government Obligations serving as security for the municipal obligations are held by an escrow agent or trustee.

(5) the United States Government Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent.

Deferred Interest Bonds means any Bonds as to which accruing interest is not paid prior to the Interest Commencement Date specified in the Supplemental Indenture authorizing such Series.

Depository or **DTC** means The Depository Trust Company, New York, New York, and its successors and assigns.

Diageo or **Diageo USVI** shall mean Diageo USVI Inc., a corporation duly organized and validly existing under the laws of the United States Virgin Islands and its affiliates.

Diageo Agreement shall mean the Agreement between Diageo and the Government, dated as of June 17, 2008, as ratified by Act No. 7012 of the Legislature of the Virgin Islands, as the same may be amended and supplemented in accordance with the terms thereof.

Diageo Calculation Agent shall mean Deloitte (Virgin Islands) LTD., or such other independent certified public accounting firm to be appointed pursuant to the Diageo Calculation Agent Agreement.

Diageo Calculation Agent Agreement shall mean the Calculation Agent Agreement, dated as of August 1, 2011, by and among the Government, the Authority, Diageo, the Trustee, in its capacity as the Diageo Special Escrow Agent, and the Diageo Calculation Agent.

Diageo Incremental Cover Over Revenues shall mean Matching Fund Revenues payable to or on behalf of Diageo under the Diageo Agreement.

Diageo Project Implementation Agreement shall mean the Diageo Project Implementation Agreement, by and among the Government, the Authority, Diageo and the Diageo Trustee, dated as of June 1, 2009.

Diageo Special Escrow Agent means The Bank of New York Mellon Trust Company, N.A., the special escrow agent under the Diageo Special Escrow Agreement, or any successor thereto.

Diageo Special Escrow Agreement means the Diageo Special Escrow Agreement by and between the Authority, the Diageo Special Escrow Agent and the Government, dated as of July 1, 2009, as the same may be supplemented or amended from time to time.

Diageo Subordinated Indenture shall mean the Subordinated Indenture of Trust, dated as of July 1, 2009, by and between the Authority and the Diageo Trustee, as the same may be supplemented or amended from time to time.

Diageo Subordinate Lien Bonds shall mean the Authority's $250,000,000 aggregate principal amount of Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Note-Diageo Project) issued under the Diageo Subordinated Indenture.

Diageo Trustee shall mean The Bank of New York Mellon Trust Company, N.A., as trustee under the Diageo Subordinated Indenture.

Fiduciary or **Fiduciaries** means any bank or other organization acting in a fiduciary capacity with respect to any Bonds whether as Trustee, Paying Agent, Bond Registrar, tender agent, escrow agent or any or all of them, as may be appropriate.

Fiscal Year means the Authority's fiscal year, which is currently October 1 to the following September 30.

Fitch means Fitch Ratings, or any successor thereof which qualifies as a Rating Agency hereunder.

Fixed Interest Rate Bond means (i) a Bond, the interest rate on which is established (with no right to vary) at the time of calculation at a single numerical rate for the remaining term of such Bond, or (ii) all of those Bonds of a specific maturity described in clause (2)(A) and (B) of paragraph (i) of the definition of Adjusted Debt Service Requirement.

Funds means those funds and accounts specified in the Indenture.

Government means the Government of the United States Virgin Islands.

Indenture means the Indenture of Trust dated as of May 1, 1998, between the Authority and the Trustee and, as to each Series of Bonds, the Supplemental Indenture pertaining thereto, as the Indenture or any Supplemental Indenture may from time to time be amended or supplemented in accordance with the terms hereof.

Independent Counsel means an attorney, or firm thereof, admitted to practice law before the highest court of any state in the United States of America, the United States Virgin Islands or the District of Columbia and not an employee on a full-time basis of either the Authority or the Trustee (but who or which may be regularly retained by any one or more of them).

Independent Verification Analyst means a firm retained by the Authority to prepare the certificates required pursuant to the Indenture in connection with the issuance of Additional Senior Lien or Subordinate Lien Bonds.

Initial Series of Bonds means the Series 1998A, Series 1998B, Series 1998C, Series 1998D and Series 1998E Bonds.

Interest Commencement Date means, with respect to any particular Deferred Interest Bonds, the date specified in the applicable Supplemental Indenture authorizing such Deferred Interest Bonds (which date must be prior to the maturity date for such Deferred Interest Bonds), after which interest accruing on such Deferred Interest Bonds shall be payable with the first such payment date being the applicable Interest Payment Date immediately succeeding such Interest Commencement Date.

Interest Payment Date means each date specified in a Supplemental Indenture as a date for the payment of interest to Owners of Bonds of a specific Series.

Interest Payment Period with respect to any Bond or Series of Bonds, means if prior to the first Interest Payment Date, the period from but not including the date specified in each Supplemental Indenture as the date for commencement of accrual of interest for such Bond or Series and after the first regularly scheduled Interest Payment Date means including a regularly scheduled Interest Payment Date, in each case to the period from but not and including the next regularly scheduled Interest Payment Date, provided that any Supplemental Indenture may adjust this definition with respect to any Bond or Series of Bonds authorized to be issued thereunder in order to provide for the proper computation of or the timely transfer of amounts payable with respect to interest borne by such Bond or Series of Bonds on any Interest Payment Date.

Issue Date means, for the Bonds of a particular Series, the date on which the Bonds of such Series are delivered against payment therefor.

Letter of Representation means the Letter of Representation from the Authority to the Depository in substantially the form set forth in APPENDIX A to the Indenture, or such form as may be acceptable to the Authority and the Depository.

Liquidity Facility means any agreement with a Credit Provider under or pursuant to which it agrees to purchase Optional Tender Bonds provided that the debt obligations of such Credit Provider are rated in one of the two highest Rating Categories by S&P, Moody's or Fitch.

Loan Agreement means a loan agreement by and between the Authority and the Borrower, as the same may from time to time be amended or supplemented in accordance with the terms thereof.

Loan Notes means with respect to each of the Series of the Bonds, the special limited obligation note in the aggregate principal amount of each of the respective Series of Bonds issued by the Authority for the benefit of the Borrower, each note signed by the Borrower and delivered to the Authority, and collectively, all such Loan Notes.

Mandatory Sinking Fund Requirements means the principal amount of Term Bonds which are required to be redeemed by mandatory sinking fund redemption, in the principal amounts at the prices and on the dates as set forth in the applicable Supplemental Indenture.

Mandatory Tender Date means a date on which a Series of Bonds, or specific Bonds included in such Series, are required to be purchased by, or on behalf of, the Authority as provided in the Indenture or in the Supplemental Indenture authorizing such Series of Bonds.

Matching Fund Revenues means amounts paid to the Special Escrow Agent on behalf of the Government of the Virgin Islands pursuant to Section 28(b) of the Revised Organic Act, 48 U.S.C. §§ 1574-1574c (West 1987), or any successor provisions thereto.

Moody's means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

Non-AMT Tax-Exempt Investment means an investment that meets both of the following criteria: (i) it is a tax-exempt bond the interest on which is excludable from gross income under Section 103 of the Code; and (ii) it is a tax-exempt bond that is not subject to the alternative minimum tax in that it is not a specified private activity bond under Section 57(a)(5)(C) of the Code.

Officer's Certificate means a certificate signed by an Authorized Officer.

Optional Tender Bonds means any Bonds which by their terms may be tendered by and at the option of, or required to be tendered by, the Owner thereof for payment or purchase by the Authority or another party prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Owner thereof, provided, however, a Supplemental Indenture may expressly provide that specific Bonds are not "Optional Tender Bonds" if, in the reasonable judgment of the Authority, the tender requirements of such Bonds are not of the character intended to be included within this definition.

Outstanding Bonds, Bonds Outstanding and **Bonds then Outstanding** means as of the date of determination, all Bonds theretofore issued and delivered under the Indenture as from time to time supplemented except:

(i) Bonds theretofore canceled by the Trustee or Paying Agent or delivered to the Trustee or Paying Agent canceled or for cancellation.

(ii) for which payment or redemption moneys or securities (as provided for in the Indenture) shall have been theretofore deposited with the Trustee or Paying Agent in trust for the Owners of such Bonds; provided, however, that if such Bonds are to be redeemed, notice of such redemption shall have been duly given pursuant to the Indenture or irrevocable action shall have been taken to call such Bonds for redemption at a stated redemption date.

(iii) Bonds in exchange for or in lieu of which other Bonds shall have been issued and delivered pursuant to the Indenture.

(iv) Optional Tender Bonds deemed tendered in accordance with the provisions of the Supplemental Indenture authorizing such Bonds on the applicable tender, adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payments as provided therein (but not if held for reoffering).

In determining requisite percentages of the Owners of aggregate principal amount of Bonds Outstanding for the purposes of direction, consent, approval or waiver under the terms and provisions of the Indenture and any Supplemental Indenture: (1) the aggregate "principal amount" of any Bonds that are Capital Appreciation Bonds shall be determined by their Accreted Value as of the date of such determination, and (2) the aggregate "principal amount" of any Bonds that are Deferred Interest Bonds shall be determined by their Appreciated Value as of the date of such determination and provided, however, that in determining whether the Owners of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Bonds owned by the Authority shall be disregarded and deemed not to be Outstanding Bonds, except that in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, or waiver, only Bonds which the Trustee knows to be so owned shall be disregarded.

Each Supplemental Indenture may further specify the conditions under which a Credit Provider will be deemed the Owner of Outstanding Bonds for purposes of consents hereto.

Owner or **Bondowner**, or any similar term, means any Person who shall be the registered owner of any Bond or Bonds.

Participants, means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds as securities depository.

Paying Agent means any commercial bank or trust company organized under the laws of the United States Virgin Islands, any state of the United States, or the United States of America, or any national banking association designated as paying agent for the Bonds, and its successor or successors hereafter appointed in the manner provided in the Indenture or a Supplemental Indenture.

Permitted Investments means any of the following securities, if and to the extent the same are at the time legal for the investment of funds held under the Indenture:

(i) direct obligations of the United States or obligations guaranteed as to principal and interest by the United States.

(ii) general obligations of any state, territory, possession or commonwealth of the United States with a rating at the time of purchase in either of the two highest Rating Categories as designated by any Rating Agency.

(iii) prerefunded obligations of any state, territory, possession or Commonwealth of the United States or political subdivision thereof secured by cash or obligations listed in subsection (i) above, with a rating at the time of purchase in one of the two highest Rating Categories as designated by S&P or any Rating Agency then rating the Bonds.

(iv) obligations of the Government of the United States Virgin Islands, or obligations guaranteed as to both principal and interest, by the Government of the United States Virgin Islands with a rating at the time of purchase in one of the two highest Rating Categories as designated by S&P or any Rating Agency.

(v) obligations issued, or the principal of and interest on which are unconditionally guaranteed, by any agency or instrumentality of or a corporation wholly owned by the United States with a rating at the time of purchase in one of the two highest Rating Categories as designated by any Rating Agency.

(vi) repurchase agreements with banks, savings and loan associations or trust companies organized under the laws of the United States Virgin Islands, the United States, or any state, territory, possession or commonwealth of the United States, provided, however, that any such bank, savings and loan association or trust company shall have a combined capital and surplus at least equal to $200,000,000 and further provided that (1) such agreements are fully secured by obligations set forth in (i), (ii), and (iii) above; (2) such collateral is not subject to liens or claims of third parties; (3) such collateral has a market value at least equal to 102% of the amount invested and is held by the Trustee or its agent or, in the case of uncertificated securities, is registered in the name of the Trustee as pledgee; (4) the Trustee has a valid security interest in such collateral, (5) such agreements shall provide that the failure to maintain such collateral at the level required by clause (3) for a period of 10 days will require the Trustee or its agents to liquidate the investments, and (6) shall be rated in one of the two highest Rating Categories as designated by S&P or any Rating Agency then rating the Bonds.

(vii) investment agreements, guaranteed investment contracts or similar funding agreements issued by insurance companies or other financial institutions; provided that (1) such agreements are fully secured by obligations set forth in (i), (ii) and (iii) above; (2) such collateral is not subject to liens or claims of third parties; (3) such collateral has a market value at least equal to 102% of the amount invested and is held by the Trustee or its agent or, in the case of uncertificated securities, is registered in the name of the Trustee as pledgee; (4) the Trustee has a valid security interest in such collateral; (5) such agreement shall provide that the failure to maintain such collateral at the level required by clause (3) for a period of 10 days will require the Trustee or its agents to liquidate the investments; and (6) such insurance company or financial institution is rated in one of the two highest Rating Categories designated by S&P or any Rating Agency then rating the Bonds.

(viii) U.S. dollar denominated bankers' acceptances with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase in the highest short-term rating category by a national rating agency and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).

(ix) Certificates of deposit with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase in the two highest short-term rating categories by S&P or any Rating Agency rating the Bonds and maturing no more than 360 days after the date of purchase. Certificates of deposit will be placed directly with depository institutions and secured by obligations set forth in (i), (ii) and (iii) above; (2) such collateral is not subject to liens of claims of third parties; (3) such collateral has a market value at least equal to (102%) of the amount invested and is held by the Trustee or its agent or, in the case of uncertificated securities, are registered in the name of the Trustee as pledgee; (4) the Trustee has a valid security interest in such collateral and (5) such agreement shall provide that the failure to maintain such collateral at the level required by clause (3) for a period of 10 days will require the Trustee or its agents to liquidate the investments.

(x) Investments in a money market fund rated in the two highest rating categories by S&P or any other Rating Agency rating the Bonds including money market funds sponsored by the Authority.

(xi) Commercial Paper issued by U.S. Corporations which is rated at the time of purchase in the two highest short-term rating category by S&P or any other Rating Agency rating the Bonds and which matures not more than 270 days after the date of purchase.

Any such Permitted Investment may be purchased or sold by, from or through the Authority or the Trustee. The Authority will not direct the Trustee to hold investments described in (vi), (vii) and (viii) unless arrangements satisfactory to the Trustee are in place to verify and monitor compliance with such provisions.

Person means an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof, or any other legal entity or groups of legal entities.

Pledge Agreement means a Pledge Agreement entered into with respect to a specific Series of Bonds or specific Bond within a Series of Variable Rate Bonds and related to the Credit Facility for such Bonds.

Pledged Revenue Account means the fund by that name established pursuant to the Indenture.

Principal Installment means, as of any date of calculation and with respect to the Bonds, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds due on a certain future date, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for the Bonds.

Principal Payment Date means any date on which a Principal Installment is scheduled to become due on Bonds whether by scheduled maturity or Mandatory Sinking Fund Requirements or otherwise.

Proportionate Basis means, when used with respect to the redemption of Bonds of a specific Series, that the aggregate principal amount of such Bonds of each maturity of such Series to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the principal amount of Bonds of that Series to be redeemed bears to the principal amount of all Bonds of that Series then Outstanding; provided that if the amount available for redemption of Bonds of any maturity is insufficient to redeem a multiple of the minimum authorized denomination of such maturity, such amount shall be applied to the redemption of the highest possible integral multiple of the minimum authorized denomination of such maturity. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Fund Requirements set forth in the applicable Supplemental Indenture. Any Bonds purchased with moneys which would otherwise be applied to redemption on a Proportionate Basis on the next succeeding Payment Date shall be taken into account in determining Proportionate Basis with respect to such redemption. When used with respect to the purchase of Bonds, Proportionate Basis shall have the same meaning as set forth above, substituting "purchase" for "redemption," and "purchased" for "redeemed."

Purchase Date means the date on which any Outstanding Bonds are purchased pursuant to the Indenture or any applicable Supplemental Indenture.

Qualified Swap Agreement means an agreement between the Authority and a Swap Provider (i) which agreement is either approved by, or following review of such agreement the rating upon all affected Bonds is confirmed by, each Rating Agency then rating the Swap Provider, and (ii) under which the Authority agrees to pay the Swap Provider an amount calculated at an agreed-upon rate or index based upon a notional amount and the Swap Provider agrees to pay the Authority for a specific period of time an amount calculated at an agreed-upon rate or index based upon such notional amount, where the Swap Provider, or the Person who guarantees the obligation of the Swap Provider to make its payments to the Authority, has unsecured obligations rated, as of the date the swap agreement is entered into, in one of the two highest applicable Rating Categories by each Rating Agency then rating such Swap Provider or other Person who guarantees such obligation.

Rating Agency means Moody's, S&P and Fitch or any successor or comparable Rating Agency as long as such Rating Agency shall maintain an Outstanding rating on any Series of Bonds.

Rating Category means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

Rebate Account means the Rebate Account established pursuant to the Indenture and the applicable Supplemental Indenture.

Rebate Amount shall have the meaning set forth in the Seventh Supplemental Indenture.

Rebate Requirement means the amount required to be paid to the United States Treasury pursuant to Section 148(f) of the Code.

Record Date means with respect to an Interest Payment Date for the Bonds, unless otherwise provided by any Supplemental Indenture, the fifteenth day (or if such day shall not be a Business Day, the preceding Business Day) next preceding such Interest Payment Date.

Redemption Price means with respect to any Bond, the principal amount of such Bond plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond, the Indenture or the applicable Supplemental Indenture.

Related Agreements or **Related Documents** means any Credit Facility, Credit Agreement or Pledge Agreement related to a Series of Bonds or a specific portion thereof, including security agreements or instruments heretofore or hereafter made for the benefit and with the consent of the Trustee or a Credit Provider as creditor to secure payment of any Series of Bonds or a specific portion thereof or any amount due to a Credit Provider; but excluding the Indenture and all Supplemental Indentures; provided, that the term "Related Agreements" or "Related Documents," when used in relation to a specific Series of Bonds or a specific portion thereof, shall include only such Related Agreements or Related Documents as have been entered into for such Series of Bonds or a specific portion thereof, and shall not include documents, agreements or other items entered into only for the purposes of a different Series of Bonds or a specific portion thereof.

Remarketing Agent means the firm appointed as Remarketing Agent for a specific Series of Optional Tender Bonds.

Revenues means (i) any proceeds and collections from any Loan Notes deposited in the Pledged Revenue Account, including any investment earnings earned thereon, and (ii) any proceeds which arise with respect to any disposition of the Trust Estate.

S&P means Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

Senior Lien Bonds means obligations of the Authority issued pursuant to any Supplemental Indenture as Senior Lien Bonds permitted by the Indenture.

Senior Lien Capitalized Interest Subaccount means the subaccount by that name in the Senior Lien Debt Service Account established by the Indenture and the applicable Supplemental Indenture.

Senior Lien Credit Subaccount means a subaccount by that name in the Senior Lien Debt Service Account or Senior Lien Debt Service Reserve Account, as applicable, established pursuant to the Indenture.

Senior Lien Debt Service Account means the fund by the name established pursuant to the Indenture.

Senior Lien Debt Service Reserve Account means the fund by that name established pursuant to the Indenture.

Senior Lien Expense Account means the Account by that name established pursuant to the Indenture.

Senior Lien Interest Subaccount means the Subaccount by that name in the Senior Lien Debt Service Account established pursuant to the Indenture and the applicable Supplemental Indenture.

Senior Lien Principal Subaccount means the subaccount by that name in the Senior Lien Debt Service Account established pursuant to the Indenture and the applicable Supplemental Indenture.

Senior Lien Redemption Subaccount means the subaccount by that name in the Senior Lien Debt Service Account established pursuant to the Indenture and the applicable Supplemental Indenture.

Series means all Bonds, delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

Series 2012A Bonds shall mean the $142,640,000 Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2012A (Working Capital) authorized to be issued pursuant to the Seventh Supplemental Indenture.

Series 2012A Cost of Issuance Subaccount shall mean the Series 2012A Cost of Issuance Subaccount of the Cost of Issuance Account established pursuant to the Seventh Supplemental Indenture.

Series 2012A Debt Service Reserve Requirement shall mean for the Series 2012A Bonds an amount equal to the least of (a) the maximum principal and interest due on the Series 2012A Bonds in the current or any future Fiscal Year, (b) 10% of the original stated principal amount of the Series 2012A Bonds (or 10% of the issue price of the Series 2012A Bonds if required by the code) or (c) 125% of the average annual principal and interest due on the Series 2012A Bonds in the current and each future Fiscal Year.

Series 2012A Debt Service Reserve Subaccount shall mean the Series 2012A Debt Service Reserve Subaccount of the Senior Lien Debt Service Reserve Account established pursuant to the Seventh Supplemental Indenture.

Series 2012A Expense Subaccount shall mean the Series 2012A Expense Subaccount of the Senior Lien Expense Account established pursuant to the Seventh Supplemental Indenture.

Series 2012A Interest Subaccount shall mean the Series 2012A Interest Subaccount of the Senior Lien Interest Subaccount established pursuant to the Seventh Supplemental Indenture.

Series 2012A Loan Agreement shall mean the Loan Agreement, dated as of September 1, 2012, by and among the Government, the Authority and the Trustee, entered into in connection with the issuance of the Series 2012A Bonds.

Series 2012A Loan Note shall mean the Government's 2012A Matching Fund Loan Note in the principal amount of $142,640,000.

Series 2012A Principal Subaccount shall mean the Series 2012A Principal Subaccount of the Senior Lien Principal Subaccount established pursuant to the Seventh Supplemental Indenture.

Series 2012A Project Subaccount shall mean the Series 2012A Project Subaccount of the Construction Account established pursuant to the Seventh Supplemental Indenture.

Series 2012A Rebate Account shall mean the Series 2012A Rebate Account established pursuant to the Seventh Supplemental Indenture.

Series 2012A Redemption Subaccount shall mean the Series 2012A Redemption Subaccount of the Senior Lien Redemption Subaccount established pursuant to the Seventh Supplemental Indenture.

Series 2012A Restricted Moneys Subaccount shall mean the Series 2012A Restricted Moneys Subaccount established pursuant to the Seventh Supplemental Indenture.

Seventh Supplemental Indenture shall mean the Seventh Supplemental Indenture of Trust, dated as of September 1, 2012, between the Authority and the Trustee, which further supplements the Indenture.

Sinking Fund Installment means with respect to any Series of Bonds an amount so designated which is established pursuant to the Supplemental Indenture authorizing such Series of Bonds.

SLGS means United States Treasury Obligations, State and Local Government Series, as provided for in the United States Treasury Regulations 31 CFR 344.

Special Escrow Agent means The Bank of New York Trust Company, N.A., successor to U.S. Trust Company of New York, the special escrow agent under the Amended and Restated Special Escrow Agreement, or any successor thereto.

Special Escrow Fund means the Special Escrow Fund established under the Amended and Restated Special Escrow Agreement.

Special Record Date means if the Authority shall be in default in payment of principal or interest due, a special Record Date for the payment of such defaulted principal or interest established by notice mailed by the Trustee on behalf of the Authority; notice of such Special Record Date shall be mailed not less than 10 days preceding such Special Record Date, to the owner at the close of business on the fifth Business Day preceding the date of mailing.

Subordinate Lien Bonds means obligations of the Authority issued pursuant to any Supplemental Indenture as Subordinate Lien Bonds permitted under the Indenture.

Subordinate Lien Debt Service Account means the fund by that name established pursuant to the Indenture.

Subordinate Lien Debt Service Reserve Account means the fund by that name established pursuant to the Indenture.

Subordinate Lien Interest Subaccount means the subaccount by that name in the Subordinate Lien Debt Service Account established pursuant to the Indenture.

Subordinate Lien Principal Subaccount means the subaccount by that name in the Subordinate Lien Debt Service Account established pursuant to the Indenture.

Subordinate Lien Redemption Subaccount means the subaccount by that name in the Subordinate Lien Debt Service Account established pursuant to the Indenture.

Supplemental Indenture means any indenture amending or supplementing the Indenture in accordance with the terms hereof.

Surplus Account means the Surplus Account established pursuant to the Indenture.

Surplus Available Revenues means as of any October 1, commencing with October 1, 2013, the "available amounts" of the Government within the meaning of Treasury Regulations Section 1.148-6(d)(3)(iii) (including specifically all amounts available to the Government for expenditure for payment of working capital expenditures, including cash or investments and other amounts held in accounts or otherwise by the Government or any related party as defined in Section 1.150-1 of the Treasury

Regulations if those amounts may be used for working capital expenditures without legislative or judicial action and without a legislative, judicial or contractual requirement that those amounts be reimbursed). Surplus Available Revenues shall not include (a) sale proceeds of the Series 2012A Bonds, and (b) an amount equal to 5% of the reasonable working capital reserve expenditures paid by the Government from current revenues for the prior fiscal year of the Government.

Swap Provider means the counter party with whom the Authority enters into a Qualified Swap Agreement.

Tax Covenants means the covenants of the Authority expressed in or incorporated by reference in the Indenture, or in the corresponding section of a Supplemental Indenture providing for assurance of the preservation of the tax-exempt status of the interest on a Series of Tax-Exempt Bonds.

Tax-Exempt Bonds means Bonds issued pursuant to the Indenture for which the Authority receives, on the date of the closing therefor, an opinion of Bond Counsel to the effect that interest on such Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Code.

Tax Opinion means, with respect to any action requiring such an opinion hereunder, a Counsel's Opinion to the effect that such action, of itself, will not adversely affect the exclusion of interest on any Series of Tax-Exempt Bonds from gross income for Federal income tax purposes.

Term Bonds means Bonds which are designated in a Supplemental Indenture as subject to scheduled Mandatory Sinking Fund Requirements prior to maturity.

Treasury Regulations means all final, temporary or proposed Income Tax Regulations issued or amended with respect to the Code by the Treasury or Internal Revenue Service and applicable to the Bonds. Any reference to a section of the Treasury Regulations shall also refer to any successor provision to such section hereafter promulgated by the Internal Revenue Service pursuant to the Code and applicable to the Bonds.

Trustee means The Bank of New York Mellon Trust Company, N.A., successor to U.S. Trust Company of New York, a federal banking association duly organized and existing under the laws of the United States, designated as trustee under the Indenture, and its successor or successors hereafter appointed in the manner provided in the Indenture.

Trust Estate means the Revenues and the rights to receive the same, the tangible and intangible properties, rights and other assets described in the Granting Clauses of the Indenture as from time to time supplemented, and (with respect to a specific Series of Bonds or specific Bonds within a Series) such funds, rights, properties and assets pledged to secure a Series of Bonds or specific Bonds within a Series pursuant to a Supplemental Indenture.

Valuation Date means with respect to any Bonds that are Capital Appreciation Bonds or Deferred Interest Bonds, the date or dates set forth as such in the Supplemental Indenture authorizing such Bonds on which specific Accreted Values or Appreciated Values, respectively, are assigned to such Bonds.

Variable Interest Rate means a variable interest rate or rates to be borne by a Series of Bonds or other obligations or by any Bond within a Series of Bonds. The method of computing such variable interest rate shall be specified in the Supplemental Indenture authorizing such Bonds or Related Agreements approved thereby.

Variable Rate Bonds means any Bond that bears interest at a rate which is not established at the time of calculation at a single numerical rate for the remaining term of such bond.

Working Capital Credit Facility shall mean the credit facility issued pursuant to the Tenth Supplemental Indenture of Trust, dated as of September 2, 2009, and effective as of September 18, 2009, by and between the Authority and the Trustee, in the original aggregate principal amount of $250,000,000, as refunded and reinstated, in part, in the aggregate principal amount of $131,400,000 and evidenced by Subordinate Lien Revenue Bond Anticipation Notes (Virgin Islands Gross Receipts Taxes Loan Notes), Series 2010A, dated as of October 14, 2010. The Subordinate Lien Revenue Bond Anticipation Notes (Virgin Islands Gross Receipts Taxes Loan Notes), Series 2010A became effective as of November 4, 2010, following legislative review.

Written Order means a written direction of the Authority to the Trustee signed by an Authorized Officer.

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE, THE SEVENTH SUPPLEMENTAL INDENTURE AND THE AMENDED AND RESTATED SPECIAL ESCROW AGREEMENT

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SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE, THE SEVENTH SUPPLEMENTAL INDENTURE AND THE AMENDED AND RESTATED SPECIAL ESCROW AGREEMENT

The following is a summary of certain provisions of the Indenture. Such summary does not purport to be complete or definitive and reference is made to the Indenture for a full and complete statement of the terms and provisions and for the definition of capitalized terms used in this summary and not otherwise defined under APPENDIX A – "Glossary of Certain Defined Terms."

Pledge of Revenues. The Bonds shall be special, limited obligations of the Authority payable as to principal or Redemption Price, if any, and interest thereon, in accordance with their terms and the terms and provisions of the Indenture solely from Revenues, and secured by a lien on and security interest in the Trust Estate, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Authority has no taxing power and its debts are not debts of the United States Virgin Islands or any political subdivision of the United States Virgin Islands. No holder of the Bonds shall have the right to compel any exercise of the taxing power of the United States Virgin Islands to pay the principal of or interest on the Bonds.

Authorization of Bonds. The Indenture authorizes Bonds of the Authority to be issued and designated as "Revenue Bonds (Virgin Islands Matching Fund Loan Notes)" or "Revenue and Refunding Bonds (Virgin Islands Matching Fund Loan Notes)," as applicable. The aggregate principal amount of the Bonds under the Indenture and Supplemental Indenture is not limited except as provided in the Indenture, the Act, or as may be limited by law.

Sinking Fund Redemption; Purchase. The Bonds of any Series issued pursuant to the Indenture and a Supplemental Indenture may be subject to optional, mandatory or extraordinary redemption or prepayment on a scheduled or other basis, provided that the Mandatory Sinking Fund Requirements of Bonds of a particular Series and maturity shall be reduced to the extent the Bonds of that Series and maturity have been optionally or mandatorily redeemed prior to or on the date scheduled for payment of the specified principal amount and at the Redemption Prices specified in the applicable Supplemental Indenture.

Additional Bonds; Other Revenue Obligations. All of the Bonds issued under a Supplemental Indenture shall have a lien upon the Trust Estate as provided in the Indenture and shall be prior to any other charge and lien upon the Trust Estate. Except as permitted by the Indenture, no obligations payable from Revenues or secured by a lien on the Trust Estate shall be hereafter issued. If no Event of Default has occurred or will contemporaneously, the Authority may issue Additional Bonds with a Supplemental Indenture.

Additional Senior Lien Bonds. (a) Senior Lien Bonds shall be payable from Revenues and secured by a lien on the Trust Estate (except as to any Credit Facility which secures only a specific Series of Bonds or specific Bonds of a Series) on a parity basis with all Outstanding Senior Lien Bonds and any Additional Senior Lien Bonds that may be hereafter issued if the Trustee shall receive:

(i) a certificate of the Authority that no Event of Default under the Indenture has occurred and shall continue to exist immediately following the date of issuance of the Senior Lien Bonds to be issued; and

(ii) a certificate of an Independent Verification Analyst stating: (1) (A) the actual amount of Matching Fund Revenues received by the Borrower for its immediately preceding Fiscal Year, (B) the average amount of Matching Fund Revenues received by the Borrower for the immediately preceding

three (3) Fiscal Years prior to the issuance of such Additional Senior Lien Bonds, and (C) the average Matching Fund Revenues projected to be received by the Borrower in the next succeeding two (2) Fiscal Years following issuance of such Additional Senior Lien Bonds; (2) the maximum annual Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Senior Lien Bonds after giving effect to the issuance of the proposed Senior Lien Bonds; and (3) (A) that the average Matching Fund Revenues received by the Borrower for the immediately preceding three Fiscal Years prior to the issuance of such Additional Senior Lien Bonds equaled or exceeded one hundred fifty percent (150%) of the amount of maximum Adjusted Debt Service Requirement (including such proposed Additional Bonds) in the current or any subsequent Bond Year, (B) the average Matching Fund Revenues projected to be received by the Borrower for the next succeeding two (2) Fiscal Years following the issuance of the Additional Senior Lien Bonds, without regard to the projected (i) Diageo Incremental Cover Over Revenues and (ii) Cruzan Incremental Cover Over Revenues, each as certified by the Calculation Agent, is projected to equal to or exceed one hundred fifty percent (150%) of the Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Senior Lien Bonds and such Additional Senior Lien Bonds, and (C) the average Matching Fund Revenues projected to be received by the Borrower for the next succeeding two (2) Fiscal years following the issuance of the additional Senior Lien Bonds, without regard to the projected (i) Diageo Incremental Cover Over Revenues and (ii) Cruzan Incremental Cover Over Revenues, each as certified by the Calculation Agent, is projected to equal to or exceed one hundred twenty percent (120%) of the Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Senior Lien Bonds, such Additional Senior Lien Bonds and Outstanding Subordinate Lien Bonds.

(b) For purposes of the certifications described in the Indenture, there shall be excluded from the Adjusted Debt Service Requirement any amounts otherwise due or to become due on Outstanding Bonds which are to be refunded and will be no longer Outstanding as a result of the issuance of such Additional Senior Lien Bonds.

(c) Any Supplemental Indenture that authorizes Senior Lien Bonds under this Section shall establish the amount that shall be the Debt Service Reserve Requirement to be funded in connection with such Series of Bonds and may amend the Indenture in order to provide for the funding, application and replenishment of any account within the Senior Lien Debt Service Reserve Account in connection therewith, provided that no such amendment may adversely affect the Bonds of any Series then Outstanding except such Series of Senior Lien Bonds.

(d) If the Senior Lien Bonds are subject to mandatory purchase or are to be purchased upon optional tender by the Owners thereof, any amounts required to be segregated or set aside by the Authority to fulfill its purchase obligation shall be deemed additional Adjusted Debt Service Requirements with respect to the related Series of Senior Lien Bonds in the amounts and at the times such amounts are required to be so set aside.

(e) The conversion of Senior Lien Bonds that are Variable Rate Bonds to Fixed Interest Rate Bonds shall not be treated as the issuance of additional Senior Lien Bonds subject to the other requirements of this Section unless the interest rate to be borne by such Senior Lien Bonds from and after the date of conversion will exceed the Certified Interest Rate taken into account for the purposes of computing Adjusted Debt Service Requirements.

(f) Prior to the issuance of any Series of Senior Lien Bonds under the provisions of this Section, and as a condition precedent thereto, the following documents and showings shall be executed and delivered:

(i) A Supplemental Indenture, executed by the Authority and the Trustee, providing for the issuance of such Senior Lien Bonds and the terms and conditions thereof; and

(ii) An Authority certificate setting forth information sufficient to satisfy the Trustee that the requirements set forth above have been fulfilled.

Additional Subordinate Lien Bonds. (a) Additional Subordinate Lien Bonds payable from Matching Fund Revenues and secured by a lien on the Trust Estate on a junior and subordinate basis to the payment obligation to the Senior Lien Bonds may be issued on a parity basis with all Outstanding Subordinate Lien Bonds if the Trustee shall receive:

(i) a certificate of the Authority that no Event of Default under this Indenture has occurred and shall continue to exist immediately following the date of issuance of the additional Subordinate Lien Bonds to be issued; and

(ii) a certificate of an Independent Verification Analyst stating (1) (A) the actual amount of Matching Fund Revenues received by the Borrower for its immediately preceding Fiscal Year, (B) the average amount of Matching Fund Revenues received by the Borrower for its immediately preceding two (2) Fiscal Years prior to the issuance of such Additional Subordinate Lien Bonds, and (C) the average Matching Fund Revenues projected to be received by the Borrower in the next succeeding two (2) Fiscal Years following issuance of such Subordinate Lien Bonds; (ii) the maximum annual Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Subordinate Lien Bonds after giving effect to the issuance of the proposed Subordinate Lien Bonds; and (3) (A) that the average Outstanding Matching Fund Revenues received by the Borrower for the immediately preceding three (3) Fiscal Years available after payment of Debt Service on any Outstanding Senior Lien Bonds and any Senior Lien Bonds to be issued simultaneously with such Additional Subordinate Lien Bonds (the "Available Matching Fund Revenues") equaled or exceeded one hundred twenty-five percent (125%) of the amount of the maximum Adjusted Debt Service Requirement in the current or any subsequent Bond Year and (B) the average Available Matching Fund Revenues projected to be received by the Borrower for the next succeeding two (2) Fiscal Years following the issuance of the Additional Subordinate Lien Bonds, without regard to the projected (i) Diageo Incremental Cover Over Revenues and (ii) Cruzan Incremental Cover Over Revenues, each as certified by the Calculation Agent, is projected to equal to or exceed one hundred twenty-five percent (125%) of the Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Subordinate Lien Bonds and such Additional Subordinate Lien Bonds, and (C) the average Matching Fund Revenues projected to be received by the Borrower for the next succeeding two (2) Fiscal Years following issuance of the Additional Subordinate Lien Bonds, without regard to the projected (i) Diageo Incremental Cover Over Revenues and (ii) Cruzan Incremental Cover Over Revenues, each as certified by the Calculation Agent, is projected to equal to or exceed one hundred twenty percent (120%) of the Adjusted Debt Service Requirement in the current or any subsequent Bond Year on Outstanding Senior Lien Bonds, Outstanding Subordinate Lien Bonds and such Additional Subordinate Lien Bonds.

(b) For purposes of the certifications described above, there shall be excluded from the Adjusted Debt Service Requirements any amounts otherwise due or to become due on Outstanding Bonds which are to be refunded and will be no longer Outstanding as a result of the issuance of such Additional Subordinate Lien Bonds.

(c) Any Supplemental Indenture which authorizes Additional Subordinate Lien Bonds shall establish the amounts which shall be the Debt Service Reserve Requirement to be funded in connection with such Series of Additional Bonds and may amend the Indenture in order to provide for the funding, application and replenishment of any account within the Subordinate Lien Debt Service Reserve Account

in connection therewith, provided that no such amendment may adversely affect the Bonds of any Series then Outstanding except such Series of Additional Subordinate Lien Bonds.

(d) If the Additional Subordinate Lien Bonds are subject to mandatory purchase or are to be purchased upon optional tender by the Owners thereof, any amounts required to be segregated or set aside by the Authority to fulfill its purchase obligation shall be deemed additional Adjusted Debt Service Requirements with respect to the related Series of Subordinate Lien Bonds in the amounts and at the times such amounts are required to be so set aside.

(e) The conversion of Subordinate Lien Bonds which are Variable Rate Bonds to Fixed Interest Rate Bonds shall not be treated as the issuance of additional Subordinate Lien Bonds subject to the other requirements of this Section unless the interest rate to be borne by such Subordinate Lien Bonds from and after the date of conversion will exceed the Certified Interest Rate taken into account for the purposes of computing Adjusted Debt Service Requirements.

(f) Prior to the issuance of any Series of Additional Subordinate Lien Bonds, and as a condition precedent thereto, the following documents and showings shall be executed and delivered:

(i) A Supplemental Indenture, executed by the Authority and the Trustee, providing for the issuance of the Additional Subordinate Lien Bonds and the terms and conditions thereof; and

(ii) An Authority certificate setting forth information sufficient to satisfy the Trustee that the requirements of this Section have been fulfilled.

(g) No Subordinate Lien Bond may be accelerated as long as any Senior Lien Bonds are Outstanding.

Refunding Bonds. Additional Bonds may be issued to refund Outstanding Bonds. The Additional Bonds may be on a parity with or subordinate to the Bonds that are being refunded and are not required to satisfy the tests for issuance of Additional Senior Lien Bonds or Additional Subordinate Lien Bonds if the aggregate Debt Service on the Refunding Bonds is equal to or less than aggregate Debt Service on the Refunded Bonds, provided that Additional Senior Lien Bonds issued to refund Outstanding Subordinate Lien Bonds must satisfy the requirements for issuance of Additional Senior Lien Bonds.

Supplemental Indenture. A Supplemental Indenture authorizing the issuance of a Series of Bonds may modify the terms of those Bonds and the prescribed form thereof in a manner consistent with the Indenture.

Credit Facilities. The Indenture or any Supplemental Indenture does not limit the Authority's right to obtain a Credit Facility for the benefit of the Owners of all or any portion of any Series of Bonds issued hereunder. Each Credit Facility shall be held by the Trustee for the sole and exclusive benefit of the Owners of the Series of Bonds secured by such Credit Facility and not be an asset available for the benefit of the Owners of any other Bonds.

Book-entry System. Ownership of one or more fully registered Bonds for each maturity of each Series of Bonds shall be registered in the name of Cede and Company, as nominee for the Depository Trust Company ("DTC"). Payments of interest on, principal of, or any premium on such Series of Bonds shall be made to the account of the DTC on each payment date at the address indicated for the DTC in the Bond Register by transfer of immediately available funds. DTC maintains a book-entry system for recording ownership interests of its Direct Participants, and the ownership interests of a purchaser of a beneficial interest in the Bonds will be recorded through book entries on the records of the Direct

Participants. With respect to Bonds registered in the name of DTC, the Authority, the Trustee and any agent thereof shall have no responsibility or obligation to any Direct Participant or to any Beneficial Owner of such Bonds as specified in the Indenture. DTC may determine to discontinue providing its services with respect to the Bonds of a Series at any time by giving reasonable written notice to the Authority, the Trustee and any tender agent for a Series of Bonds and discharging its responsibilities with respect thereto under applicable law. Additionally, the Authority may terminate, upon provision of notice to the Trustee and any tender agent for a Series of Bonds, the services of the DTC with respect to a Series of Bonds if the continuation of the system of book entry-only transfers is not in the best interests of the Owners of the Bonds of the Series or is burdensome to the Authority. The Authority may select a new Depository or discontinue the services of a Depository and issue Bond certificates.

General Provisions. The Bonds shall be in minimum denominations of five thousand dollars ($5,000), or in integral multiples thereof in the form set forth in the exhibit to the appropriate Supplemental Indenture. The Authority shall execute the Bonds by the manual or facsimile signature of the Governor of the Virgin Islands with the seal or facsimile seal of the Authority and attestation by the manual or facsimile signature of the Secretary of the Authority in accordance with the provisions of the Indenture. The Bonds shall be transferable only upon the books of the Authority by the Trustee. In all cases in which the privilege of exchanging Bonds or transferring registered Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver Bonds in accordance with, and subject to the restrictions of, the Indenture. Neither the Authority nor the Trustee shall be required (a) to transfer or exchange Bonds for a period beginning on the Record Date next preceding an interest payment date for the Bonds and ending on such interest payment date, or for a period of fifteen (15) days next preceding the date (as determined by the Trustee) of any selection of Bonds to be redeemed or thereafter until after the mailing of any notice of redemption; or (b) to transfer or exchange any Bonds called or tendered for redemption, in whole or in part.

Exchanges and Transfers of Bonds. The Indenture provides when a Bond is exchanged or transferred, the Authority shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of the Indenture. Bonds surrendered for exchange or transfer shall be canceled by the Trustee. The Authority may only make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or transfer. The Indenture provides specific time periods when the Authority and the Trustee cannot be required to transfer or exchange Bonds.

Redemption. Bonds subject to mandatory, optional or extraordinary redemption prior to maturity pursuant to any Supplemental Indenture shall be redeemable, upon notice, at such times, at such Redemption Prices and upon such terms in addition to the terms contained in the Indenture as may be specified in any Supplemental Indenture. At the election or direction of the Authority, the Board shall notify the Trustee of the Authority's decision to redeem and of the particulars of the redemption. If less than all of the Bonds of like maturity of any Series shall be called for prior redemption, the Trustee shall randomly select the particular Bonds or portions of the Bonds to be redeemed.

Notice of Redemption. When the Trustee shall receive written notice from the Board, acting on behalf of the Authority, of its election or direction to redeem Bonds pursuant to the Indenture, and when redemption of Bonds is required or authorized pursuant to the Indenture, the Trustee shall give notice, in the name of the Authority, of the redemption of such Bonds, which notice shall specify the Series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date

there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be mailed by the Trustee by first class mail, postage prepaid, not more than sixty (60) days nor less than thirty-five (35) days before the redemption date, to each of the Owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the Bond Register, but any defect in, or the failure of any Bondowner to receive, any such notice shall not affect the validity of the proceedings for the redemption of Bonds. Notwithstanding the foregoing, failure to mail any such notice pursuant to the Indenture to any particular Owner of a Bond shall not affect the validity of any proceedings for the redemption of any other Bond.

Payment of Redeemed Bonds. Notice having been given in the manner provided in the Indenture, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds or portions thereof shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be called for redemption less than all of a Bond, the Authority shall execute and the Trustee shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, at the option of the Owner thereof, Bonds of like Series and maturity in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to title redemption date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Creation of Accounts, and Subaccounts; Deposit of and Use of Moneys. The proceeds of each Series of Bonds and all Revenues and other sums pledged and assigned by the Indenture to the Trustee for the benefit of Bondholders are to be deposited to the Accounts established by the Indenture and shall not be subject to any lien or attachment by any Creditor of the Authority or any Credit Provider or other person other than the lien of the Indenture. The Accounts and separate Subaccounts within the Accounts created with respect to each series of Bonds under the Indenture shall be held and administered by the Trustee or the Authority in accordance with the terms of the Indenture and may include the following:

(1) The Pledged Revenue Account, to be held by the Trustee;

(2) The Senior Lien Debt Service Account, to be held by the Trustee with such separate Subaccounts as provided in the Indenture or Supplemental Indenture, including, any of the following accounts therein:

(A) A Senior Lien Interest Subaccount;

(B) A Senior Lien Principal Subaccount;

(C) A Senior Lien Redemption Subaccount;

(D) A Senior Lien Credit Subaccount with respect to each Credit Facility which is not a Debt Service Reserve Account Credit Facility;

(E) Senior Lien Expense Subaccount;

(F) Senior Lien Purchase Subaccount;

(G) Capitalized Interest Subaccount;

(H) Any other Account or Subaccount established by the applicable Supplemental Indenture.

(3) The Senior Lien Debt Service Reserve Account, to be held by the Trustee, with such separate Series Senior Lien Debt Service Reserve Subaccounts and Senior Lien Credit Subaccounts therein as in any Supplemental Indenture;

(4) The Subordinate Lien Debt Service Account, to be held by the Trustee with such separate Subaccounts therein as provided in the Indenture or Supplemental Indenture creating such Series of Subordinate Lien Bonds, including, applicable accounts therein:

(A) Subordinate Lien Interest Subaccount;

(B) Subordinate Lien Principal Subaccount;

(C) Subordinate Lien Redemption Subaccount;

(D) A Subordinate Lien Credit Subaccount with respect to each Credit Facility which is not a Debt Service Reserve Account Credit Facility;

(E) Subordinate Lien Expense Subaccount;

(F) Subordinate Lien Purchase Subaccount;

(G) Capitalized Interest Subaccount;

(H) Any other Account or Subaccount established by the applicable Supplemental Indenture.

(5) The Subordinate Lien Debt Service Reserve Account, to be held by the Trustee, with such separate Series Subordinate Lien Debt Service Reserve Subaccounts and Subordinate Lien Credit Subaccounts therein as the Authority shall determine in any Supplemental Indenture;

(6) The Construction Account, to be held by Trustee or by the Authority with such separate Subaccounts therein as the Authority shall determine in any Supplemental Indenture;

(7) The Cost of Issuance Account and such subaccounts therein as the Authority shall determine in any Supplemental Indenture, to be held by the Trustee; and

(8) A Rebate Account, to be held by the Trustee; and

(9) A Surplus Account, to be held by the Authority.

Construction Account. A Construction Account shall be established, which will contain the amounts required by the provisions of the Indenture and each Supplemental Indenture. There also may be

paid into the Construction Account, at the option of the Authority, any moneys received by the Authority from any source unless otherwise required to be applied by the Indenture or any Supplemental Indenture. Segregated Subaccounts may be created within the Construction Account with money held in such Subaccounts separately from other moneys in the Construction Account. Money in the Construction Subaccounts shall be disposed of only in the manner provided in the Supplemental Indentures authorizing such Subaccounts. These separate, segregated Subaccounts and all funds, investments thereof and investment income earned thereon may be pledged (and a lien and security interest therein may be granted) to secure for any period of time the payment of principal of and/or the purchase price of any or all of any Series of Bonds issued pursuant to such Supplemental Indenture. Such pledge, lien and security interest may be prior and superior to the lien and pledge on the Construction Account granted by the Indenture securing the Bonds generally. Moneys in the Construction Account can pay for: (i) the Costs of the Approved Projects, (ii) with respect to special Subaccounts created within the Construction Account by a Supplemental Indenture, all authorized uses stated in such Supplemental Indenture, and (iii) to the extent of shortfalls in a Debt Service Account, the payment of interest on or principal or Redemption Price of the Bonds when due.

Pledged Revenue Account. There is created a Pledged Revenue Account, held by the Trustee into which the Trustee shall deposit as received from the Special Escrow Agent pursuant to the Escrow Agreement all Matching Fund Revenues received under the Loan Notes and additional amounts designated for deposit into the Pledge Revenue Account by the Indenture or under a Supplemental Indenture. Moneys in the Pledged Revenue Account in the following order of priority shall be transferred annually until there are no Bonds Outstanding under the Indenture.

(i) (1) to each Senior Lien Interest Subaccount;

(A) for Senior Lien Bonds which are Fixed Interest Rate Bonds, an amount that, when combined with amounts on deposit in such Subaccount, equals one hundred percent (100%) of that portion of the Adjusted Debt Service Requirements and constitutes all of the interest accruing or to accrue during the current Bond Year; and

(B) for any Senior Lien Bonds which are not Fixed Interest Rate Bonds, an amount that, when combined with amounts on deposit in such Subaccount, equals one hundred percent (100%) of that portion of the Adjusted Debt Service Requirements and constitutes all of the interest accruing or to accrue for Interest Payment Periods that commence in the current Bond Year;

(2) Subject to any credit in the Senior Lien Capitalized Interest Subaccount to be used for Capitalized Interest and any earnings thereon, to the extent required to be used and available for payment of interest on specific Senior Lien Bonds as contemplated in any applicable Supplemental Indenture and, in connection with paragraph (1) above,

(A) any net payments the Authority is required to make for Qualified Swap Agreements shall have the same claim upon Pledged Revenues as interest on the Series of Senior Lien Bonds to which the Qualified Swap Agreement relates; and

(B) as of each Interest Payment Date for Senior Lien Bonds described in paragraph (i)(1)(B) above, to the extent that the actual interest payable with respect to such Senior Lien Bonds for any Interest Payment Period is less than the amount deposited into the Senior Lien Interest Subaccount, then the excess amount is a credit to reduce the amount required to be deposited in the next succeeding month or months; and then

(ii) to each Senior Lien Principal Subaccount, an amount that, combined with subaccount deposits, equals one hundred percent (100%) of the principal due on the next succeeding Principal Payment Date on the Series of Senior Lien Bonds payable from such Senior Lien Principal Subaccount; and then

(iii) to each Senior Lien Credit Subaccount, an amount sufficient to pay any principal or interest owed to a Credit Provider under the applicable Supplemental Indenture and Credit Agreement due to a drawing from the related Credit Facility for the principal of or interest or premium on any Senior Lien Bonds if the amount transferred is not greater than the sum of (1) amounts received under the related Credit Facility for payment of amounts to or for the benefit of Owners of Senior Lien Bonds secured by such Credit Facility and (2) interest thereon at the lesser of (A) the rate specified in the Credit Agreement or (B) the applicable rate of interest on the Senior Lien Bond or Bonds paid out of the proceeds of such Credit Facility and provided that such transfer amounts shall be reduced by the amount transferred or required to be transferred under the Indenture or Supplemental Indenture; and then

(iv) to each Senior Lien Redemption Subaccount, the amount of Revenues required to redeem Senior Lien Bonds subject to redemption pursuant to the related Supplemental Indenture; and then

(v) to the Senior Lien Debt Service Reserve Account and ratably to each Subaccount therein (if applicable), the amount required to restore any deficiency in the Senior Lien Debt Service Reserve Account and any Subaccount therein or to pay any amounts owed to a Credit Provider relating to a Senior Lien Debt Service Reserve Account Credit Facility; and then

(vi) to each Senior Lien Expense Subaccount, any amounts then due and owing to the Trustee, any Paying Agent, Remarketing Agent, Bond Registrar, or Credit Provider, Special Escrow Agent or other Fiduciary for Senior Lien Bond Services Charges and Bond Related Costs that relate to administration and remarketing and the Authority's Annual Administrative Fee if not provided for in (i), (ii), (iii) or (iv) above; and then

(vii) to each Rebate Account, the amount for Senior Lien Bonds required by and applied in accord with the Indenture; and then

(viii) (1) to each Subordinate Lien Interest Subaccount,

(A) for Subordinate Lien Bonds which are Fixed Interest Rate Bonds, an amount that, when combined with amounts on deposit in such Subaccount, equal one hundred percent (100%) of the Adjusted Debt Service Requirements and constitutes all of the interest accruing or to accrue for all Interest Payment Periods during the current Bond Year; and

(B) for Subordinate Lien Bonds which are not Fixed Interest Rate Bonds, an amount that, when combined with amounts on deposit in such Subaccount, equals one hundred percent (100%) of that portion of the Adjusted Debt Service Requirements and constitutes all of the interest accruing or to accrue for Interest Payment Periods that commence in the current Bond Year, subject to the credits provided for in clause (2) below;

(2) Subject to any credit in the Subordinate Lien Capitalized Interest Subaccount to be used for Capitalized Interest and any earnings thereon, to the extent required to be used and available for payment of interest on specific Subordinate Lien Bonds as contemplated in any applicable Supplemental Indenture and, in connection with paragraph (1) above

(A) any net payment the Authority is required to make for Qualified Swap Agreements shall have, the same claim upon Revenues as interest on the Series of Subordinate Lien Bonds to which the Qualified Swap Agreement relates; and

(B) as of each Interest Payment Date for Subordinate Lien Bonds which are described in paragraph (ix)(1)(B) above, to the extent that the actual interest payable with respect to such Subordinate Lien Bonds in any Interest Payment Period is less than the amount deposited into the Subordinate Lien Interest Subaccount, then the excess amount is a credit to reduce the amount otherwise required to be deposited; and then

(ix) to each Subordinate Lien Principal Subaccount, an amount that, combined with Subaccount deposits, equal one hundred percent (100%) of the principal due on the next succeeding Principal Payment Date on the Series of Subordinate Lien Bonds payable from such Subordinate Lien Principal Subaccount; and then

(x) to each Subordinate Lien Credit Subaccount, an amount sufficient to pay any principal or interest then owing to a Credit Provider under the applicable Supplemental Indenture and Credit Agreement due to drawing from the related Credit Facility for the principal of or interest or premium on any Subordinate Lien Bonds if the amount transferred is not greater than the sum of (1) amounts received under the related Credit Facility for payment of amounts to or for the benefit of Owners of Subordinate Lien Bonds secured by such Credit Facility and (2) interest thereon at the lesser of (A) the rate specified in the Credit Agreement or (B) the applicable rate of interest on the Subordinate Lien Bond or Bonds paid out of the proceeds of such Credit Facility and provided that such transfers shall be reduced by the amounts required to be transferred under the Indenture or Supplemental Indenture; and then

(xi) to each Subordinate Lien Redemption Subaccount, the amount of Revenues required to redeem Subordinate Lien Bonds subject to redemption pursuant to the related Supplemental Indenture; and then

(xii) to the Subordinate Lien Debt Service Reserve Account and ratably to each Subaccount therein (if applicable), the amount required to restore any deficiency in the Subordinate Lien Debt Service Reserve Account and any Subaccount therein or to pay any amounts then owed to a Credit Provider relating to a Subordinate Lien Debt Service Reserve Account Credit Facility; and then

(xiii) to each Subordinate Lien Expense Subaccount, any amounts then owed to the Trustee, any Paying Agent, Remarketing Agent, Bond Registrar, Credit Provider, Special Escrow Agent or other Fiduciary for Subordinate Lien Bond Service Charges and Bond Related Costs that relate to administration and remarketing and the Authority's Annual Administrative Fee if not provided for in (ix), (x), (xi), (xii) above and (xiii); and then

(xiv) to each Rebate Account for Subordinate Lien Bonds, the amount and the application required by the Indenture; and then

(xv) except as may be provided in one of more Supplemental Indentures to the contrary, to the Surplus Account.

Solely for the purpose of administering these payments, any interest payable on Capital Appreciation Bonds or, prior to the Interest Commencement Date, on Deferred Interest Bonds, shall be deemed to be "due" in the Bond Year when payment is scheduled to be made and to be "principal" for (a)(ii) and (x) above rather than "interest" under paragraphs (i) and (ix) above.

Costs of Issuance Account. The Trustee may establish within the Cost of Issuance Account a separate, segregated account for the benefit of one or more Series of Bonds as provided in the applicable Supplemental Indenture. There shall be deposited in the Cost of Issuance Account, from the proceeds of each Series of Bonds, the amount specified pursuant to the Supplemental Indenture creating such account. Costs of Issuance Fund moneys shall be used only to pay Costs of Issuance of a Series of Bonds. The Trustee shall disburse from the Cost of Issuance Account all amounts required to pay the Costs of Issuance then due and payable. Any moneys remaining in the Costs of Issuance Fund with respect to any Series of Bonds shall be transferred by the Trustee to the related subaccount in the Construction Account. The Authority may, however, certify and direct the Trustee by the one hundred eightieth (180th) day to retain moneys in the Cost of Issuance Account or direct transfer to a person or Account other than the Construction Account or related Account if the moneys are not derived from the proceeds of the applicable Series of Bonds.

Debt Service Accounts and Subaccounts. The Indenture establishes a Senior Lien Debt Service Account and a Subordinate Lien Debt Service Account (collectively, the "Debt Service Accounts") and various subaccounts within the Debt Service Accounts. Upon issuance of any Series of Bonds, the Trustee shall deposit to the applicable Interest Subaccount amounts from the proceeds of each Series of Bonds equal to accrued interest received from the sale of such Bonds. Amounts on deposit in the Interest Subaccount shall be used to pay interest for the respective Series of Bonds on each Interest Payment Date. If on any Interest Payment Date amounts on deposit in the applicable Interest Subaccount are insufficient to pay the amount of interest coming due on the applicable Series of Bonds, the Trustee shall transfer to the Interest Subaccount amounts from, respectively, the Pledged Revenue Account, the Redemption Subaccounts, the Construction Accounts, the respective Series Debt Service Reserve Account or the Principal Subaccount.

The Trustee shall transfer on the first day of each Bond Year amounts from the Pledged Revenue Account to each Principal Subaccount and use such amounts on each Principal Payment Date to pay principal due on each respective Series of Bonds. If on such Principal Payment Date amounts on deposit in each respective Principal Subaccount are insufficient to pay principal coming due on the applicable Series of Bonds on the Principal Payment Date, the Trustee shall transfer to the Principal Subaccount amounts from, respectively, the Pledged Revenue Account, the Redemption Subaccounts, the Construction Account, the respective Series Debt Service Reserve Account or the Interest Subaccount.

Amounts to be used by the Authority to prepay any Series of Bonds shall be deposited into the respective Series Redemption Subaccount and applied to purchase Bonds to be surrendered to the Trustee as a credit against Debt Service Requirements when due or to pay principal of and premium, if any, of a Series of Bonds subject to and called for redemption. Any funds transferred to a Redemption Subaccount from the Construction Account as excess proceeds shall be applied only to redeem Bonds of the Series from which such Construction Account proceeds were derived.

The Trustee shall transfer moneys from the Pledged Revenue Account to the respective Expense Subaccounts for each Series of Bonds and use such amounts to pay at the direction of the Authority to any payee amounts specified, including the Authority's Annual Administrative Fee.

Amounts in the respective Purchase Subaccounts, if any, shall be used as directed in the applicable Supplemental Indenture to purchase the related Series of Bonds.

If required by an applicable Supplemental Indenture, the Trustee shall create a Credit Subaccount for a Series of Bonds that are secured by a Credit Facility. Amounts drawn under such Credit Facility to pay principal or interest shall be deposited into the related Principal Subaccount or Interest Subaccount or Purchase Subaccount and applied to the purpose for which they were drawn.

Amounts on deposit in each respective Capitalized Interest Subaccount shall be transferred on each Interest Payment Date and shall be credited against the transfer then due from the Pledged Revenue Account.

Deficiencies in the Interest Subaccounts or Principal Subaccounts. In the event, the amount on deposit at a payment date in the Interest Subaccount or the Principal Subaccount is not sufficient to pay the full interest on or principal of all Outstanding Bonds of any Series then due, the Authority shall immediately cure such insufficiency with a draw from the Surplus Subaccount. If amounts available in the Surplus are insufficient, the Trustee shall transfer to the respective Interest Subaccount or Principal Subaccount an amount equal to the deficiency in following order:

(i) the Pledged Revenue Account;

(ii) the Senior Lien Redemption Subaccount or any Subordinate Lien Redemption Subaccount (other than amounts held therein to pay and redeem Bonds for which notice of redemption has theretofore been given, and amounts held therein to defease Outstanding Bonds);

(iii) the Construction Account (to the extent held by the Trustee and such application is permitted by the Supplemental Indenture governing same and the Authority certifies that such amounts are not required for payment of costs of an Approved Project);

(iv) the Series Subaccount of the Senior Lien Debt Service Reserve Account if the payment is for principal of or interest on the related Series of Bonds;

(v) the Senior Lien Principal Subaccount (for deficiencies in the Interest Subaccount); and

(vi) the Senior Lien Interest Subaccount (for deficiencies in the Principal Subaccount).

Deficiencies in the Senior Lien Interest Subaccount shall be fully cured prior to curing any deficiency in the Senior Lien Principal Subaccount.

Debt Service Reserve Accounts. The Trustee shall initially deposit to the credit of the Series Subaccount of the Debt Service Reserve Account from the proceeds of each Series of Bonds in an amount equal to the Debt Service Reserve Requirement (if any) for that Series. Thereafter each Series Subaccount of the Debt Service Reserve Account shall be maintained at the Debt Service Reserve Requirement for the related Series by transfers to the Debt Service Reserve Account from the Pledged Revenue Account. If, however, the deposit in a Series Subaccount of the Debt Service Reserve Account is less than the Debt Service Reserve Requirement for the related Series, the Authority shall be required to restore the deficiency. The Authority shall transfer any amounts on deposit in the Surplus Account and, to the extent the full deficiency cannot be so cured, such amounts shall be applied ratably to each Series Subaccount within the Debt Service Reserve Account which has a deficiency. To the extent any deficiency remains, transfers shall be made pursuant to the process in "**Deficiencies in the Interest Subaccount or Principal Subaccount**" above. Deficiencies caused by a valuation of the investment securities shall be cured no later than the first day of the Bond Year following the determination that such vacancy exists.

If on any Interest Payment Date or Principal Payment Date there are not sufficient amounts in any Interest Subaccount or Principal Subaccount to pay interest or principal coming due after the transfers required under the Indenture, the Trustee shall transfer from the Debt Service Reserve Account to the Interest Subaccount or Principal Subaccount, as the case may be, amounts sufficient to make up any

deficiency. The Trustee may not draw on any Debt Service Reserve Credit Facility until all cash and any investment Securities in the related Debt Service Reserve Account have been liquidated.

If the Debt Service Reserve Requirement is to be satisfied pursuant to any Supplemental Indenture with a Credit Facility the Trustee shall create a Debt Service Reserve account to such Credit Facility and shall deposit into such account all amounts drawn under the related Credit Facility.

All income derived from investment of amounts on deposit in the Debt Service Reserve Fund shall be retained therein if the amounts on deposit in such Debt Service Reserve Fund is less than the Debt Service Reserve Requirement; otherwise such earnings shall be transferred to the respective Debt Service Accounts and Subaccounts if necessary to pay any deficiency and then at the written direction of the Authority to the Rebate Account or the Surplus Account.

Rebate Account. Moneys on deposit in the Rebate Account are not subject to the lien or pledge of the Indenture. If amounts in the Rebate Account are in excess of the Rebate Amount, such excess amounts shall be transferred to the Pledged Revenue Account. If amounts on deposit in the Rebate Account are insufficient to make payments required under the Indenture, the Authority shall transfer to the Trustee within five (5) Business Days, the amount of such deficiency.

Surplus Account. Moneys held in the Surplus Account may be used for transfers to the Debt Service Accounts and Debt Service Reserve Accounts to maintain required balances therein, for transfers to the Construction Account or Subaccount to pay costs of Approved Projects or for any other lawful purpose as directed by the Authority.

Pro Rata Payments. In the event the amount then on deposit in the Senior Lien Interest Subaccount or Principal Subaccount or in the Subordinate Lien Interest Subaccount or Principal Subaccount on an Interest Payment Date or Principal Payment Date is not sufficient to pay the full amount of interest on and principal of all Outstanding Senior Lien Bonds then due and such deficiency cannot be cured as provided in the Indenture, the Trustee shall nonetheless pay out all moneys on deposit in the Senior Lien Interest Subaccount and Senior Lien Principal Subaccount to the persons entitled thereto, pro rata according to the amount owed to each and pay out all moneys on deposit in the Subordinate Lien Interest Subaccount and Subordinate Lien Principal Subaccount to the persons entitled thereto, pro rata according to the amount owed to each. These pro rata payments are subject to provisions as to Credit Facilities or other amounts which a Supplemental Indenture may pledge or otherwise provide.

Investments. If there are Bonds Outstanding and no Event of Default has occurred or is continuing, an Authorized Officer may invest moneys on deposit to the credit of the Construction Account, Pledged Revenue Account, any Debt Service Account, and any Debt Service Reserve Account.

Transfer. At the option of any Owner, Bonds may be exchanged for an equal aggregate principal amount of Bonds of other minimum denominations, or multiples thereof, of the same series and maturity upon surrender of such Bonds at the Principal Office of the Registrar duly executed by the Owner or his duly authorized attorney, and upon payment of the charges of the Registrar and the Authenticating Agent or the Trustee for exchange. Neither the Authority nor the Trustee shall be required to transfer or exchange (i) Bonds for a period beginning on the Record Date next preceding an interest payment date and ending on such interest payment date, or for a period of fifteen (15) days next preceding the date determined by the Trustee or any selection of Bonds to be redeemed or thereafter until after the mailing of any notice of redemption or (ii) Bonds called or tendered for redemption, in whole or in part.

Additional Bonds and Other Revenue Obligations. The Authority may issue one or more series of Additional Bonds in accordance with the conditions of the Indenture and the Loan Agreement

and lend the proceeds thereof to the Government pursuant to the Loan Agreement to provide funds for the Cost of undertaking or completing a Project or the Cost of refunding all or a portion of the Outstanding Bonds of any one or more series or of any Long-Term Indebtedness other than Bonds. Except as permitted under the restriction on Additional Senior Lien Bonds and Additional Subordinate Lien Bonds, no obligations payable from the Revenues or secured by a lien on the Trust Estate (except as to any Credit Facility or Liquidity Facility which secures Bonds or a specific Series of Bonds) may be issued.

Events of Default. Each of the listed events shall constitute an "Event of Default," provided that no Event of Default with respect to any Subordinated Lien Bonds shall cause an Event of Default on any Senior Lien Bonds, as set out in the Indenture and as follows:

(a) payment of interest on any Series of Bonds shall not be made when the same shall become due and payable; or

(b) payment of the principal or Redemption Price of any Series of Bonds or of a Sinking Fund Installment shall not be made when the same shall become due and payable; or

(c) the Authority shall fail to observe or perform in any material way any covenant, condition, agreement or provision contained in any Bonds or in the Indenture or any Supplemental Indenture on the part of the Authority to be performed other than those set forth in the Indenture, and such failure shall continue for thirty (30) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Authority by the Trustee, which notice may be given by the Trustee in its discretion and shall be given by the Trustee at the written request of the Owners of not less than twenty-five percent (25%) in principal amount of any Outstanding Bonds; provided, however, that if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Authority within the applicable period and diligently pursued until the default is corrected and an Authorized Officer of the Authority has delivered to the Trustee a certificate to that effect; or

(d) an "Event of Default" as such term is defined in any Loan Agreement; or

(e) the occurrence of an Act of Bankruptcy by the Authority.

Provided however, that in no event shall an Event of Default with respect to any Subordinate Lien Bonds cause an Event of Default or any Senior Lien Bonds.

Rights of Owners. Anything in the Indenture to the contrary notwithstanding, subject to the limitations and restrictions as to the rights of the Owners set forth in the Indenture, upon the happening and continuance of any Event of Default, the Owners of not less than twenty-five percent (25%) in principal amount of any Series of Bonds then Outstanding shall have the right upon providing the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture. The Trustee may refuse to follow any direction that conflicts with law, the Indenture or any Supplemental Indenture or would subject the Trustee to personal liability without adequate indemnification therefor.

Restriction on Action by Owners. No Owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Indenture, or any other remedy under the Indenture or on said Bonds, unless such Owner previously shall have given to the Trustee written notice of an Event of Default and unless the Owners of not less than

twenty-five percent (25%) in principal amount of any Series of Bonds then Outstanding shall have made written request of the Trustee to institute any such suit, action, proceeding or other remedy. After the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted, or to institute such action, suit or proceeding in its or their name; nor unless there also shall have been offered to the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Indenture or for another remedy under the Indenture or Supplemental Indenture; it being understood and intended that no one or more Owners of any Series of Bonds secured by the Indenture shall have any right in any manner whatever by his or their action to affect the security of the Indenture, or to enforce any right under the Indenture or under the Bonds and that all proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of all Owners of Outstanding Bonds, subject to the provisions of the Indenture and any Supplemental Indenture.

Waiver of Events of Default; Effect of Waiver. The Trustee may waive any Event of Default hereunder and its consequences and shall do so upon the written request of the Owners of at least a majority in principal amount of all Outstanding Bonds, provided, however, that there shall not be waived (i) any event of default pertaining to the payment of the principal of any Bond at its maturity date or redemption date prior to maturity, or (ii) any event of default pertaining to the payment when due of the interest on any Bond, unless prior to such waiver or rescission, all arrears of principal (due otherwise than by declaration) and interest, with interest (to the extent permitted by law) at the rate per annum borne by the Bonds in respect of which such event of default shall have occurred on overdue installments of interest, and all arrears of payments of principal when due, as the case may be, and all expenses of the Trustee in connection with such event of default, shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such event of default shall be discontinued or abandoned or determined adversely, then and in every such case the Authority, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder.

Priority of Payment. All Senior Lien Bonds issued under and secured by the Indenture shall be equally and ratably secured by and payable from the Senior Lien Debt Service Account without priority of one Senior Lien Bond over any other, except as otherwise expressly provided (i) in the Indenture with respect to Senior Lien Bonds of a specific Series (or specific Senior Lien Bonds within a Series) secured by a Credit Facility or (ii) in a Supplemental Indenture, or (iii) with respect to moneys or assets whether or not held in the Senior Lien Debt Service Account pledged to secure one or more Series of Senior Lien Bonds (or specific Senior Lien Bonds within a Series) and not other Bonds. All Subordinate Lien Bonds issued under and secured by the Indenture shall be equally and ratably secured by and payable from the Subordinate Lien Debt Service Account without priority of one Subordinate Lien Bond over any other except as otherwise expressly provided (i) in the Indenture with respect to Subordinate Lien Bonds of a specific Series (or specific Subordinate Lien Bonds within a series) secured by a Credit Facility or (ii) in a Supplemental Indenture or (iii) with respect to moneys or assets whether or not held in the Subordinate Lien Debt Service Account pledged to secure one or more Series of Subordinate Lien Bonds (or specific Subordinate Lien Bonds within a Series) and not other Bonds. Upon the occurrence of an Event of Default, all moneys collected pursuant to action taken pursuant to the Trustees' or Bondowners' remedies hereunder after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee and after any other prior application of such moneys has been made as is required by law shall be deposited in such Account or Accounts described in the Indenture as the Trustee deems appropriate; and all moneys in the Debt Service Accounts (and at the discretion of the Trustee except when otherwise required), excluding

however (1) any moneys held in trust for the payment of any Bonds or interest thereon which have matured or otherwise become payable prior to such Event of Default, (2) any moneys (such as Credit Facility proceeds) pledged exclusively to secure one or more specific Series of Bonds (or specific Bonds within a Series) shall be applied as provided as follows and (3) moneys in the Senior Lien Debt Service Account and Senior Lien Debt Service Reserve Account shall be applied solely to payment of Senior Lien Bonds and money in the Subordinate Lien Debt Service Account and Subordinate Lien Debt Service Reserve Account shall be applied solely to payment of Subordinate Lien Bonds.

Application of Moneys. Unless the principal of Bonds shall have become due and payable, all such moneys in the respective Accounts and Subaccounts securing such obligations shall be applied consistent with the respective priorities of liens and the respective purposes for such accounts each as follows:

FIRST: To the payment of installments of interest then due on the Senior Lien Bonds in the order of the maturity of the installments of such interest, and if available amounts are insufficient to pay in full any particular installment, then to the payment ratably, according to amounts due and without discrimination or privilege; and

SECOND: To the payment of the unpaid principal of and redemption premium, if any, on any of the Senior Lien Bonds which shall have become due (other than Senior Lien Bonds which have matured or otherwise become payable prior to such Event of Default and Moneys for the payment of which are held in trust, in the order of their due dates, and if the available amounts are insufficient to pay in full the unpaid principal and redemption premium, then to the payment ratably according to amounts due without discrimination or privilege; and

THIRD: To the payment of interest on and the principal of the Senior Lien Bonds as thereafter may from time to time become due, all in accordance with the provisions of the Indenture; and

FOURTH: To the payment of all installments of interest then due on the Subordinate Lien Bonds in the order of the maturity of the installments of such interest, and if the available amounts are insufficient to pay in full any particular installment, then to the payment ratably according to amounts due without discrimination or privilege; and

FIFTH: To the payment of unpaid principal of and redemption premium, if any on any of the Subordinate Lien Bonds due, which shall have become due other than Subordinate Lien Bonds, which may have matured or otherwise become payable prior to such Event of Default and moneys for the payment of which are held in trust, in the order of their due dates, and if the amount available shall not be sufficient to pay in full the unpaid principal and redemption premium, if any, on Subordinate Lien Bonds due, then to the payment ratably according to amounts due and without discrimination or privilege; and

SIXTH: To the payment of interest and premium, if any, on and the principal of the Subordinate Lien Bonds and to the redemption of such Subordinate Lien Bonds, as thereafter may from time to time become due all in accordance with the provisions of the Indenture; and

SEVENTH: To reimburse the Trustee for costs and expenses described in the first unnumbered paragraph of this Section and not reimbursed thereunder.

Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied duties or obligations shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which

has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise as a prudent individual would exercise or use under the circumstances in the conduct of his own affairs.

The Trustee is not required to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not assured to it.

In accepting the trust created by the Indenture, the Trustee acts solely as Trustee for the Owners and not in its individual capacity.

The Trustee makes no representation or warranty, express or implied, as to the compliance with legal requirements of the use contemplated by the Authority of the funds under the Indenture or any Supplemental Indenture. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Indenture or Supplemental Indenture.

The Trustee shall not be responsible for the sufficiency, timeliness or enforceability of the remedies. The Trustee shall have no responsibility in respect of the validity or sufficiency of the Indenture or any Supplemental Indenture or the security provided hereunder or the due execution hereof by the Authority, or the due execution of any other document by any party (other than the Trustee) thereto, or in respect of the validity of any Bonds authenticated and delivered by the Trustee in accordance with this Indenture or to see to the recording or filing (but not refiling) of the Indenture, any Supplemental Indenture or any financing statement or any other document or instrument whatsoever.

The Trustee shall not be deemed to have knowledge of any Event of Default under the Indenture unless and until an officer of its corporate trust department shall have actual knowledge thereof.

The Trustee shall not be liable or responsible because of the failure of the Authority to perform any act required of it by the Indenture or any Supplemental Indenture or because of the loss of any moneys arising through the insolvency or the act or default or omission of any depository other than itself in which such moneys shall have been deposited under the Indenture or any Supplemental Indenture. The Trustee shall not be responsible for the application of any of the proceeds of the Bonds or any other moneys deposited with it and paid out, invested, withdrawn or transferred in accordance herewith or for any loss resulting from any such investment. The Trustee shall not be liable in connection with the performance of its duties under the Indenture except for its own misconduct negligence or bad faith.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Bonds relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or any trust or power conferred upon the Trustee under the Indenture or any Supplemental Indenture.

Removal, Resignation of Trustee, Successor Trustee. The Authority in its sole discretion may remove the Trustee without cause at any time if no Event of Default has occurred and is continuing and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible or shall become incapable of acting, or shall commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation,

conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may resign by giving written notice of such resignation to the Authority and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the Bond Register. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and shall have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless, at the written request of the Authority or of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such as may reasonably be required for more fully and certainly vesting and confirming to other things as such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon acceptance of appointment by a successor Trustee as provided in this subsection, such successor Trustee shall mail a notice of the succession of such Trustee to the trusts hereunder by first class mail, postage prepaid, to each Paying Agent and to the Owners at their addresses listed in the Bond Register.

Any Trustee appointed shall be a trust company or bank having the powers of a trust company, having a corporate trust office in the United States, having a combined capital and surplus of at least one hundred million dollars ($100,000,000), and subject to supervision or examination by federal or state authority.

Merger or Consolidation of Trustee. Any company into which the Trustee or any Paying Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee or any Paying Agent may sell or transfer all or substantially all of its corporate trust business provided such company shall be eligible under the Indenture, may succeed to the rights and obligations of such Trustee or Paying Agent, as the case may be, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding; provided that upon the sale or transfer of corporate trust business as a result of such merger or consolidation, so long as no Event of Default has occurred and is continuing, the Authority may by an instrument in writing appoint a successor Trustee or Paying Agent other than the company resulting from such merger, conversion or consolidation by the Trustee or the Paying Agent.

Liability of Fiduciaries. Facts in the Indenture, in any Supplemental Indenture and in the Bonds shall be taken as statements of the Authority, and neither the Trustee nor any Paying Agent assumes any responsibility for the correctness or makes any representations as to the validity or sufficiency of the Indenture, any Supplemental Indenture or of the Bonds other than in connection with the duties or obligations therein or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be

responsible for its representations contained in its certificate of authentication on the Bonds. Neither the Trustee nor any Paying Agent shall be liable in connection with the performance of its duties under the Indenture, except for its own negligence or default. The Trustee or any Paying Agent may become the Owner of Bonds with the same rights they would have if they were not Trustee or Paying Agent, respectively, and, to the extent permitted by law, may act as depository for and permit any of their officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

No Recourse on the Bonds. No recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on the Indenture against any member or officer of the Authority or any person executing the Bonds and no such member, officer or person shall be liable personally on the Bonds.

Right to Indemnification. The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under the Indenture, or to enter any appearance in or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of the trusts hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified to its satisfaction against any and all reasonable costs and expenses, outlays, and counsel fees and other disbursements, and against all liability not due to its willful misconduct, negligence or bad faith.

Supplemental Indenture Without Consent of Bondowners. For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture of the Authority may be entered into, which, without the requirement of consent of Bondowners, shall be fully effective in accordance with its terms:

(a) To provide for the issuance of a Series of Bonds and to prescribe the terms and conditions pursuant to which the same may be issued, paid or redeemed; provided, however, that such Supplemental Indenture shall not conflict with the Indenture as theretofore in effect;

(b) To add to the covenants and agreements of the Authority in the Indenture, other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(c) To add to the limitations and restrictions in the Indenture, other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(d) To confirm, as further assurances, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture, of any moneys, securities or fund, or to establish any additional funds or accounts to be held under the Indenture;

(e) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture;

(f) To insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect;

(g) To modify the Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939 or any similar Federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;

(h) To make such changes as may be necessary to obtain an investment grade rating or to maintain or upgrade any rating for all or any Series of Bonds by a Rating Agency;

(i) To grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee;

(j) To subject to the lien and pledge of the Indenture additional revenue, properties or collateral;

(k) To evidence the appointment of a separate trustee or a co-trustee or the successor of a Trustee and/or Paying Agent hereunder;

(1) To modify, eliminate and/or add to the provisions of the Indenture to such extent as shall be necessary to prevent any interest on Tax-Exempt Bonds from becoming taxable under the Code; or

(m) To make any other change which in the judgment of Authority and Trustee is necessary or desirable and will not materially prejudice any non-consenting owner of a Bond.

Supplemental Indenture With Consent of Bondowners. Any modification or amendment of the Indenture and of the rights and obligations of the Authority and of the Owners of the Bonds thereunder, in any particular, may be made by a Supplemental Indenture, with the written consent (a) of the Owners of at least fifty-one percent (51%) in principal amount of the Bonds Outstanding at the time such consent is given, and (b) in the case when less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, the Owners of at least fifty-one percent (51%) in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price, if any, thereof, or in the rate of interest thereon without the consent of the Owners of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondowners. For these purposes, a Series shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series.

Defeasance. The pledge and other moneys and securities pledged under the Indenture and any Supplemental Indenture and all covenants, agreements and other obligations of the Authority to the Bondowners shall cease and be satisfied if the Authority shall pay or cause to be paid, or there shall otherwise be paid: (i) to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in the Bonds and in the Indenture and any Supplemental Indenture and (ii) to the Trustee all amounts due and owing the Trustee. Subject to the Indenture provisions, any Outstanding Bonds shall, prior to the maturity or redemption date

thereof be deemed to have been paid if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee irrevocable instructions and notice of redemption, (ii) there shall have been set aside irrevocably in trust, in compliance with the Act, an amount which shall be sufficient to generate the principal of and the interest on which when due to provide moneys which, together with the moneys, if any, set aside in trust, in compliance with the Act, at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it instructions to mail a notice to the Owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and a verification report from an independent certified public accountant confirming the sufficiency of the Defeasance Securities received by the Trustee and that said Bonds are deemed to have been paid and stating such maturity or redemption date upon which moneys are expected to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds.

Notice. Any Notice, demand, direction, request or other, instrument authorized or required by the Indenture to be given to or filed with the Authority or the Trustee shall be deemed to have been sufficiently given or filed for all purposes of the Indenture if and when sent by registered mail, return receipt requested.

THE SEVENTH SUPPLEMENTAL INDENTURE

The following is a summary of certain provisions of the Seventh Supplemental Indenture. Such summary does not purport to be complete or definitive and reference is made to the Seventh Supplemental Indenture for a full and complete statement of the terms and provisions and for the definition of capitalized terms used in this summary and not otherwise defined under APPENDIX A – "Glossary of Certain Defined Terms."

Authorization and Details of the Series 2012A Bonds. The Seventh Supplemental Indenture authorizes the issuance of the Series 2012A Bonds. The Series 2012A Bonds are designated as Senior Lien Bonds.

Bonds Equally and Ratably Secured. Except as otherwise provided in the Indenture and the Seventh Supplemental Indenture, the Series 2012A Bonds shall in all respects be equally and ratably secured.

Details of the Series 2012A Bonds. The Bonds shall be dated the date of delivery and shall be issuable as fully registered bonds in the minimum denomination of one hundred thousand dollars ($100,000) and any multiple of $5,000 in excess thereof, and shall bear interest paid semiannually on each April 1 and October 1 in the years and amounts specified in the Seventh Supplemental Indenture.

Depository Provisions. Initially, one certificate for each maturity of the Series 2012A Bonds will be issued and registered to the Securities Depository, or its nominee, in a book-entry system.

Optional Redemption. As directed by the Authorized Representative of the Authority, the Series 2012A Bonds are subject to redemption at the times and upon payment of the Redemption Prices specified in the Seventh Supplemental Indenture. If less than all of the Series 2012A Bonds of any Series are called for redemption, they shall be called in such order of maturity as the Authority may determine. The portion of any Series 2012A Bond to be redeemed shall be in the principal amount of one hundred thousand dollars ($100,000) and integral multiples of $5,000 in excess thereof, upon the owner's surrender thereof. Notice of redemption shall be given in the manner set forth in Indenture.

Application of Proceeds of Series 2012A Bonds; Application of Related Amounts. The Seventh Supplemental Indenture provides for the deposit and application of the Series 2012A Bonds.

Funds and Accounts. The Seventh Supplemental Indenture establishes within the Senior Lien Interest Subaccount of the Senior Lien Debt Service Account, the Series 2012A Interest Subaccount, within the Senior Lien Principal Subaccount of the Senior Lien Debt Service Account, the Series 2012A Principal Subaccount, within the Senior Lien Redemption Subaccount of the Senior Lien Debt Service Account, the Series 2012A Redemption Subaccount. There is established within the Series 2012A Redemption Subaccount, a Series 2012A Restricted Moneys Subaccount. There is established within the Senior Lien Debt Service Reserve Account, a Series 2012A Debt Service Reserve Subaccount. There is established within the Cost of Issuance Account, a Series 2012A Cost of Issuance Subaccount. There is established within the Senior Lien Expense Account, a Series 2012A Expense Subaccount. There is established within the Construction Account, a Series 2012A Project Subaccount. Moneys in such subaccounts shall be used in accordance with the Indenture.

Security for Series 2012A Bonds. The Series 2012A Bonds shall be equally and ratably secured under the Indenture with any other Senior Lien Bonds issued pursuant to the Indenture.

Rebate Account. The Seventh Supplemental Indenture establishes the Series 2012A Rebate Account to be held by the Authority to receive from legally available moneys for payment of the rebate obligations under the Code (the "Rebate Amount").

THE AMENDED AND RESTATED SPECIAL ESCROW AGREEMENT

The following is a summary of certain provisions of the Amended and Restated Special Escrow Agreement. Such summary does not purport to be complete or definitive and reference is made to the Amended and Restated Special Escrow Agreement for a full and complete statement of the terms and provisions and for the definition of capitalized terms used in this summary and not otherwise defined under APPENDIX A – "Glossary of Certain Defined Terms."

Flow of Funds. The Matching Fund Revenues received by the Government from the United States pursuant to the Revised Organic Act of the Virgin Islands shall be delivered to the Special Escrow Fund. The Special Escrow Fund is to be held by the Special Escrow Agent to provide for the following deposits (in order of priority);

(i) the deposit with the Trustee, or any paying agent, on or before the Second Business Day prior to October 1 of each Fiscal Year, of amounts required, if any, for payment of principal of redemption premium, if any, and interest on, Senior Lien Bonds and other amounts required to fund fully the Senior Lien Debt Service Account in such Fiscal Year or any prior Fiscal Year and other amounts required to fund fully the Senior Lien Debt Service Account in such Fiscal Year or any prior Fiscal Year to the Debt Service Requirement Level;

(ii) the deposit with the Trustee, or any paying agent, on or before the Second Business Day prior to October 1 of each Fiscal Year, of amounts required, if any, for payment of principal of, redemption premium, if any, and interest on, Subordinate Lien Bonds and other amounts required to fund fully the Subordinate Lien Debt Service Account in such Fiscal Year or any prior Fiscal Year and to replenish any Senior Lien Debt Service Reserve Account to the Debt Service Reserve Requirement or any Subordinate Lien Debt Service Reserve Account to the Debt Service Requirement Level;

(iii) the deposit with (a) the Diageo Special Escrow Agent in accordance with the Diageo Special Escrow Agreement any amounts certified by the Diageo Calculation Agent as Diageo Incremental Cover Over Revenues, and (b) the Cruzan Special Escrow Agent in accordance with the Cruzan Special Escrow Agreement any amounts certified by the Cruzan Calculation Agent as Cruzan Incremental Cover Over Revenues, that are, in each case, in excess of the deposits, if any, required by clauses (i) and (ii) above; and

(iv) the deposit with the Government, in accordance with the Amended and Restated Special Escrow Agreement, of any amounts in excess of the deposits, if any, required above, which amounts may be applied by the Government for any lawful purpose.

Irrevocability of the Special Escrow Fund; Parity. The assignment of the Matching Fund Revenues and the escrow created in the Amended and Restated Special Escrow Agreement shall be irrevocable as long as any Bonds are Outstanding under the terms of the Indenture. The holders of the Senior Lien Bonds shall be on parity with each other and have a senior lien on any funds deposited in the Special Escrow Fund over the Subordinate Lien Bonds, which shall be on parity with each other, but the payment of which shall be junior and subordinate to the payment of the Senior Lien Bonds until such funds are used and applied in accordance with the Amended and Restated Special Escrow Agreement.

Termination. The Amended and Restated Special Escrow Agreement shall terminate when no Bonds are Outstanding under the terms of the Indenture. Any moneys remaining in the Special Escrow Fund at the time of such termination shall be released to the Government.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012A LOAN AGREEMENT

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SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2012A LOAN AGREEMENT

The following is a summary of certain provisions of the Series 2012A Loan Agreement. Such summary does not purport to be complete or definitive, and reference is made to the Series 2012A Loan Agreement for a full and complete statement of its terms and provisions and for the definition of capitalized terms used in this summary and not otherwise defined under **"Glossary of Certain Defined Terms"**.

The Loan. The Authority, on the terms and conditions set forth in the Series 2012A Loan Agreement, shall lend the proceeds of the Series 2012A Bonds to the Government and, in order to evidence such debt obligation, the Government shall issue to the Authority the Series 2012A Loan Note.

Repayment of the Loan. The Government promises to repay the Loan and observe the terms and provisions of the Series 2012A Loan Agreement. In consideration of the issuance of the Series 2012A Bonds by the Authority, the Government agrees to execute the Series 2012A Loan Note. The Government shall repay the Series 2012A Loan Note in annual installments upon receipt of the Matching Fund Revenues but not later than the Second Business Day next preceding October 1 in each year in the amounts equal to the amounts due for the principal of, and interest on, or the Redemption Price of the Series 2012A Bonds that the Series 2012A Loan Note secures.

Redemption of the Series 2012A Loan Note. The Series 2012A Loan Note may, at the option of the Government of the Virgin Islands, be redeemed, in whole or in part, prior to its maturity at the times, in the manner of and on the same maturities as an optional redemption of the Authority's Series 2012A Bonds and at a Redemption Price equal to the principal amount, plus accrued interest thereon to the date of redemption and any premium required to provide for the payment of the optional redemption of the Authority's Series 2012A Bonds.

Application of Proceeds. The Authority shall deposit all funds received from the proceeds of the Series 2012A Bonds into the respective Accounts and Subaccounts in accordance with the Series 2012A Loan Agreement.

Security. The revenues pledged to pay the debt service on the Series 2012A Bonds are derived from the Series 2012A Loan Note. The Series 2012A Loan Note is a special limited obligation of the Government and is secured solely by a pledge of the Matching Fund Revenues. The Series 2012A Loan Note is not a debt of the United States of America and the United States of America is not liable on the Series 2012A Loan Note. The Series 2012A Bonds shall under no circumstances constitute a general obligation of the Authority, the United States Virgin Islands, or the United States of America nor shall the United States of America or the United States Virgin Islands be liable thereon. The Authority has no taxing power. The Government pledges and assigns its interest in the Matching Fund Revenues and the Amended and Restated Special Escrow Agreement to the Trustee as security for the payment of the Series 2012A Loan Note and consents therein to the deposit of the Matching Fund Revenues into the Special Escrow Fund.

The Series 2012A Loan Note shall be considered to be issued on a parity basis with respect to all other Senior Lien Loan Notes regarding the payment of principal and interest out of the Matching Fund Revenues.

Representations and Warranties of the Government. The Government makes the following representations and warranties to the Authority:

(a) As of the date hereof, the amount of Matching Fund Revenues anticipated to be received by the Government is a sum which, during the period the Series 2012A Loan Note is Outstanding, is in excess of the amount necessary to pay the principal of and interest on the Series 2012A Loan Note issued in connection with the Series 2012A Bonds.

(b) The Government is duly authorized and has full power and authority to execute, deliver and perform its obligations under the Series 2012A Loan Agreement, the Amended and Restated Special Escrow Agreement and the Series 2012A Loan Note.

(c) The execution, delivery and performance by the Government of the Series 2012A Loan Agreement, the Amended and Restated Special Escrow Agreement and the Series 2012A Loan Note (i) have been duly authorized by all necessary action on the part of the Government; (ii) do not conflict with, or result in a violation of, any provision of law or any order, writ, rule or regulation of any court or governmental agency or instrumentality binding upon or applicable to the Government; (iii) do not and will not conflict with, result in a violation of, or constitute a default under, any agreement, resolution, mortgage, indenture or instrument to which the Government is a party or by which the Government or any of its property is bound; and (iv) do not and will not result in, or require, the creation or imposition of any mortgage, deed of trust, pledge, lien, security interest or other charge or encumbrance of any nature upon or with respect to any property of the Government.

(d) No authorization, consent, approval, permit, license, exemption of or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality is or will be necessary for the valid execution, delivery or performance by, or enforcement against or by, the Government of the Series 2012A Loan Agreement or the Series 2012A Loan Note.

(e) The Series 2012A Loan Agreement, the Amended and Restated Special Escrow Agreement and the Series 2012A Loan Note when executed and delivered by the Government will, assuming the due execution of and delivery by the other parties thereto, constitute, the legal, valid and binding obligations of the Government enforceable against the Government in accordance with their terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws hereinafter enacted or principles of equity affecting the enforcement of creditors' rights generally as such laws may be applied in the event of insolvency, reorganization or other similar proceeding of, or moratorium applicable to, the Government.

(f) The Government is duly authorized under all applicable laws to pledge and assign the Amended and Restated Special Escrow Agreement and Matching Fund Revenues for the payment of principal and interest on the Series 2012A Loan Note. The Amended and Restated Special Escrow Agreement and Matching Fund Revenues pledged and assigned hereby to the payment of principal and interest on the Series 2012A Loan Note, will be free and clear of any pledge, lien, charge or encumbrance thereon with respect thereto, the Initial Series of Bonds and Additional Bonds prior to or of equal rank with, the pledge created by the Series 2012A Loan Agreement, and all action on the part of the Government to that end has been and will be duly and validly taken.

(g) There are no suits, actions, proceedings or investigations pending or, to the best knowledge of the Government, threatened against or affecting the Government or any of its properties, before or by any court or governmental department, commission, board, bureau, agency or instrumentality, seeking to restrain or enjoin the execution and delivery of the Series 2012A Loan Agreement or challenging the creation, validity or binding effect of the Series 2012A Loan Agreement,

the Amended and Restated Special Escrow Agreement, the Series 2012A Loan Note or the ability of the Government to perform its obligations under the documents.

(h) The Government is not, in any material respect, in breach of or in default under any applicable law or administrative regulation of the United States Virgin Islands or of the United States, relating, in each case, to the issuance of debt securities by the Government, or any applicable judgment, decree or loan agreement, note, resolution, ordinance, agreement or other instrument to which the Government is a party or is otherwise subject, the consequence of which or the correction of which would contest the creation, validity or binding effect of the Series 2012A Loan Agreement, the Amended and Restated Special Escrow Agreement, the Series 2012A Loan Note or the ability of the Government to perform its obligations under the documents.

(i) At the time of issuance of the Series 2012A Loan Note, other than the Outstanding Senior Lien Bonds, the Outstanding Subordinate Lien Bonds, the Diageo Subordinate Lien Bonds and the Cruzan Subordinate Lien Bonds, there are no other bonds, notes, or other evidences of indebtedness of the Government Outstanding that are secured by the Matching Fund Revenues.

(j) The Government has satisfied its obligations with respect to the Diageo Project Implementation Agreement and the Cruzan Project Implementation Agreement applicable to the issuance of a Series of Additional Bonds under the Indenture.

Covenants of the Government. The Government covenants and agrees that, among other actions, the Government shall:

(a) Observe and comply with the terms and conditions of and perform all of its obligations under the Series 2012A Loan Agreement, the Series 2012A Loan Note and Amended and Restated Special Escrow Agreement, and will pay all amounts payable by it according to the terms of the Series 2012A Loan Agreement.

(b) Promptly notify the Authority and the Trustee in writing of the occurrence of (i) any Event of Default under the Series 2012A Loan Agreement and (ii) any default under documents governing any debt of the Government.

(c) Request that the United States deliver and take all steps necessary to ensure the receipt of the maximization of Matching Fund Revenues for which the Government is eligible, and deposit such funds in the Special Escrow Fund.

(d) Observe and comply with the terms and conditions of and perform all of its obligations under the Amended and Restated Special Escrow Agreement.

(e) Defend, preserve and protect the pledge of the Matching Fund Revenues and if applicable, the Substitute Revenues, under the Loan Agreement and the security interest under the Amended and Restated Special Escrow Agreement and all rights of the holders of the Series 2012A Loan Note against all claims and demands of all third parties.

(f) Consent to the assignment pursuant to the Indenture, of all right, title and interest of the Authority in the Series 2012A Loan Agreement, and all amendments, modifications and renewals thereof, to the Trustee, reserving to the Authority, however, the rights providing that notices and other communications be given to the Authority.

(g) Provide to the Authority within 180 calendar days of the end of each Fiscal Year a financial report summarizing annual receipts of Matching Fund Revenues, and if applicable, the Substitute Revenues.

(h) No later than 180 days after the close of the fiscal year, the Commissioner of Finance of the Government of the Virgin Islands shall deliver to the Trustee a certificate of the Matching Fund Revenues available, after satisfaction of any prior lien debt service, and relevant debt service coverage calculations for such Fiscal Year.

(i) Observe and comply with the terms and conditions of, and to perform each of its obligations under, the Diageo Agreement, the Diageo Project Implementation Agreement, the Cruzan Agreement and the Cruzan Project Implementation Agreement.

(j) Commencing October 1, 2012A, set aside an amount equal to four percent (4%) of the gross annual Matching Fund Revenues in each fiscal year from funds deposited in the Government Account held under the Diageo Subordinated Indenture and the Government Account held under the Cruzan Subordinated Indenture, and shall cause such funds to be applied first to (y) reduce the outstanding principal amount, if any, of the Working Capital Credit Facility authorized by 2009 V.I. Act 7064, as amended, and, then (z) to retire, through purchase or optional redemption, outstanding bonds issued for working capital purposes, including the Series 2012A Bonds.

(k) Not revoke in any way or terminate the Amended and Restated Special Escrow Agreement.

(l) Not allow the Matching Fund Revenues to be encumbered by any lien, charge or encumbrance other than pursuant to any Additional Senior Lien Bonds.

(m) Not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest payable on the Series 2012A Bonds under Section 103 of the Code. The Government will not directly or indirectly use or permit the use of any proceeds of the Series 2012A Bonds or take or omit to take any action that would cause the Series 2012A Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the Government will comply with all requirements of Section 148 of the Code to the extent applicable to the Series 2012A Bonds or private activity bonds within the meaning of Section 141 of the Code. Without limiting the generality of the foregoing, the Government agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Series 2012A Bonds from time to time.

(n) Not take any action, or fail to take any action that would in any way impair the Government's right to receive the maximum amount of Matching Fund Revenues to which it may be entitled.

(o) In the event the federal government discontinues the payment of Matching Fund Revenues and substitutes another stream of revenues thereof, use its best efforts to pledge the substitute revenues to repayment of the Series 2012A Loan Note.

(p) Deliver or cause to be delivered to the Trustee (i) upon any withdrawal of proceeds of the Series 2012A Bonds from the Series 2012A Project Subaccount and (ii) no later than each December 31 of each year, a written certification of the Director of OMB or of the Commissioner of Finance of the

Government containing a computation of the Surplus Available Revenues of the Government, if any, as of the immediately preceding October 1.

(q) From October 1, 2013, through October 1, 2021, inclusive, in the event the Government has any Surplus Available Revenues as of any October 1, as set forth in the certificate delivered pursuant to subsection (p) above, either (i) purchase Non-AMT Tax-Exempt investments in the principal amount of such Cumulative Available Revenues, or (ii) within ninety (90) days thereafter, apply or cause to be applied an amount equal to the Cumulative Available Revenues as of such October 1, to redeem or purchase and retire the Series 2012A Bonds in accordance with the terms of the Arbitrage and Use of Proceeds Certificate executed with respect to such Series 2012A Bonds. To the extent moneys on deposit in the Series 2012A Restricted Moneys Subaccount are applied to pay a pro rata portion of such redemption or purchase price, in accordance with the terms of the Arbitrage and Use of Proceeds Certificate pursuant to clause (ii) hereof, the Government's obligations will be deemed satisfied to the same extent. In the event that any portion of such Surplus Available Revenues cannot be applied to purchase and retire a portion of the Series 2012A Bonds because insufficient Series 2012A Bonds are tendered for purchase by the holders thereof, the Government shall deliver to the Trustee for deposit into the Series 2012A Restricted Moneys Subaccount any unexpended Surplus Available Revenues.

(r) In the event there are any Cumulative Available Revenues as of October 1, 2022, or any Surplus Available Revenues as of any October 1 thereafter, so long as there are any Series 2012A Bonds Outstanding, apply such Cumulative Available Revenues or Surplus Available Revenues, as the case may be, to redeem a pro rata portion of the Series 2012A Bonds in accordance with the Seventh Supplemental Indenture and the terms of the Arbitrage and Use of Proceeds Certificate.

(s) Notwithstanding the foregoing, be required to purchase and retire any Series 2012A Bonds (pursuant to subsection (q) above), or to cause a redemption of any Series 2012A Bonds (pursuant to subsection (r) above) if, on or before the December 1 immediately following the applicable October 1, the Government delivers or causes to be delivered to the Authority and the Trustee, an opinion of Bond Counsel to the effect that purchase or redemption is not required under the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on such Series 2012A Bonds.

Affirmative Covenants of Authority. The Authority shall use its best efforts to cause the Government to comply with the covenants set forth in the Series 2012A Loan Agreement.

Events of Default. The occurrence of any of the following events shall be an "Event of Default" under the Loan Agreement:

(a) The Government shall fail to pay when due any amount payable on the Series 2012A Loan Note; or

(b) The Government shall fail to perform or observe any term, covenant or agreement contained in this Agreement on its part to be performed or observed and any such failure shall remain unremedied for 30 days after written notice thereof shall have been given to the Government by the Authority or the Trustee, provided, however, that if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Government within the applicable period and diligently pursued until the default is corrected; or

(c) An "Event of Default" under the Indenture.

Rights on Default. If an Event of Default shall happen and shall not have been remedied, then, and in every such case, the holders of the Series 2012A Loan Note may (i) sue to collect sums due under

such Series 2012A Loan Note, (ii) compel to the extent permitted by law, by mandamus or otherwise, the performance by the Government of any covenant made in the Series 2012A Loan Agreement or the Series 2012A Loan Note, and (iii) examine the books and records of the Government to account for all moneys and securities constituting the Matching Fund Revenues.

Continuing Obligation. Until the date on which all amounts due and owing to the Authority from the Government pursuant to the Series 2012A Loan Note shall have been paid in full or otherwise provided for, the Agreement is a continuing obligation of the Government and shall (i) be binding upon the Government, its successors and assigns and (ii) inure to the benefit of and be enforceable by the Authority and the Trustee and their respective successors, transferees and assigns.

Amendments, Changes, and Modifications. The Governor, on behalf of the Government, and with the consent of the Authority and the Trustee, may execute a supplement to the Series 2012A Loan Agreement curing any ambiguity or curing, correcting or supplementing any defect or inconsistent provision contained in the Series 2012A Loan Agreement or making such provisions in regard to matters or questions arising in the Series 2012A Loan Agreement as may be necessary, or desirable and as shall not materially adversely affect the interests of the holders of the Series 2012A Loan Note. Such supplement shall become effective upon the filing with the Government an instrument of the holder of the Series 2012A Loan Note approving such supplement. In addition, the Governor may execute a supplement to the Series 2012A Loan Agreement at any time and from time to time modifying any provision of the Series 2012A Loan Agreement with the consent of the holders of the Series 2012A Loan Note, except as provided in the Indenture.

APPENDIX D

INFORMATION REGARDING THE UNITED STATES VIRGIN ISLANDS

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INFORMATION REGARDING THE UNITED STATES VIRGIN ISLANDS

The information in this Appendix was obtained from the Government and has not been independently verified by the Authority or the Co-Placement Agents.

General

Under the terms of the Revised Organic Act, the Virgin Islands is an unincorporated territory of the United States with separate executive, legislative and judicial branches of government. The legislative power of the Virgin Islands is vested in the Legislature, a unicameral, popularly elected body consisting of 15 members who serve two-year terms. The Legislature has jurisdiction over "all rightful subjects of legislation" not inconsistent with the laws of the United States made applicable to the Virgin Islands.

Executive power resides with a Governor and a Lieutenant Governor who are elected every four years. The Governor is responsible for execution of local laws, administration of all activities of the executive branch and appointment of department heads and other employees. The current Governor is the Honorable John P. deJongh, Jr., and the current Lieutenant Governor is the Honorable Gregory R. Francis, both of whom assumed office on January 1, 2007, and were sworn in for a second term on January 1, 2011.

Judicial power is vested in the Supreme Court and the Superior Court of the Virgin Islands, each established by local law with jurisdiction over all local matters, and the District Court of the Virgin Islands, which has the jurisdiction of a District Court of the United States. The Supreme Court of the Virgin Islands has appellate jurisdiction over the Superior Court. The United States Court of Appeals for the Third Circuit has appellate jurisdiction over the District Court and its appellate division and the Supreme Court. The Supreme Court justices are appointed by the Governor and confirmed by the Legislature and serve for terms of ten years. The Superior Court judges are appointed by the Governor and confirmed by the Legislature and serve for terms of six years. The judges of the District Court of the Virgin Islands are appointed by the President of the United States with the advice and consent of the United States Senate and serve for ten years.

As an unincorporated territory of the United States, the Virgin Islands is subject to the plenary power of Congress to make rules and regulations with respect to the Virgin Islands. In addition, Congress has the power to legislate directly for a territory or to establish the government for such territory subject to congressional control.

Pursuant to the Insular Areas Act of 1982, the Office of Inspector General ("OIG") of the Department of Interior performs the functions of government comptroller through audits of revenues and receipts and expenditure of funds and property of the Virgin Islands, as well as the other insular areas of Guam, American Samoa, and the Commonwealth of Northern Mariana Islands. In this role, the OIG has issued numerous audit reports in the past regarding the finances of the Virgin Islands.

Residents of the Virgin Islands have been citizens of the United States since 1917. However, apart from express Congressional grants of rights, such as the Bill of Rights in Section 1561 of the Revised Organic Act, residency in the Virgin Islands does not carry with it the full range of rights which accompany citizenship in any of the states. Residents of the Virgin Islands do not have the right to vote in national elections for the President and Vice President of the United States. The Virgin Islands has an elected, non-voting delegate to the United States House of Representatives. Pursuant to a rule of the United States House of Representatives, the delegate may vote in legislative committees and participate in floor debate but may not vote on the House floor.

Economic and Demographic Information

Geography, Landscape and Climate. The United States Virgin Islands – also known as the U.S. Virgin Islands or more commonly as the Virgin Islands – is located some 1,600 miles southeast of New York City, about 1,075 miles from Miami, and 60 miles east of Puerto Rico. Approximately 70 small islands, islets and cays make up the Virgin Islands. The principal islands are St. Croix, St. Thomas, St. John and Water Island. St. Croix, the largest of the four islands, has an area of 84 square miles and lies entirely in the Caribbean Sea. It is marked by undulating hills that rise gently to the north and lagoons that lie on the south coast. It has two main urban centers – Christiansted to the north and Frederiksted to the west, both of which lie on a broad central plain. St. Thomas, which lies approximately 35 miles north of St. Croix, is 32 square miles in area. It is distinguished by a ridge of east-west hills that rise abruptly from the sea. It is marked by numerous sandy beaches along the shoreline, including Magens Bay, which is considered to be one of the finest beaches in the Caribbean. The main urban center, Charlotte Amalie, which also is the capital of the Virgin Islands, is surrounded by a protected deep water harbor. St. John is a 20-square mile area located approximately three miles east of St. Thomas. Its topography is similar to St. Thomas with steep, rugged hills and white-sandy beaches. About two-thirds of the island is preserved as the Virgin Islands National Park. Water Island is located approximately one-half mile from the harbor in Charlotte Amalie. In December 1996, Water Island was transferred to the Virgin Islands from the exclusive jurisdiction of the Department of Interior. The Virgin Islands has temperatures ranging between 70°F and 90°F with an average of 78°F. Humidity is low and annual rainfall averages 40 inches. However, three hurricanes since 1989 – Hugo, Marilyn and Bertha – caused considerable damage to all four islands.

Population. In August 2011, the month in which the 2010 U.S. Census data was released, the population of the Virgin Islands was estimated at 106,405, a decrease of 0.9% from 2009, with 51,634 people on St. Thomas, 50,601 people on St. Croix and 4,170 people on St. John. The following table details the Virgin Islands population from 2001 through 2010. The population estimate for calendar year 2011 was not available as of the date of this Private Placement Memorandum.

Table D-1. Virgin Islands Population
Calendar Years 2001-2010

Year	Population	Percentage Increase (Decrease)
2001	109,403	0.7%
2002	110,026	0.6%
2003	110,740	0.6%
2004	111,459	0.6%
2005	111,470	0.6%
2006	113,689	2.0%
2007	114,743	0.9%
2008	115,852	1.0%
2009	107,343	(7.3%)
2010	106,405	(0.9%)

Sources: United States Census Bureau and the United States Virgin Islands Bureau of Economic Research.

Employment

Table D-2 sets forth Virgin Islands labor and employment statistics and Virgin Islands and United States unemployment rates from 2002 through 2011. Civilian employment in the Virgin Islands grew from 2003 through 2008, reaching a peak of 49,677 in 2008. The improvement in the job market was largely a result of an increase in private sector jobs, particularly in construction and financial services. By 2011, civilian employment averaged 46,121.

From 2003, when the unemployment rate in the Virgin Islands rose to 9.4%, primarily as a result of the completion of construction of the HOVENSA coker plant (described herein), which had employed approximately 2,000 construction workers, the unemployment rate steadily declined through 2008 to 5.8%. As a result of the global financial crisis, however, the unemployment rate increased between 2009 and 2011, reaching an annual rate of 9.1% in 2011. The unemployment rate is expected to increase significantly in 2012 as a result of the HOVENSA refinery closure. On January 17, 2012, HOVENSA announced that it would close its oil refining facilities on St. Croix and lay off approximately 1,200 employees and 950 subcontractors.

The following table sets forth the Virgin Islands labor and employment statistics and the Virgin Islands and the United States unemployment rates from 2002 through 2011.

Table D-2. United States Virgin Islands Labor Force, Employment and Unemployment Rates and United States Unemployment Rates 2002-2011

Year	Labor Force	Employment	Unemployment Rate United States Virgin Islands	Unemployment Rate United States
2002	49,457	44,980	8.7	5.8%
2003	48,170	43,640	9.4	6.0
2004	50,066	46,295	7.8	5.5
2005	50,906	47,301	7.1	5.1
2006	50,794	48,640	6.2	4.6
2007	52,670	49,547	5.9	4.6
2008	52,710	49,677	5.8	5.8
2009	52,861	48,863	7.6	9.3
2010	51,424	47,272	8.1	9.6
2011	50,729	46,121	9.1	8.9

Sources: United States Virgin Islands Department of Labor, Bureau of Labor Studies Reports, and the U.S. Department of Labor, Bureau of Labor Statistics.

In fiscal year 2011, employment in all sectors of the Virgin Islands economy was adversely affected by the global recession, with the majority of the losses concentrated in construction, goods production, other services and manufacturing sectors. The other services sector was affected most significantly, reflecting a 7.0% decline compared to the prior fiscal year.

For the first six months of fiscal year 2012, approximately 72.5% of the jobs in the Virgin Islands were in the private sector. Private sector employment growth is fueled primarily by tourism and related services. Based on the private and public sector employment information provided by the Virgin Islands Department of Labor, during the first half of fiscal year 2012, the services sector accounted for 25.5% of

private employment, leisure and hospitality accounted for 23.8%, and wholesale and retail trade accounted for 22.3%, representing the vast majority of private sector employment. Given the level of disaggregation in employment in the Virgin Islands as reported by the Virgin Islands Department of Labor, the foregoing subcategory percentages will not total to the 72.5% figure.

Total public sector employment accounted for approximately 27.5% of jobs during first six months of fiscal year 2012 in the Virgin Islands. The Federal and local governments are the largest employers in the public sector, with local government as the source of over 92.3% of all public sector jobs. For the first six months of fiscal year 2012, there were 11,870 public sector jobs compared to 12,824 public sector jobs for the same period in fiscal year 2011. In fiscal year 2011, there were 11,820 local government jobs compared to 12,080 local government jobs in fiscal year 2010. In fiscal year 2011, there were 964 United States Federal government jobs compared to 967 United States Federal government jobs in fiscal year 2010.

Table D-3 details the Virgin Islands annual wage and salary employment statistics from calendar year 2007 to 2011.

Table D-3. Annual Wage and Salary Employment United States Virgin Islands 2007-2011[1]

	2007	2008	2009	2010	2011
Private sector:					
Construction & mining	3,470	2,463	2,081	2,099	2,036
Manufacturing	2,318	2,361	2,192	2,047	2,047
Transportation, communication & public utilities	1,625	1,648	1,577	1,514	1,498
Wholesale & retail trade	7,013	7,076	6,825	6,706	6,753
Finance, insurance & real estate	2,459	2,491	2,458	2,362	2,362
Leisure and Hospitality	7,469	6,875	6,952	7,296	7,222
Information	803	787	777	768	804
Services (professional, business, education, health)	9,400	9,225	9,120	9,143	9,324
Total Private Sector[2]	**33,362**	**32,479**	**30,680**	**31,029**	**30,549**
Government sector:					
U.S. Federal government	946	978	1,001	962	964
Territorial government	11,752	12,031	12,009	12,116	11,563
Total Government Sector	**12,698**	**13,009**	**13,010**	**13,078**	**12,527**
Total	**46,061**	**45,488**	**43,690**	**44,106**	**43,076**

Source: United States Virgin Islands Department of Labor, Bureau of Labor Statistics.

1. Some figures may not add due to rounding.
2. Total Private Sector represents an aggregate of goods- and service-related employment adjusted to exclude all government employment. Given the level of aggregation of the private sector employment, total employment detail by sector will not add to the total.

Table D-4 lists the ten largest private sector employers in the Virgin Islands as of June 30, 2011.

Table D-4. United States Virgin Islands Ten Largest Employers
(Private Sector)
June 30, 2011

Name of Employer	Principal Business
K-Mart Corporation	Department Store
HOVENSA L.L.C[1]	Oil Refinery
Ritz-Carlton Hotel VI Inc.	Resort Hotel
Innovative Telephone Corporation	Utility
Turner St. Croix Maintenance	Maintenance
Plaza Extra Supermarket, St. Croix	Grocery Store
Westin St. John Hotel, Inc.	Resort Hotel
Frenchman's Reef Beach Resort	Resort Hotel
Caneel Bay Resort	Resort Hotel
Triangle Construction & Maintenance Corp.	Construction & Maintenance

1. In February 2012, HOVENSA closed its oil refining facilities on St. Croix and laid off approximately 1,200 employees and 950 subcontractors.

Source: United States Virgin Islands Department of Labor, Bureau of Labor Statistics.

Tax Incentives Programs

Economic Development Commission

The Government offers various tax incentives that promote industrial and economic development in the Virgin Islands. The most notable incentive program was created by the Legislature in October 1975. The Economic Development Commission (the "EDC") was created to promote the growth, development and diversification of the economy of the Virgin Islands (the "Economic Development Program"). Qualifying businesses – corporations, partnerships or sole proprietorships – receive various benefits if they meet certain criteria set forth in the legislation. Gross Receipts Taxes are eligible for abatement by the EDC that could result in a reduction of Gross Receipts Taxes payable to the Government.

To qualify for tax incentives, investors must invest at least $100,000, exclusive of inventory, in an eligible business and employ at least ten persons on a full-time basis. Eighty percent of all employees must be residents of the Virgin Islands. Small, locally-owned businesses may receive EDC benefits for a minimum of five years or up to half the term of the regular program if they invest at least $20,000 and have at least two full-time employees. A beneficiary receives a substantial reduction in, or an exemption from, all taxes imposed on businesses, including the Gross Receipts Taxes. Most importantly, the economic development legislation permits a 90% income tax reduction, resulting in a maximum tax rate of less than 4% on income for approved operations. Tax benefits also extend to passive income from certain qualifying investments, such as the Virgin Islands government obligations. The 90% reduction extends to dividends received by a beneficiary's Virgin Islands resident shareholders.

As of December 31, 2011, 93 businesses actively conducted operations under the Economic Development Program. Applicants that are granted benefits are permitted to commence receiving benefits at some point during the first five years of operation of their enterprise. A total of 91 companies

were approved for benefits but have not elected to commence benefits. Of the 91 approved companies, 72 were approved prior to 2007, and 19 companies were approved for benefits after 2007. The EDC has started a retention program to facilitate and support these and other applicants in the activation process.

In 2004, Congress passed The American Jobs Creation Act of 2004 ("Jobs Act"), which placed new restrictions on the use of the tax incentives, limiting activities that take place wholly within the Virgin Islands and requiring owners who become residents in the Virgin Islands to live in the Virgin Islands at least half of the year in order to enjoy the tax benefits. As a result of the changes brought about by the Jobs Act, the EDC saw a reduction in the number of applications submitted for EDC benefits. Most of the reduction has been in applicants seeking benefits as Designated Services Companies, which are mainly financial services and consulting companies and which are required to have clients or customers outside of the Virgin Islands. In fiscal year 2011, three Designated Services Companies ceased operations due to the residency requirement of the Jobs Act and two Designated Services Companies and one small jewelry manufacturer ceased operations due to the economic downturn and other financial challenges. As of the date of this Private Placement Memorandum, a total of 83 companies in the EDC program ceased operations, including 34 beneficiaries that closed as a result of changes in the Jobs Act. From 2008 to present, 60 beneficiaries petitioned the Board of the EDC for consideration of waivers of employment, termination, suspension of benefits and/or modifications to special conditions in order to maintain operations within the Virgin Islands. While the program has not experienced significant change in the category of non-Designated Service Company applicants, there has been a significant decline in Designated Service Company applicants. As a result of the changes caused by the Jobs Act, the EDC has implemented a mitigation program to assist EDC beneficiaries who can document economic harm or loss.

It is estimated that since the enactment of the Jobs Act, the Territory lost wages of approximately $198 million, employment taxes of $608 million, employment benefits of approximately $100 million, charitable contributions of $8 million, local purchases of $118 million and taxes paid to the Treasury of the Virgin Islands of approximately $64 million.

To encourage self-compliance, the EDC provides an orientation to all beneficiaries, as part of which beneficiaries receive information on the performance of the terms of their contract with the Government, compliance with all applicable local and Federal laws and regulations and the reporting requirements of the program. The EDC has in place compliance monitoring mechanisms, including an annual compliance conference. The EDC also assists beneficiaries in coordinating with other government agencies responsible for administering provisions of the incentive program to ensure compliance with the program requirements. In cases of non-compliance, the EDC assesses fines and holds revocation and suspension hearings which allow the EDC to revoke, suspend or modify benefits and to require beneficiaries who have failed to comply with EDC conditions to return the amount of any benefits received.

The EDC Program allows some qualifying investors to receive limited extensions or renewals of tax benefits, provided such investors fulfill certain criteria, including the ability to continue to promote economic development in the Virgin Islands. The EDC currently is trying to limit the number of extensions or renewals of benefits in favor of granting benefits to new businesses in growing industries such as financial services industries, tourism, marine and medical technology-based enterprises, which will further stimulate the economy of the Virgin Islands by providing positions for skilled labor and college educated personnel.

Section 934 Tax Incentives

Pursuant to 26 U.S.C. § 934 ("Section 934 Tax Incentives"), the Government, through the EDC, may provide certain reductions in income tax liability incurred to the Virgin Islands. Such tax reductions are permitted for (i) income derived from sources within the Virgin Islands or income effectively connected with the conduct of a trade or business within the Virgin Islands, (ii) income tax liability paid by citizens or residents of the United States, and (iii) income that is (a) derived by qualified foreign corporations from sources outside the United States and (b) not effectively connected with the conduct of a trade or business within the United States. Section 934 Tax Incentives may have the effect of reducing the amount of income tax paid to the Government. Such tax incentives, however, may increase the conduct of business that results in other economic benefits to the Virgin Islands.

Tax Increment Financing

In June 2008, the Government enacted the Tax Increment Financing ("TIF") legislation as an additional economic development tool. In September 2008, the Economic Development Authority certified the Island Crossings Shopping Center (the "ICSC") on St. Croix as the Virgin Islands' first TIF area and authorized the issuance of up to $30 million in tax-exempt bonds to finance a portion of the costs of a 43 acre mixed-use sustainable development project to be constructed on the ICSC site and anchored by a Home Depot store. The first series of bond anticipation notes, which are secured, in part, by the incremental increase in gross receipts tax and real property tax revenues generated at the ICSC site, were issued in September 2009. The Government is contemplating a refunding of these notes with long-term bonds in September 2012. The Home Depot store on St. Croix commenced operations in September 2011.

Grant Financing

In order to expand the rum industry in the Virgin Islands, in June 2008, the Government entered into a thirty (30) year agreement with Diageo USVI, pursuant to which Diageo USVI agreed to build and operate on St. Croix a distillery for production, and warehouses for the storage, of bulk rum used in the production of Captain Morgan branded products in St. Croix in return for certain economic development incentives from the Government, including a grant to finance the costs of the Diageo Project. In exchange for such incentives, in addition to agreeing to develop the Diageo Project, Diageo USVI agreed (i) that on or about January 1, 2012, all bulk rum used in the production of Captain Morgan branded products sold in the United States will be produced at the Diageo Distillery, (ii) to minimum rum production thresholds starting at 1.5 million proof gallons in fiscal year 2012, and (iii) to certain liquidated damages payable to the Government in the event there is a material default of Diageo USVI's obligation to meet certain rum production thresholds within the timeframes set forth in the Diageo Agreement and the Diageo Agreement is terminated.

In addition, in October 2009, the Government entered into an agreement with Cruzan, pursuant to which Cruzan agreed, subject to certain conditions, to develop and construct the Cruzan Project and to distill at the Cruzan Facility all rum for sale into the United States, in exchange for certain economic development incentives to be provided by the Government to Cruzan, including a grant to finance the costs of the Cruzan Project. In December 2009, the Government provided grant financing in the amount of $35 million for the wastewater treatment facility, which was completed in the summer of 2012. As of the date of this Private Placement Memorandum, plans to further expand and renovate the Cruzan distillery were on hold.

Transportation

The Virgin Islands are accessible by air from around the world. Approximately 80 flights per week during the off-tourist season and 90 flights per week during the peak tourist season travel between the Virgin Islands and the United States mainland on six major airlines.

The Cyril E. King Airport Terminal on St. Thomas was completed and opened in October 1990. The expansion of the runway to 7,000 feet was completed and placed into service in December 1992. Major renovation and expansion of the Henry E. Rohlsen Airport Terminal on St. Croix was completed in January 2002. The renovation doubled the terminal's existing square footage to 181,000 square feet and expanded the runway to 10,000 feet.

Inter-island transportation between St. Thomas and St. Croix is provided by seaplane and regular ferry service. The island of St. John can be reached by ferry service. Inter-island ferry service also provides passenger service between St. Thomas and the nearby British Virgin Islands several times a day. The Virgin Islands' internal transportation needs are served by a large number of taxis, taxivans, open-air buses, the public transit system (VITRAN) and rental cars.

Tourism

Tourism is the Virgin Islands' largest industry and represents the largest business segment in the private sector.

Visitor Arrivals

After a decrease in tourism in 2001 and 2002, following the September 11, 2001 terrorist attacks in the United States, the tourism industry was uneven from 2003 through 2007, and then worsened in 2008 and 2009 as a result of the global economic crisis. However, the tourism industry began to improve in 2010 and total visitor arrivals in the Virgin Islands in 2011 were 2,687,952, which was a 5.4% increase over 2010 and attributable to an increase in cruise passenger arrivals. For the five months ending May 31, 2012, total visitor arrivals were 1,399,196, a 2.4% increase over the same period in 2011. In 2012, cruise passenger arrivals in St. Thomas and St. John decreased by 2.6%, while cruise passenger arrivals in St. Croix decreased by 11.9% compared to 2011. In addition, air visitor arrivals in St. Thomas and St. John decreased by 2.0%, while St. Croix air arrivals increased by 21.2% compared to 2011. Table D-5 details visitor arrivals in the Virgin Islands from 2007 to 2011.

Table D-5. United States Virgin Islands Visitors Arrivals
Calendar Year 2007 – 2011

	2007	2008	2009	2010	2011
St. Thomas/St. John:					
Air Visitors	561.3	561.4	534.4	534.0	531.9
Cruise Passengers	1,917.4	1,754.6	1,507.6	1,751.2	1,887.0
Total Visitors	2,478.7	2,316.0	2,042.0	2,294.2	2,418.9
Number of Cruise Ship Visits*	750	685	593	631	643
St. Croix:					
Air Visitors	132.1	121.9	121.9	148.5	147.0
Cruise Passengers	7.1	2.5	105.1	149.4	158.1
Total Visitors	139.2	124.4	227.0	297.9	305.1
Number of Cruise Ship Visits*	6	2	48	67	72
Total U.S. Virgin Islands:					
Air Visitors	693.4	683.3	666.1	691.5	678.9
Cruise Passengers	1,917.9	1,757.1	1,582.3	1,858.9	2,008.9
Total Visitors	2,611.3	2,440.4	2,248.4	2,550.4	2,687.9
Number of Cruise Ship Visits*	752	687	621	680	698

* Actual, not thousands. Totals by island include first and second port of entry arrivals. Total arrivals for the Virgin Islands include first territorial port of entry only; passengers visiting more than one U.S. Virgin Island during the same cruise are only counted once in the Virgin Islands total. Consequently, the Virgin Islands total will always be less than or equal to the sum of the two island totals as indicated.

Source: United States Virgin Islands Bureau of Economic Research.

Hotel and Condominium Occupancy

In calendar year 2010, reported hotel occupancy increased to 57.1% from 54.9% in 2009. The reported number of hotel and condominium rooms decreased slightly in 2010 to 1,131 from 1,139 in 2009. The occupancy rate from January through December 31, 2011, was 52.1%, down from 57.1% during the same period in 2010. Table D-6 sets forth the statistics for hotel and other tourist accommodations from 2007 through 2011.

Table D-6. United States Virgin Islands Hotel and Other Tourist Accommodations 2007-2011

	2007	2008	2009	2010	2011
St. Thomas/St. John:					
Total rooms/units	3,580	3,669	3,749	3,799	3,667
Number of hotels	29	30	30	30	30
Hotel rooms	2,775	2,872	2,909	2,963	2,833
Condominium/other units	805	797	840	836	834
Occupancy rate (percent)	68.0	68.0	60.3	60.7	54.4
St. Croix:					
Total rooms/units	1,177	1,187	1,200	1,209	1,222
Number of hotels	17	17	16	17	17
Hotel rooms	903	910	900	915	926
Condominium/other units	275	278	300	295	296
Occupancy rate (percent)	54.3	46.3	38.7	45.8	45.1
Total U.S. Virgin Islands:					
Total rooms/units	4,757	4,857	4,949	5,008	4,889
Number of hotels	46	47	46	47	47
Hotel rooms	3,678	3,782	3,809	3,878	3,759
Condominium/other units	1,079	1,075	1,139	1,131	1,130
Occupancy rate (percent)	64.6	60.0	54.9	57.1	52.1

Source: United States Virgin Islands Bureau of Economic Research.

Visitor Expenditures

Total expenditures by all visitors (tourists, cruise passengers and other excursionists) to the Virgin Islands totaled $1,033.3 million in 2010 and $1,046.7 million in 2011, which represents an increase of 1.3%. Table D-7 details visitor expenditures in the Virgin Islands from 2007 to 2011. The visitor expenditures data for 2011 is estimated.

Table D-7. United States Virgin Islands Visitor Expenditures
2007-2011
(in 000,000s)

	2007	2008	2009	2010	2011[1]
Tourists	$929.8	$686.4	$687.4	$694.2	$703.3
Excursionists:					
Day-trip by air	27.7	29.7	28.6	28.8	29.1
Cruise passengers	555.2	441.0	305.3	310.3	314.3
Total	582.9	470.7	333.9	339.1	343.4
Total Expenditures	**$1,512.7**	**$1,157.1**	**$1,021.3**	**$1,033.3**	**$1,046.7**

Source: United States Virgin Islands Bureau of Economic Research.
1. The visitor expenditures data for 2011 is estimated.

The Virgin Islands benefits from a $1,600 duty-free exemption for articles purchased in the Virgin Islands and either mailed or taken back to the United States mainland once each 30 days without regard to the length of stay abroad, while other countries in the Caribbean basin only have a $800 duty-free exemption (a two-to-one advantage). In addition, each adult is permitted to take up to 1.2 gallons of duty-free liquor as compared to one quart from other areas. In response to falling U.S. tariff rates and increased competition from Caribbean neighbors, local customs duties and excise taxes were removed from selected tourist-oriented merchandise in 1982. As a result, prices of various luxury items, such as jewelry, china, cameras, leather goods, perfumes, watches and clocks, can be significantly below average United States mainland prices.

Per Capita Income

In 2011, per capita income of the Virgin Islands was $22,271, an increase of approximately 3.0% from 2010. The per capita income in the United States in 2011 was $41,663, an increase of approximately 2.7% from 2010. The following table sets forth the Virgin Islands and the United States per capita income from 2002 through 2011.

Table D-8. Comparative Per Capita Income United States Virgin Islands and United States 2002-2011 (current dollars)

Year	United States Virgin Islands	Annual Percentage Increase (Decrease)	United States	Annual Percent Increase (Decrease)
2002	17,236	2.0	31,039	2.5
2003	17,581	2.0	31,632	2.4
2004	18,108	3.0	33,050	4.5
2005	18,652	3.0	34,586	4.6
2006	19,211	2.1	36,714	6.2
2007	19,787	3.0	38,615	5.2
2008	20,381	3.0	39,751	2.9
2009	20,992	3.0	39,138	(1.5)
2010	21,622	3.0	40,584	3.7
2011	22,271	3.0	41,663	2.7

Sources: U.S. Bureau of Economic Analysis and United States Virgin Islands Bureau of Economic Research.

Construction and Real Estate

From 2010 to 2011, the total value of approved building construction permits for all of the Virgin Islands, an indicator of current and future industry activity, decreased by 4.3%.

The construction sector averaged 2,079 jobs in fiscal year 2010, compared to 2,044 jobs during fiscal year 2011. Construction jobs declined 2.0% for first half of fiscal year 2012 compared with same period in fiscal year 2011.

From 2010 to 2011, private residential construction decreased by 7.4% on St. Thomas and St. John and by 19.6% on St. Croix, and private non-residential construction increased Territory-wide by 50.7%. The following tables detail the value of construction permits and the residential real estate market sales in the Virgin Islands from 2007 to 2011.

Table D-9. United States Virgin Islands Value of Construction Permits
2007-2011

Year	Total USVI (millions)	Percent Increase (Decrease)	St. Thomas/ St. John (millions)	Percent Increase (Decrease)	St. Croix (millions)	Percent Increase (Decrease)
2007	266.0	(39.9)	172.6	(20.6)	93.1	(58.6)
2008	273.3	2.7	183.8	6.3	89.5	(3.9)
2009	261.8	(4.4)	79.0	(53.3)	175.9	96.5
2010	187.2	(4.2)	80.6	2.0	106.5	(39.5)
2011	179.1	(4.3)	87.9	9.1	91.1	(14.5)

Source: United States Virgin Islands Bureau of Economic Research.

Table D-10. United States Virgin Islands Residential Real Estate Market Sales Analysis
2007-2011

	2007	2008	2009	2010	2011
St. Thomas/ St. John:					
Number of Homes Sold	174	148	126	120	138
Average Home Sales Price ($)	782,938	560,006	591,904	588,214	684,213
No. of Condominium Sales	184	158	92	190	99
Average Condominium Sales Price ($)	294,969	311,654	263,059	244,013	198,075
St. Croix:					
Number of Homes Sold	280	187	172	158	134
Average. Home Sales Price ($)	364,266	385,665	356,954	388,536	379,024
No. of Condominium Sales	114	108	60	63	63
Average Condominium Sales Price ($)	246,346	218,382	234,619	178,533	210,361
Total U.S. Virgin Islands:					
Number of Homes Sold	454	335	298	278	272
Average Home Sales ($)	524,726	462,687	456,295	474,728	533,862
No. of Condominium Sales	298	266	152	253	162
Average Condominium Sales Price ($)	279,368	273,784	251,832	227,708	202,852

Source: United States Virgin Islands Bureau of Economic Research.

Financial Management, Budgeting and Controls

Budgetary Process. The fiscal year of the Government begins on October 1 of each year. The Governor is required by law to submit to the Legislature an annual budget of capital improvements and operating expenses for the following fiscal year no later than May 30. The fiscal year 2013 budget was submitted by the Governor to the Legislature on June 29, 2012. In a letter dated May 4, 2012, the Governor notified the Legislature that the fiscal year 2013 budget would not be submitted by the May 30 deadline. The delay in the submission of the fiscal year 2013 budget was primarily a result of the closing of HOVENSA in St. Croix. It is expected that the Legislature will pass a fiscal year 2013 budget by September 30, 2012. The annual budget is prepared by the Virgin Islands Office of Management and Budget ("OMB"), working in conjunction with other Government departments and instrumentalities. If a budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be applicable, are automatically deemed re-appropriated item by item.

The Legislature, in its consideration of the budget for each fiscal year, may modify the Governor's submission. The Legislature is obligated by law to pass a final budget no later than September 30, the last day of the fiscal year. Upon passage by the Legislature, the budget is submitted to the Governor, who may eliminate any item by a line-item veto but not increase or insert any new item in the budget. The Governor also may veto the budget in its entirety and return it to the Legislature with his objections. The Legislature may override any veto by the Governor (including any line-item veto) only by a vote of two-thirds of its members.

Once the budget is enacted, fiscal control over expenditures made pursuant thereto is exercised by the Governor through the Director of OMB. During any fiscal year in which the resources available to the Government are not sufficient to cover the appropriations approved for such year, the Governor, through the Director of OMB, may take administrative measures to reduce expenses. The Governor also may make recommendations to the Legislature for new taxes, or any other necessary action to meet the estimated deficiency. It has been the practice of the Director of OMB, when making funding adjustments, to allot funds in the following order of priority: to the payment of the interest on and amortization requirements for public debt; to the fulfillment of obligations arising out of legally binding contracts, court decisions on eminent domain and certain commitments to protect the name, credit and good faith of the Government; and to current expenditures in the areas of health, protection, education and welfare.

Fund Structure and Accounts. The Government maintains certain funds pursuant to authority set forth in the United States Virgin Islands Code.

The Government has established three fund types: Governmental Fund Types, Proprietary Fund Types and Fiduciary Fund Types, and two account groups: General Fixed Assets Account Group and General Long-Term Debt Account Group. Although General Fixed Assets and General Long-Term Debt are classified as account groups, these account groups possess the basic characteristics of funds.

Government Fund Types include the General Fund, the Special Revenue Funds, the Debt Service Funds and the Capital Projects Funds. The Proprietary Fund Types are composed of the Enterprise Funds. The Expendable Trust Funds, Pension Trust Fund and Agency Funds comprise the Fiduciary Fund Types.

The General Fund is the Government's largest fund as it accounts for the operations of the three branches of government. The General Fund accounts for all revenues and receipts not required to be accounted for, or deposited in, other funds and for the major portion of Government expenditures. Tax receipts represent the majority of the General Fund revenues.

Basis of Accounting. The Government utilizes a modified accrual basis of accounting. Revenues in the Governmental Fund Types are recognized when the cash is received and expenditures when paid or when accounts payable are recorded. Uncollected revenues are reflected as receivables. Provisions for receivables and payables are established at year-end in the report of undesignated fund balance.

Expenditures are made pursuant to an allotment process. Budgetary control is exercised at the department level and through the allotment process. Encumbrances and expenditures cannot exceed total allotment amounts. Encumbrances are employed to record purchase orders, contracts and other commitments so that the appropriate amounts of appropriations are reserved to cover future estimated expenditures. Encumbrances outstanding at year-end are reported as reservations of fund balance for the subsequent year's expenditures. The authority to liquidate an encumbrance, provided no service has been rendered, is carried forward with the appropriation. Before September 30 of the next fiscal year, the Government must administratively liquidate outstanding encumbrances unless funding is available until expended, or an administrative determination is executed by the Commissioner of Finance. In the Proprietary Fund Types, revenues are accrued.

Financial Reporting. The annual reports of the financial operations of the Government are audited by independent accountants. The Government contracted Ernst & Young LLP to audit the financial statements for fiscal years 2006 through 2013. The audits are performed in accordance with government auditing standards and the accounting records of the Government are kept in accordance with government accounting standards. Fiscal year 2007 audited financial statements were issued on October 16, 2009. Fiscal year 2008 audited financial statements were issued on August 31, 2010, and fiscal year 2009 audited financial statements were issued on July 25, 2011.

The Government has not finalized its audited financial statements for the fiscal year ending September 30, 2010, which were due to be filed by June 30, 2011, or for the fiscal year ending September 30, 2011, which were due to be filed by June 30, 2012.

The Authority and the Government have entered into a number of continuing disclosure agreements in connection with bonds previously issued by the Authority. During the past five years, the Authority and the Government have not complied with the majority of their obligations under such continuing disclosure undertakings. Specifically, the Authority and the Government consistently have provided incomplete annual continuing disclosure filings and have failed to provide disclosure on a timely basis, with annual filings being made between 30 months and 22 months after the end of the fiscal year. The continuing disclosure agreements require such annual filings to be made 9 months after the end of the fiscal year.

The Authority and the Government established in 2010 new policies and procedures that they believed would have resulted in timely compliance with their continuing disclosure obligations in the future. Nevertheless, while all other filing requirements have been met, the Government's failures to file timely annual audited financial statements have continued.

Financial Position of the Government

In recent fiscal years, the Government has experienced substantial fluctuations in revenues and expenditures and recurring deficits. For fiscal year 2009, the Government reported an audited shortfall of revenues over expenditures of $475.4 million. After taking into account transfers from other funds and other financing sources, such as bond and loan proceeds, the Government reported an audited shortfall of revenues over expenditures of $83.6 million. The Government ended fiscal year 2009 with a net deficit of $739.8 million on its balance sheet.

To finance working capital needs and other Government obligations, including payroll, vendors and short-term obligations in fiscal year 2009, the Government borrowed $43.6 million from its Insurance Guaranty Reserve Fund and drew down approximately $100 million from the Working Capital Credit Facility. The Government used cash balances on hand to meet the remaining fiscal year 2009 revenue shortfall.

The Government continued to experience a revenue shortfall in fiscal year 2010, which it sought to manage through a combination of expenditure reductions and working capital borrowings. In July 2010, the Authority, on behalf of the Government, issued bonds secured by Matching Fund Revenues (the "Series 2010 Bonds"), the proceeds of which were used, in part, to finance approximately $150 million of the Government's working capital expenditures for fiscal year 2010, and to refinance $200 million of the outstanding principal due on the Working Capital Credit Facility.

Historically, the Government has had difficulty producing audited financial statements in a timely manner. Its most recent audited financial statements are those for fiscal year 2009. Based on unaudited results, however, the Government estimates it ended fiscal year 2010 with a shortfall of revenues over expenditures of approximately $302.5 million. The Government sought to manage this shortfall through a combination of expenditure reductions and working capital borrowings. In July 2010, the Authority, on behalf of the Government, issued the Series 2010 Bonds, the proceeds of which were used, in part, to finance approximately $150 million of the Government's working capital expenditures for fiscal year 2010 and to refinance $200 million of the outstanding principal due on the Working Capital Credit Facility with proceeds of the Series 2010 Bonds. In November 2010, the Authority reinstated $131.4 million of the Working Capital Credit Facility, which matures on October 1, 2013. The Government funded approximately $299 million of its fiscal year 2010 revenue shortfall from the Working Capital Credit Facility and proceeds of the Series 2010 Bonds. As of the date of this Private Placement Memorandum, the Working Capital Credit Facility was fully drawn down.

The Government estimates it ended fiscal year 2011 with a shortfall of revenues over expenditures of approximately $215.7 million. The Government funded approximately $212.8 million of this shortfall from draws under the Working Capital Credit Facility, internal borrowing, delays in income tax refunds, draws from stabilization funds from the American Recovery and Reinvestment Act of 2009 and transfers from other funds and accounts.

The unaudited results for fiscal years 2010 and 2011 are prepared on a cash basis, while the audited financial statements for fiscal year 2009 were prepared on an accrual basis. Consequently, the unaudited results for fiscal years 2010 and 2011 are not directly comparable to the audited results for fiscal year 2009. In addition, the estimates for fiscal years 2010 and 2011 are preliminary and unaudited and there may be material revisions to these numbers when the audits are complete. In recent prior years, there have been material revisions to the unaudited numbers in the process of completing the audits.

Currently, OMB projects a shortfall of revenues over expenditures of approximately $60 million in fiscal year 2012, approximately $35 million in fiscal year 2013, and approximately $25 million for

fiscal year 2014. The Government expects to use a portion of the proceeds of the Series 2012A Bonds to finance a portion of the Government's working capital expenditures for each of fiscal year 2012, 2013 and 2014, respectively. The Government intends to meet the balance of any revenue shortfalls in those years through continued expenditure reductions and revenue initiatives. The Government has taken a series of actions to reduce the operating budget and address the operating deficit including reducing salaries of Government employees by 8% and instituting personnel reductions. The combined savings from the personnel reductions for fiscal year 2012 are estimated to be $40 million. In addition, the Legislature authorized the reduction of the required balance in the Insurance Guaranty Fund from $50 million to $10 million until September 30, 2015, allowing the Government to release $13.5 million to the General Fund. The Legislature also increased the gross receipts tax rate from 4.5% to 5.0%, among other things.

On June 29, 2012, the Governor submitted his proposed fiscal year 2013 budget to the Legislature for its review and approval. The proposed fiscal year 2013 budget totals $1.1 billion, including $695.8 million for the General Fund. The proposed fiscal year 2013 budget is $35.5 million less than the fiscal year 2012 Executive Budget of $731.3 million that was submitted one year ago and is more that $30 million less than the revised fiscal year 2012 current appropriation level of $725.8 million. The fiscal year 2013 budget reflects several expenditure reduction measures and revenue initiatives designed to reduce the projected deficit while ensuring ongoing operations, including reduction of expenditures and allotments, continuation of a hiring freeze/attrition program, as well as the use of external borrowing for working capital in the amount of $60 million. The Authority expects to use a portion of the proceeds of the Series 2012A Bonds to fund a portion of the anticipated working capital needs of the Government in fiscal years 2012, 2013 and 2014.

Future Borrowings

Subject to legislative approval, the Government expects to finance within fiscal year 2013 certain energy projects totaling approximately $35 million to further advance ongoing Territory-wide energy conservation efforts for Government facilities (the "Energy Conservation Project"). In addition, the Working Capital Credit Facility matures on October 1, 2013 and may be extended, at the option of the lenders upon the written request by the Government 240 days prior to such date, or refinanced with bonds secured by Matching Fund Revenues or Gross Receipts Taxes, subject to legislative approval. The Government also expects to refinance the $32,235,000 Subordinate Lien Revenue Bond Anticipation Note (Virgin Islands Gross Receipts Taxes Term Loan Note - Broadband Project) issued April 29, 2011 (the "Broadband Project") within the next two fiscal years. The financing of the Energy Conservation Project and the refinancing of the Broadband Project may be secured by either Matching Fund Revenues or Gross Receipts Taxes.

In 2012, the Government also anticipates refinancing the Tax Increment Revenue Bond Anticipation Notes (Virgin Islands Tax Increment Revenue Loan Note/Island Crossings Shopping Center), Series 2009A, which will be secured by incremental Gross Receipts Taxes and incremental real property taxes associated with such project.

The Government also expects to finance certain capital projects in 2012 and is seeking legislative approval for such a financing, which financing may be secured by Matching Fund Revenues or Gross Receipts Taxes.

Back Wages and Pension Obligations

Back Wages

As of September 30, 2009, the Government has contractual liabilities for retroactive union arbitration salary increases estimated at $231.8 million, accruing from fiscal years 1993 through 2009, as established by the Virgin Islands Retroactive Wage Commission. Under the Virgin Islands Code, the Government may not make any payments of retroactive salaries until there is an appropriation of funds by the Legislature. The Legislature, from time to time, has appropriated funds for partial payment of such retroactive wages and related payroll costs. Until additional appropriations are made by the Legislature, the retroactive salary liability is recorded as a non-current liability in the Government statement of net assets (deficit). The Government is unable to provide an update of this information until subsequent fiscal year audited financial statements are complete.

Government Employees Retirement System

The Employees' Retirement System of the Government of the Virgin Islands (known as the GERS) is a cost-sharing, multiple-employer defined benefit plan which requires that benefits promised under the law to members of the GERS be funded on an "actuarial reserve" basis. As of September 30, 2010, the net assets of the GERS were approximately $1.5 billion. The GERS audit report for fiscal year 2010 was qualified because (i) the GERS lacks adequate procedures to assess the reasonableness of the reported values of certain investments in limited partnerships, which were provided by the fund managers and valued at $48,710,369, (ii) the GERS' procedures are not adequate to determine whether the approximate fair value of the investments is in conformity with GAAP, and (iii) the schedules of funding progress and employer contributions are not in conformity with GAAP as a result of not having an actuarial valuation performed within the required two-year period.

Based on the audited financial statements of GERS for the fiscal year ending September 30, 2010, (i) the number of contributing members to GERS was approximately 11,117, (ii) the number of retirees was 7,301 and (iii) the number of surviving beneficiaries was 196.

As of September 30, 2011 (based upon unaudited financial information of the GERS), the number of contributing members was approximately 10,731, the number of retirees was 7,528 and the number of surviving beneficiaries was 197.

The valuation of the GERS' assets is an estimate predicated upon the book value of such assets on a date certain. For the fiscal year ended September 30, 2011 (based upon unaudited financial information of the GERS), benefits paid to retirees were approximately $193 million. The foregoing data for fiscal year 2011 is unaudited and may be substantially revised when the audit is completed.

Employee and employer contributions rates to the system are set forth in Table D-11.

Table D-11. Employees' Retirement System of the Government of the Virgin Islands Employee and Employer Contributions

	Employee Contribution Rate	
	Tier I	**Tier II**
Members of the Legislature	9.000%	11.000%
All other regular employees	8.000%	8.500%
Public Safety employees	10.000%	10.625%
Hazardous duty employees who elect early retirement	10.000%	10.625%
Judges	11.000%	11.000%

Source: GERS

According to the GERS, as of September 30, 2011, current employer contributions were 17.5% of membership payroll. According to recommendations from the GERS' actuary and estimates based on the audited financial statements of GERS for the fiscal year ending September 30, 2010, the statutory government and member contribution rates are not sufficient to meet the obligations of the GERS. To meet the full current annual required contribution (including the system's current normal cost and the amount necessary to amortize the unfunded actuarial liability over 20 years as set forth in the Government of the Virgin Islands Retirement System Actuarial Evaluation, dated and certified as of September 30, 2006), the contribution rates would have to be increased such that, in total, an additional 17.5% of payroll contribution would need to be made each year from some combination of member and/or Government sources. For fiscal year 2010, the annual required contribution was $157,817,709, and the Government contributed $77,004,630, or 48.79%.

The GERS' investments in marketable securities are carried at quoted market value, are held in trust by a commercial bank on behalf of the GERS and are administered by several investment managers. The GERS' board of trustees has established investment policies in accordance with the Virgin Islands Code that place limitations and guidelines on amounts that may be invested in certain investment categories and the institutions with which investment transactions can be entered into. The guidelines for each investment manager stipulate the investment style, the performance objective, performance benchmarks and portfolio characteristic. As of September 30, 2011, the investment policy provided that a minimum of 60% of the investment portfolio be invested in equity stocks and a maximum of 40% be invested in fixed income. The Board of Trustees is authorized under Title 3, Section 717(20) of the Virgin Islands Code to invest a maximum amount of 10% of the total amount of the available investment portfolio in an Alternative Investment Program. Alternative Investments are investment opportunities that have not been identified by the traditional public equity or fixed income capital markets.

As of September 30, 2010, the GERS' plan was 50% funded. The actuarial accrued liability was $3.0 billion and actuarial value of assets was $1.5 billion, resulting in an unfunded actuarial accrued liability of approximately $1.5 billion.

As indicated in unaudited preliminary data from GERS' actuary for the period ending September 30, 2011, (i) the GERS' plan was 47.9% funded, (ii) the actuarial accrued liability was $3.0 billion, (iii) the actuarial value of assets was $1.4 billion and (iv) the unfunded actuarial accrued liability was $1.6 billion. As of the date hereof, audited financial information regarding the GERS' plan for the fiscal year ending September 30, 2011 is unavailable.

Since 1994, the Legislature has enacted legislation which has authorized certain unfunded legislative mandates providing for increased benefits and early retirement programs. Without recovery of

such increased costs, the increased loss of contributions and payments required will negatively impact GERS' ability to meet its future obligations.

The GERS is responsible for the collection and disbursement of all loan repayments, employee contributions and employer contributions. In accordance with Title 3, Section 718(a) of the Virgin Islands Code, after October 1, 2005, the GERS may not provide any increases in benefits to members or beneficiaries, unless the Government has identified a specific funding source and concurrently makes a provision for the funding of all future benefit improvements on sound actuarial basis in the annual budget. The Authority has no liability on these obligations.

Labor Relations

There are 13 distinct labor organizations subject to 30 collective bargaining agreements with a total of 31 pay plans currently in place for Governmental employees. As specific disciplines are not grouped under a single pay plan, it is common to have clerical and non-professional workers in departments throughout government represented by different unions.

APPENDIX E

GLOBAL INSIGHT REPORT -
VERIFICATION AND PROJECTION OF MATCHING FUND REVENUES FROM RUM SHIPMENTS TO THE U.S.

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Verification and Projection of Virgin Islands Matching Fund Revenues from Rum Shipments to the US

Submitted to:

Virgin Islands Public Finance Authority

Prepared by:

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August 15, 2012

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Disclaimer

The projections and forecasts included in this report, including, but not limited to, those regarding future excise tax revenues, are estimates, which have been prepared on the basis of certain assumptions and hypotheses. No representation or warranty of any kind is or can be made with respect to the accuracy or completeness of, and no representation or warranty should be inferred from, these projections and forecasts. The projections and forecasts contained in this report are based upon assumptions as to future events and, accordingly, are subject to varying degrees of uncertainty. Some assumptions inevitably will not materialize and, additionally, unanticipated events and circumstances may occur. Therefore, for example, actual matching fund revenues inevitably will vary from the projections and forecasts included in this report and the variations may be material and adverse.

Executive Summary

Revenue Verification

IHS Global Insight reviewed records that document the Matching Fund Revenue collection and transfer process during the period from fiscal year ("FY") 1992 through FY 2011. This review indicated that the annual Matching Fund Revenues transferred to the United States Virgin Islands Government ("VI") are consistent with excise taxes collected from U.S. distillers on purchases of bulk VI rum and U.S. Customs Service ("Customs") duties levied on cased VI rum. This conclusion is based on a review of the method by which Matching Fund Revenues are calculated and transferred, which involves a process of revenue projections and subsequent adjustments based on actual revenues collected. Between FY 1992 and FY 2011 certain revenue transfers did not exactly equal the amounts that would be expected, given this projection and adjustment process. Because these discrepancies were minimal, however, we considered them immaterial.

Revenue Projection

Projections of future Matching Fund Revenues in this report are derived in two parts. First we project the revenues based on shipments from the Cruzan rum plant operated by Beam, and soon to be expanded under the "Cruzan Agreement" with the VI dated October 2009. Second, we add the revenues projected from shipments by Diageo USVI, Inc. ("Diageo") pursuant to the terms of the Diageo Agreement dated June, 2009, between VI and Diageo, of rum to be used in the production of Captain Morgan branded products, which commenced exports to the U.S. mainland in February 2012.

We present three alternative scenarios – a baseline forecast, one low and one high scenario - of future rum shipments and Matching Fund Revenues. The first model, our Constant Market Share Model, projects Matching Fund Revenues as a function of U.S. rum consumption. This model, in accord with an upturn in rum consumption in the past decade, predicts an increasing revenue stream consistent with our forecast of higher U.S. consumption. In each scenario, U.S. rum consumption is moderated over the near-term by the current U.S. business cycle.

This model projects that growth in U.S. rum consumption will average 2.3% annually during the 30 years to fiscal 2041, reaching 51.2 million 9-liter cases by the end of the period. Rum shipments from the Beam plant will average 2.2% annual growth until the plant reaches capacity in FY 2021, from then on the plant will generate Matching Fund Revenues of $139.1 million annually. Under the similar constant share scenario, it is assumed that Captain Morgan maintains its current share of the U.S. rum market, until the new plant reaches its matured rum shipment capacity of 18 million proof gallons in 2031, and it will then generate Matching Fund Revenues of $238.5 million annually. Assuming that the U.S. Government extends the $13.25 per proof gallon "cover-over" rate (i.e. the portion of excise tax revenues actually transferred to the VI Government).[1]

The second model, our Growing Market Share Model, projects that Beam and Captain Morgan will increase their share of the U.S. rum market. This model projects higher growth in Matching Fund Revenues than the Constant Market Share model. Matching Fund Revenues reach an annual total of

[1] In December 2010, Congress extended the $13.25 per proof gallon cover-over rate from January 1, 2010, through December 31, 2011, pursuant to the Tax Relief, Unemployment Insurance, Reauthorization, and Job Creation Act of 2010. As of January 1, 2012, the cover-over rate reverted to is base level ($10.50 per proof gallon), but we expect Congress will extend the $13.25 per proof gallon rate before the end of the fiscal year.

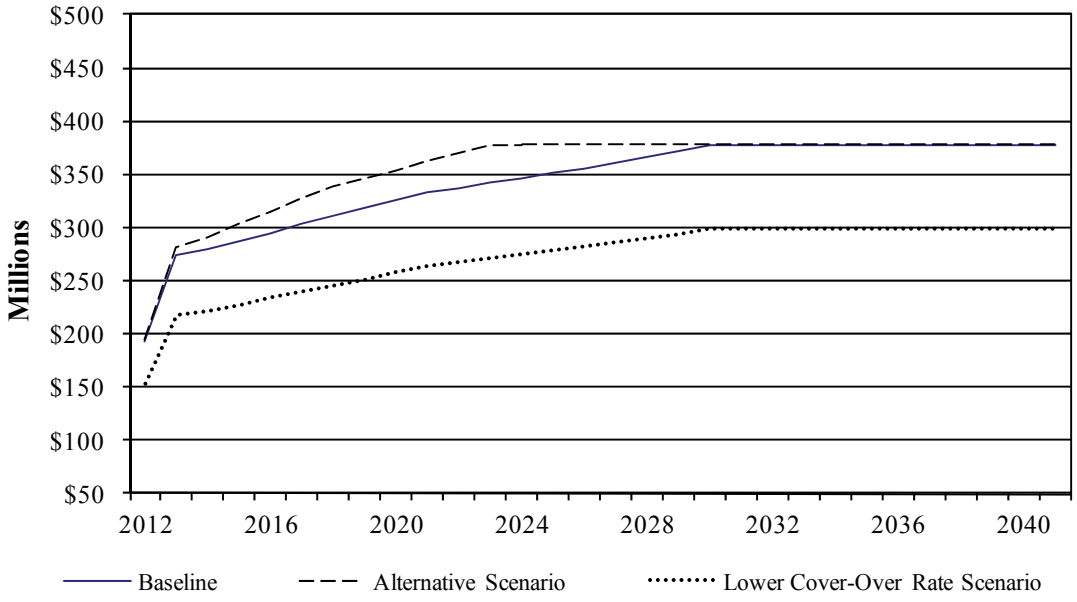
$377.6 million by FY 2023, and will remain constant in subsequent years, with both plants having reached capacity. This results from an average rate of growth of Beam shipments of Cruzan, Ronrico, and other rum of 3.2% per year until the plant reaches capacity in FY 2018, and of Diageo shipments of Captain Morgan of 4% per year until that plant reaches capacity in FY 2023. As with the first model, this projection assumes that the U.S. Government once again extends the $13.25 per proof gallon cover-over rate.

Finally, our third scenario shows future Matching Fund Revenues under the assumption that the cover-over rate remains at $10.50 per proof gallons. Under this scenario, annual Matching Fund Revenues reach $299.5 million in FY 2031, and will remain constant in subsequent years, with both plants having reached capacity.

Graph 1 illustrates the Matching Fund Revenues projected by these three scenarios.

Graph 1

Projected Matching Fund Revenues, FY2010-FY2041



Revenue Verification

Revenue Estimate and Transfer Process

The VI Government receives revenue from the U.S. federal excise taxes that are levied on VI rum shipped to and consumed in the United States. This rum is produced by two producers, Cruzan, owned by Beam, and Diageo USVI. Federal excise taxes levied on VI rum are paid by U.S. distributors when they bottle VI rum shipped in bulk to the US, and are collected by the Alcohol and Tobacco Tax and Trade Bureau ("TTB") of the US Department of the Treasury ("Treasury").[2] TTB also collects excise tax on cased rum (rum produced and bottled in the VI and exported to the US). TTB collects these taxes at the rate of $13.50 per proof gallon. A portion of these revenues, known as the "cover-over" Matching Fund Revenues, are then transferred to the VI Government.[3] In 1984 Congress imposed a cap of $10.50 per proof gallon on the cover-over rate applied to VI rum shipped to the U.S. Then in 1999, Congress increased the cover-over rate on a temporary basis to $13.25 per proof gallon and has regularly extended the temporary rate since that time. In the absence of Congressional extensions, however, the cover-over rate returns to $10.50 per proof gallon, as it did on January 1, 2012. However, we do expect that before the end of the fiscal year Congress will once again extend the $13.25 rate.

Matching Fund Revenues are not transferred to the VI directly when collected by TTB. Instead, the process involves an annual advance of monies, based on projected tax revenues (referred to as the "base advance"), and subsequent adjustments to the amount of the base advance. These adjustments are equivalent to the difference between the base advance and actual earnings two FYs earlier. Therefore, the amount of Matching Fund Revenues received by the VI Government during a given FY does not equal the "cover-over" amounts collected during the same 12-month period. For example, the FY 2007 advance was equal to projected FY 2007 revenues adjusted by the difference between the FY 2005 base advance and actual FY 2005 collected tax revenues. These actual monthly collected federal excise tax revenues are reported by TTB through Monthly Cover-Over Reports submitted to DOI

Each year the Governor of the VI (the "Governor") requests the VI's Matching Fund Revenue advance through a letter submitted in September to Interior ("DOI"). The Governor's request is based on an estimate by the VI Office of Management and Budget ("OMB") of rum production and the resulting federal excise tax revenues to be collected and the appropriate adjustment for such year. This adjustment is based on collected tax revenues two fiscal years earlier. DOI then determines the amount that will be transferred to the VI Government, and requests that the Treasury transfer that amount to an account (the "Escrow Account") held by the Special Escrow Agent acting on behalf of the VI Government, pursuant to a certain Special Escrow Agreement by and between the Government and the Special Escrow Agent (the "Special Escrow Agreement"). This transfer from DOI to the Special Escrow Agent typically occurs by September 30 each year.

[2] Prior to 2003, TTB was known as the Bureau of Alcohol, Tobacco and Firearms ("BATF"). All references to data reviewed and received before 2003 will be referenced as TTB for consistency.

[3] The term "cover-over" revenue also can be used to refer to all tax revenues collected on the sale of rum in the United States and transferred to the VI, including Caribbean Basin Initiative ("CBI") funds. These CBI funds are collected from excise taxes on rum imported into the U.S. from sources other than the VI and Puerto Rico. For this report, only those funds generated from VI rum exports to the U.S. were considered since it is these revenues that comprise the Matching Fund Revenues and are pledged to secure the Bonds.

Data Verification

Since Matching Fund Revenues secure the Bonds, it is the flow of these funds that was the focus of our data verification efforts. Specifically, our objective was to confirm that the Matching Fund Revenues collected by Customs and eligible for transfer to the VI Government equaled the funds actually transferred to the VI Government. Confirming this flow of funds is complicated by the fact that, as described above, revenues are subject to an advance and adjustment process. The following sources were used to document this process and were the primary components of the verification process:

1. **DOI letters to Treasury requesting the annual transfer of Matching Fund Revenues to the VI.** These letters provide three central pieces of information:
   a) estimate of the annual base advance of VI excise tax revenues,
   b) the adjustment to be made to the base advance after verification of the actual excise taxes collected in the second preceding FY; and
   c) the adjusted amount to be transferred to the Escrow Account held by the Special Escrow Agent on behalf of the VI Government.

2. **TTB Monthly Cover-Over Reports.** These reports document the amount of federal excise taxes collected monthly by the TTB and eligible for transfer to the VI, based on the cover-over rate. These reports provide a record of the amounts the VI actually is entitled to from the federal excise tax collected on rum in a given month. The reports detail the four components of the Virgin Islands' total net monthly rum earnings, which are defined below:
   a) Bulk Spirits collections - revenue collected from bulk rum purchases;
   b) Customs collections - Customs collections on cased rum,
   c) Adjustment to Bulk - correction applied to account for discrepancies discovered in past Bulk Spirits collections calculations; and
   d) Adjustment to Customs - correction applied to account for discrepancies discovered in past Customs collections calculations.

3. **Bank Statements.** The annual Matching Fund Revenue transfer is deposited into the Escrow Account. Bank statements for this account provide a record that the transfer amount requested by DOI was in fact received by the Escrow Agent on behalf of the VI Government.

In addition to these documents, we also collected information from OMB. OMB records information associated with the federal excise tax revenue collection process and provides a series of spreadsheets that it uses to track rum excise tax revenues and shipments. In preparing its estimate of federal excise taxes to be available for transfer to the VI, OMB reviews historical rum shipments and earnings and projected rum shipments and sales for the next fiscal year prepared by Cruzan and now Diageo. Although the Governor uses OMB's estimate in making annual transfer requests to DOI, it is ultimately DOI that determines the amount of the advance that is transferred. Therefore, a verification of OMB's forecasts and subsequent requests was not performed. OMB's information did, however, provide a supplement to other data sources.

Verification Findings

Table 1 summarizes the data received and used for the Matching Fund Revenue verification.

Table 1
Inventory of Data Received, FY 1992 – FY 2011

Fiscal Year	DOI Advance Request Letter	Monthly Cover-Over Letters[1/]	Bank Statement
1992	√	√	
1993	√	√	
1994	√	√	
1995	√	√	√
1996	√	√	√
1997	√	√	√
1998	√	√	
1999	√	√	√
2000	√	√	√
2001	√	√	√
2002	√	√	√
2003	√	√	√
2004	√	√	√
2005	√	√	√
2006	√	√	√
2007	√	√	√
2008	√	√	√
2009	√	√	√
2010	√	√	√
2011	√	√	√

[1/]Cover-Over Letters for FY 1990 and FY 1991 also were reviewed so that FY 1992 and FY 1993 advances could be verified.

It also should be noted that we reviewed data from the sources above for years prior to the verification period. This review, while not formally included in our data verification, did not present any information that contradicts our verification findings.

Verification Questions and Findings

Verification Questions

In order to verify the federal excise taxes collected and the Matching Fund Revenues transferred to the VI Government, we addressed the following questions for the FY 1992 through FY 2011 period:

1. For each year, what was the difference between the base advance for a given year and the actual earnings for that year, as recorded in TTB's Monthly Cover-Over Reports? We assumed that the difference for each year would be used to adjust the base advance in the second fiscal year immediately following.

2. Do annual funds authorized for transfer to the VI equal the base advance for a given year adjusted by the difference discussed in item one, for two fiscal years earlier?

3. Are the annual transfer amounts authorized by Interior equal to deposits transferred to the VI Escrow Account?

Verification Findings

Our findings with regard to these questions are as follows:

1. In order to verify actual earnings, we compiled data from TTB's Monthly Cover-Over Reports. The earnings figure used for Matching Fund Revenue calculations, according to TTB, is the "Total" figure (i.e. the sum of Bulk Spirits, Customs, Adjustment to Bulk and Adjustment to Customs) reflected in the chart below. Note that the cover-over rate increased from $10.50 to $11.30 per proof gallon at the beginning of FY 1995, declined to $10.50 in FY 1999, and increased to $13.25 in FY 2000.

Table 2
TTB Monthly Cover-Over Reports
Components of Matching Fund Revenues, FY 1990-FY 2011

FY	Bulk Spirits ($)(a)	Customs ($)(b)	Adjustment to Bulk ($)(c)	Adjustment to Customs ($)(d)	TOTAL ($)
1990	28,735,178.45	8,185.21	221,062.69	0	28,964,426.35
1991	27,319,420.71	1,505.72	198,293.02	0	27,519,219.45
1992	27,943,258.16	15.03	586,594.47	-3.53	28,529,864.13
1993	30,633,882.04	19.44	-1,238,291.98	62.22	29,395,671.72
1994	29,782,689.33	59.63	545,373.27	0	30,328,122.23
1995	41,002,332.97	9,692.90	11,080.84	0	41,023,106.71
1996	43,579,475.37	16,145.29	-954,413.99	0	42,641,206.67
1997	46,020,134.23	1,987.83	-398,421.88	0	45,623,700.18
1998	50,239,651.31	15,255.34	53,216.22	0	50,308,122.87
1999	50,661,915.08	27,649.87	457,782.24	-7361.72	51,139,985.47
2000	58,947,063.81	11,136.58	3,732,477.89	0	62,690,658.28
2001	66,341,451.53	7227.61	1,743,039.50	0	68,091,718.64
2002	63,310,703.51	19.63	-2,974,189.24	0	60,336,533.90
2003	64,106,256.03	3.49	-3403.88	0	64,102,855.64
2004	65,316,014.38	8.77	9,684,513.20	0	75,000,536.35
2005	74,278,805.73	1236.48	845,567.30	0	75,125,609.51
2006	76,126,242.64	3786.94	-5,250,675.54	0	70,879,354.04
2007	75,885,170.48	26.72	10,825,147.57	0	86,710,344.77
2008	85,769,141.32	2,084.45	6,167,304.61	0	91,938,530.48
2009	105,950,572.23	0.00	869,290.89	0	106,819,863.12
2010	105,345,977.65	11.67	-1,679,500.99	0	103,666,488.33
2011	109,833,565.32	1,457.67	14,065,557.37	0	123,900,580.36

Source: TTB Monthly Cover-Over Letters, FY 1990 - FY 2011.

(a) Bulk Spirits - revenue collected from bulk rum purchases, calculated at the $10.50 per proof gallon rate through FY 1994, at the $11.30 rate through FY 1998, at the $10.50 rate in FY 1999, and then at $13.25 for FY 2000 through FY 2011.

(b) Customs - Customs collections on cased rum, computed at the 10.50 per proof gallon rate through FY 1994, at the $11.30 rate through FY 1998, at the $10.50 rate in FY 1999, and at $13.25 for FY 2000 through FY 2011.

(c) Adjustment to Bulk - correction applied to account for discrepancies in past Bulk Spirits collections calculations. The very large adjustment in 2004 was the result of a year end adjustment of earlier monthly revenues from a $10.50 rate to a $13.25 rate. Similarly the large differences in FY 2007, FY 2008, and in FY2011 were due to collections taking place at the $10.50 cover-over rate for several months in each period until the $13.25 cover-over rate was renewed. Once the rate was renewed, the difference for those months was forwarded by Treasury to the VI.

(d) Adjustment to Customs - correction applied to account for discrepancies discovered in past Customs collections calculations.

As described in Table 2 above, Adjustments to Bulk and Adjustments to Customs are corrections applied to account for reporting discrepancies in past calculations. Typically, these adjustments result from TTB audits of past reports. There have been years when relatively large adjustments were applied, as in FY 1993, FY 2000, FY 2001 and FY 2002. The FY 2000 adjustment is the result of a change in the portion of the excise tax, or cover-over rate, from $10.50 to $13.25 during the FY. The adjustments in FY 1993, FY 2001 and FY 2002 were corrections to past calculations.

For each year, the difference between total earnings and the base advance for that year represents the amount by which projected revenues differed from actual Matching Fund Revenues. This difference is used two fiscal years later to adjust the current FY base advance amount. Table 3 details these differences, and the fiscal years in which they were applied as an adjustment. For example, the FY 2002 advance of $60,121,000 was $215,534 greater than actual collections during that fiscal year. Thus, when the FY 2004 advance was requested an adjustment in the amount of $215,534 was made, decreasing the size of the FY 2004 advance payment.

Table 3
Components of Annual Adjustment Applied to Matching Fund Revenues
FY 1990 through FY 2011
Base Advances, Actual Excise Tax Collections and Subsequent Differences

Adjustment From FY	Projected Matching Fund Revenues ($)[1/]	Totals from Cover-Over Reports ($)[2/]	Expected Adjustment ($)	FY In Which Adjustment Applied
1990	29,000,000.00	28,964,426.35	-35,573.65	1992
1991	29,000,000.00	27,519,219.45	-1,480,780.55	1993
1992	28,500,000.00	28,529,864.13	29,864.13	1994
1993	29,000,000.00	29,395,671.72	395,671.72	1995
1994	30,928,800.00	30,328,122.23	-600,677.77	1996
1995[3/]	52,500,000.00	41,023,106.71	-11,476,893.29	1997
1996	43,628,000.00	42,641,206.67	-986,793.33	1998
1997	46,150,000.00	45,623,700.18	-526,299.82	1999
1998[4/]	46,515,000.00	50,308,122.87	3,793,122.87	2000
1999	43,634,997.00	51,139,985.47	7,504,988.47	2001
2000[5/]	64,432,940.00	62,690,658.28	-1,742,281.72	2002
2001	67,610,513.00	68,091,718.64	481,205.64	2003
2002[5/]	60,121,000.00	60,336,533.90	215,533.90	2004
2003	70,397,250.00	64,102,855.64	-6,294,394.36	2005
2004	65,849,003.00	75,000,536.35	9,151,533.35	2006
2005	66,961,000.00	75,125,609.51	8,164,609.51	2007
2006	78,712,000.00	70,879,354.04	-7,832,645.96	2008
2007[6/]	71,295,000.00	86,710,344.77	15,415,344.77	2009
2008[6/]	73,164,000.00	91,938,530.48	18,774,530.48	2010
2009[7/]	75,064,694.00	106,819,863.12	31,755,169.12	2011
2010[7/]	100,297,800.00	103,666,488.33	3,369,312.33	2012
2011	125,546,971.00	123,900,580.36	-1,646,390.64	2013

Source: [1/] DOI letters to Treasury and VI OMB.
[2/] TTB Monthly Cover-Over Reports.
[3/] The large over-estimate in 1994 was the result of uncertainty over the impact of the Todhunter acquisition of VIRIL in 1994.
[4/] The VI requested and received an early payment of $3.8 million in December 1998 in recognition of the large forthcoming adjustment. This amount was the equivalent of the adjustment expected to be made in FY 2000. Since this was paid in advance, there was no expected adjustment in FY 2000.
[5/] There was an additional adjustment in FY 2000, due to an increase in the excise tax. In FY 2000, the initial request was based on $10.50 cover-over rate, and an additional request was made based on the increased $13.25 cover-over rate.

[6/] In 2008 and 2009 the expected adjustment amount was requested a year ahead of the usual time, rather than with the advance payment two years later. For instance, the FY 2007 difference of $15,415,345 was requested, and paid, early in FY 2008 instead of with the FY 2009 advance.
[7/] For 2010 and 2011 there were additional advance requests after the cover-over rate was increased to $13.25, from $10.50, after the initial request.

2. Once we determined these differences, we verified that these differences were, in fact, the amounts used to adjust annual base advances for the relevant fiscal year. In order to do this, we compared these differences to information included in DOI's letters to Treasury.

Table 4
Differences Between Expected Adjustments and Actual Adjustments
FY 1992 through FY 2011

Fiscal Year	Projected Matching Fund Revenues ($)[1/]	Actual Advance ($)[2/]	Actual Adjustment ($)	Expected Adjustment ($)[3/]	Difference Between Expected and Actual Adjustment ($)
1992	28,500,000.00	28,651,241.00	151,241.00	-35,573.66	186,814.66
1993	29,000,000.00	27,519,220.00	-1,480,780.00	-1,480,780.55	0.55
1994	30,928,800.00	30,959,601.00	30,801.00	29,864.13	936.87
1995	52,500,000.00	52,707,921.00	207,921.00	395,671.72	-187,750.72
1996[4/]	43,628,000.00	43,027,653.00	-600,347.00	-600,677.77	330.77
1997	46,150,000.00	34,673,107.00	-11,476,893.00	-11,476,893.29	0.29
1998	46,515,000.00	45,596,124.00	-918,876.00	-986,793.33	-67,917.33
1999	43,635,000.00	43,108,700.00	-526,300.00	-526,299.82	-0.18
2000	64,432,940.00	64,433,000.00	60.00	0.00	60.00
2001	67,610,513.00	75,116,000.00	7,505,487.00	7,504,988.47	498.53
2002	60,121,000.00	58,372,000.00	-1,749,000.00	-1,742,341.72	-6,658.28
2003	70,397,250.00	70,878,000.00	480,750.00	481,205.64	-455.64
2004[5/]	65,849,003.00	63,097,000.00	-2,752,000.00	215,533.90	-2,967,533.90
2005[5/]	66,961,000.00	63,635,053.00	-3,326,000.00	-6,294,394.36	2,968,394.36
2006	78,712,000.00	87,864,078.00	9,152,000.00	9,151,533.35	466.65
2007	71,295,000.00	79,459,206.00	8,165,000.00	8,164,609.51	390.49
2008	73,164,000.00	65,330,477.16	-7,833,000.00	-7,832,645.96	-354.04
2009[6/]	75,064,694.00	75,064,694.00	15,415,344.77	15,415,344.77	0.0
2010	100,297,800.00	100,297,800.00	3,369,408.00	3, 369,312.33	0.0
2011	125,546,971.00	99,490,052.00	31,755,149.00	31,755,169.12	-20.12

Source: [1/, 2/]DOI letters to Treasury and VI OMB.
[3/] Derived from TTB Monthly Cover-Over Reports.
[4/] FY 1996's advance was received in two stages.
[5/] The expected adjustments for FY 2004 and FY 2005 differs from data in Table 3 due to a revision in the Projected Matching Funds Revenue from $63,089,000 to $60,121,000.
[6/] The expected adjustment for FY 2009 was requested and paid in FY 2008.

As indicated in Table 4, actual adjustments are reasonably close to expected adjustments for most years in the verification period. There are notable exceptions, however, specifically in FY 1992, FY 1995, FY 2005, and FY 2009. In reviewing data for these years, we have found the following possible explanations for these differences.

a. The adjustment used for the FY 1992 advance was derived from FY 1990 earnings. Earnings data provided by OMB suggest that there may have been an adjustment to December 1989 earnings of approximately $186,816. OMB's records of earnings for FY 1989 reflect the unadjusted, bulk spirits revenue from TTB's Monthly Cover-Over Reports. The report that we received from TTB for this month indicates bulk spirits revenue of $2,509,631.15, which is $186,815.85 less than OMB's record of $2,696,447.00. While there is no TTB documentation to confirm an adjustment specifically in this amount, the fact that OMB's figures imply an adjustment so close to the amount in question suggests that a later adjustment to December 1989 earnings was made.

b. The difference in question for FY 1995, which is based on FY 1993 actual earnings, suggests that perhaps the December 1989 adjustment discussed in item a, above, was applied in FY 1993. As indicated by the example Monthly Cover-Over Report, detailed reasons for earnings adjustments are not specified by TTB. As a result, TTB's adjustment for a given month could be comprised of a number of individual component adjustments. For FY 1993, a net total adjustment of -$1,238,229.76 was applied. The fact that the difference in question for the FY 1995 adjustment (-$187,750.72) is so close to the FY 1992 adjustment discrepancy ($186,414.66) suggests that TTB applied a FY 1990 earnings adjustment in FY 1993 that was approximately $187,000.

The aggregate of differences between the FY 1992 through FY 2011 period is minimal, and is equal to less than $75,000. This is an immaterial difference, given the magnitude of earnings figures.

3. The bank statements that we have received match the DOI request letters. While there are three years in the verification period for which bank statements were not available, we did not consider this material. Based on the documentation we do have, there is no reason to believe that Matching Fund Revenue transfers officially requested by DOI were not deposited into the VI Government Escrow Account.

Revenue Projections

Introduction: The Rum Industry

The U.S. Spirits Industry

The distilled spirits industry generally embarked on a period of expansion in the past two decades. Previously U.S. consumption had been declining steeply since the early 1980s. By 1995 the volume of consumption had fallen to 137.3 million 9-liter cases, which was 28% less than the 190.9 million cases consumed in 1980. The year 1995 proved to be the trough of this cycle however. Since then, consumption has been steadily increasing, reaching 197.1 million 9-liter cases in 2011, following 2.6% growth over 2010. Industry projections are for further growth in 2012, of 2.3%.[4]

Two broad socio-economic factors have been at work over this time. First, a growing health-consciousness among American consumers in the 1970s led to a reduction in alcohol consumption generally, and to a shift to beer and wine as hard liquor alternatives. Then, strong economic expansions boosted levels of disposable income. Consumer spending generally surged, and consumption shifted to more expensive, premium products. This refinement in tastes of Americans has been reflected in a shift in the composition of the distilled spirits market. Demand has shifted from whiskeys to non-whiskeys, particularly to vodka and rum.

This transition has mirrored the nation's demographics as the baby boom generation dominated consumption, replacing the habits of the previous generations. Subsequently, younger cohorts with more disposable income have driven the bar and restaurant market for premium cocktails.

The Rum Category

The rum industry's share of the U.S. distilled spirits market grew steadily from 1992, reaching 13.3% from 2008 through 2010. U.S. rum consumption has been rising for sixteen consecutive years since 1995. In 2011, U.S. rum consumption reached 25.9 million 9-liter cases, up 1.3% from 2010. As has also occurred with vodkas, recent growth has been in premium brands and in flavored varieties, though the U.S. recession induced a shift to value brands.

Rum is a highly concentrated market, with the top three brands accounting for 67% of U.S. consumption. Bacardi remains the leading rum, selling 9.5 million 9-liter cases in 2011, Captain Morgan, the number two brand, grew more quickly in the last decade and saw significant gains in market share. In 2011, with 6.1 million 9-liter cases, Captain Morgan's share of U.S. rum consumption amounted to 23.4%, down from 24.7% in 2009, following an aggressive pricing strategy. Cruzan's leading brand has been gaining market share through 2011. With average annual growth rate of 11.5% between 2002 and 2008, its market share increased from 1.8% to 2.6%.[5] This share fell, during the recession of 2009, to 2.1%, but a rebound in 2010 with an 11.9% gain in 2011, brought its market share to 2.8%. Ronrico, which Beam Global produces exclusively at the Cruzan plant under the Cruzan Agreement, is the 8th largest US brand, but has seen its sales and market share decline over the last two decades.

[4] *Adams Liquor Handbook Advance 2012.*
[5] *Adams Liquor Handbook Advance 2012.*

Rum Production in the VI

Cruzan, now owned by Beam Global, a wholly owned subsidiary of Fortune Brands, Inc., after acquisition in September 2008 from Pernod Ricard, was the only rum producer in the VI until 2012.[6] Most, approximately 75%, of the rum produced in the Cruzan plant is exported to the U.S. mainland in bulk; the Cruzan branded rum is only a small percentage of total production. Bulk rum is sold to local and regional bottlers and rectifiers for sale under a variety of private label and regional brand names, and to certain other bottlers for use in prepared cocktails, liqueurs and drink mixes. Cruzan is the largest supplier of bulk rum to the U.S. market. By virtue of its smaller size and lower margins, the bulk market has proven unattractive to aggressive expansion by Bacardi and others and Cruzan maintains a market share of 85 to 90%. While tariff protection under the Caribbean Basin Initiative ("CBI") on high-end, branded rums has been eliminated, low value, bulk rum from the Caribbean continues to be protected. However, there are no guarantees that this segment will continue to benefit from preferential treatment. Over the long-term, increased trade liberalization is likely to intensify competition in the bulk rum market, especially from countries in South America, which have large indigenous sugar cane industries, inexpensive fuel, low wages, and substantial rum and alcohol production capacity.

We do not, however, anticipate a significant change in this competitive market structure. Cruzan has occupied a stable niche in the overall rum market for many years. Various US trade agreements, such as the CBI, have resulted in advantages for the Virgin Islands, and also for Puerto Rico, in exporting rum to the US. The fact that Cruzan is currently operating at less than 80% capacity and has a significant level of productive capacity in relation to the size of the bulk market renders new entry by small producers unattractive at present. The security of Cruzan's future place in the rum market is further enhanced by the fact that Virgin Islands Rum has name recognition, or "market cachet", which should help secure future demand.

Cruzan also enjoys certain cost advantages that will help it remain competitive. These include a molasses subsidy provided by the VI Government and a range of tax incentives currently in place. According to Cruzan the molasses subsidy represents a significant advantage to operating in the VI. It allows Cruzan to purchase molasses at prices competitive with the costs of its Caribbean competitors. Given the VI Government's continued need for Matching Fund Revenues, and the VI Government's long-standing commitment to the rum industry, the VI Legislature has consistently authorized the subsidy every year since 1967. Additionally, the Economic Development Commission ("EDC") extends a 90% income tax abatement benefit to Cruzan as a means of promoting economic growth. Cruzan was first granted this tax abatement in 1987. We have assumed for purposes of this report that these tax incentives will remain in place. The Cruzan Agreement incorporates the Molasses Subsidy and Marketing programs over its 30 year term.

Another significant tax advantage stems from Cruzan's use of citrus byproducts. End products are taxed based on ingredients rather than on alcohol content. The use of fortified citrus wine instead of distilled spirits results in an excise tax saving.[7]

[6] Pernord Ricard, the second largest spirit company in the world, became the owner of Cruzan VIRIL when it acquired Vin & Sprit from the Swedish government in 2008.

[7] Though two and one-half gallons of citrus are required to replace one gallon of spirits, its excise tax of $1.57 per gallon compares favorably with the $13.50 imposed on spirits.

Captain Morgan

In 2009, Diageo began construction of a facility that will produce in the VI all the rum used in Captain Morgan branded products sold in the U.S., and rum sales from the VI to mainland U.S. commenced in February 2012. The VI government agreed to provide a range of incentives to support such production, including tax incentives, molasses subsidy payments, marketing and production funds, and grant financing for the acquisition and construction of the new plant and warehouse facility. Diageo, in turn, agreed to produce all of the rum used to manufacture Captain Morgan branded products sold in the U.S., in the new St Croix distillery for at least 30 years. Diageo's production of rum in the Virgin Islands will not only boost the VI's share of the U.S. rum market from 15% to more than 35%, it also will help Diageo to continue positioning Captain Morgan into the non-price sensitive premium segment.

Previous Revenue Forecasts

Forecast of April 1998

In early 1998, in conjunction with the Virgin Islands Public Finance Authority's (the "PFA") $541 million issuance of Matching Fund Revenue Bonds, WEFA (now IHS Global Insight) produced a report verifying and projecting revenues from rum shipments to the U.S. We projected that Matching Fund Revenues would average from $45.8 million to $49.1 million from FY 1998 to FY 2003. These revenues assumed a cover-over rate of $11.30. At a $10.50 rate revenues were projected to average from $43.1 to $46.2 million.

At that time a conservative estimate of U.S. rum consumption was adopted. The available data at the time, through 1996, did not provide sufficient evidence of an end to the downward trend in consumption observed from 1985 through 1994. Consumption had increased in 1995 and 1996 in concert with a very strong U.S. economy, but econometric analysis suggested that a strong negative trend had been temporarily offset by strong income growth. *Adams* likewise projected growth of less than one half of one-percent for 1997.

Forecast of November 2004

In late 2004, Global Insight (now IHS Global Insight) produced a report in connection with the issuance of Matching Fund Revenue Bonds verifying and projecting revenues from rum shipments to the United States, which updated the 1998 WEFA report. Data on rum consumption through 2003 led us to revise the forecast. Econometric analysis with the new historical data, which reflected both the continued robust U.S. economic growth, and the increasing popularity in the U.S. of tropical drinks, suggested continued positive growth going forward. Our projections, at that time, had consumption growth slowing, to an average of 3.8% per year between 2004 and 2009.

Forecast of June 2009

In 2009, with data available through 2008, IHS Global Insight produced a report in connection with the issuance of Subordinated Matching Fund Revenue Bonds for the Diageo project which found that the growth projections in the 2004 report were low due to stronger than expected economic growth in the United States, which kept consumption rates at higher levels. Over the three year period to 2008, annual growth in consumption was 4.9%, while our projections had been for growth of 3.7%.

This Report projected Matching Fund Revenues from shipments to the U.S. from both the Cruzan facility and the planned Diageo facility.

Forecast of September 2009

In September 2009, IHS Global Insight produced a report in connection with the issuance of Matching Fund Revenue Bonds for the Cruzan wastewater facilities verifying and projecting Matching Fund Revenues for both the existing Cruzan facility and the Diageo facility then under construction. During 2009, Beam completed facility investments and increased production. As a result, shipments through June 2009 had significantly exceeded the projections of the June 2009 report. We increased our 2009 projection for Cruzan rum accordingly.

This report incorporated the planned expansion of the Cruzan plant under the terms of the Cruzan Agreement. This resulted in a significant increase in projected Matching Fund Revenues generated by Cruzan. It also incorporated more recent data and an updated US economic outlook. A lower US personal income forecast, lowered our rum consumption forecast slightly, and therefore, our Diageo rum shipments projections.

Forecast of November 2009

In November 2009, IHS Global Insight produced a report in connection with the issuance of Subordinated Matching Fund Revenue Bonds for the Cruzan project verifying and projecting Matching Fund Revenues for both the improved Cruzan facility and the Diageo facility then under construction. This report incorporated a further planned expansion[8] in the Cruzan plant capacity, as well as industry data for 2009 which was more positive than we had previously forecast. In addition, the forecast incorporated new U.S. macroeconomic projections, which were slightly more optimistic in the near term..

Forecast of June 2010

In June 2010 IHS Global Insight projected a near term decline in rum consumption due to the lingering effects of the recession. It also anticipated continued market share gains by Captain Morgan. It turned out that, though rum consumption growth did slow in 2010 and 2011, and lost share versus other spirits, it remained positive. Meanwhile Captain Morgan lost market share to other brands, including Cruzan. In light of these trends we have reduced our forecasted growth for rum generally, and Captain Morgan specifically in this report.
Additionally, since the publishing of the June 2010 report, the expansion plans for the Cruzan plant have been called off. As a result, in the current report assumes a plant capacity of 10.5 million proof gallons, down from the 16 million proof gallons assumed previously.

[8] The planned expansion has since been cancelled. As a result, our current forecast has assumes a lower production capacity than the November 2009 and June 2010 reports.

Model Development

U.S. Rum Consumption

To forecast VI rum excise tax revenues, we first must forecast U.S. rum consumption. A demand- rather than a supply-based model is a more conservative approach for projecting future growth and relies on actual recent experience.

Using rum consumption data for the 1985 to 2011 period (see Table 5), we developed a regression model that projects U.S. rum consumption as a function of real personal income and a time trend. The time trend allows us to account for the rapid surge in popularity of rum consumption between 1995 and 2005.

Table 5
U.S. Consumption of Rum, 1985-2011
(9-Liter Cases)

Year	Rum Consumption	Growth Rate
1985	14,118,377	
1986	13,052,851	-7.5%
1987	13,450,740	3.0%
1988	13,334,940	-0.9%
1989	13,191,117	-1.1%
1990	13,564,115	2.8%
1991	12,324,756	-9.1%
1992	11,890,375	-3.5%
1993	11,927,692	0.3%
1994	11,712,877	-1.8%
1995	12,092,860	3.2%
1996	13,048,960	7.9%
1997	13,539,490	3.8%
1998	14,036,200	3.7%
1999	15,567,720	10.9%
2000	16,991,520	9.1%
2001	17,869,530	5.2%
2002	18,562,370	3.9%
2003	19,509,380	5.1%
2004	20,799,770	6.6%
2005	22,040,000	6.0%
2006	22,873,000	3.8%
2007	23,916,000	4.6%
2008	24,610,000	2.9%
2009	25,000,000	1.6%
2010	25,540,000	2.2%
2011	25,880,000	1.3%

Source: *Adams Media Liquor Handbook, 2008/2009/2010/2012.*

The model we developed using this consumption data has an R-square of 0.99, meaning that it explains 99% of the variation in rum consumption over the 1985 through 2011 time period. In terms of predictive ability, this R-square indicates a strong model with a high level of statistical significance. This regression model is expressed by the following equation[9]:

Log (U.S. Rum Consumption) =

$$0.89583 * \log(\text{Real U.S. Personal Income}_{t-1}) + 0.03742 * \text{trend} + 0.03742 * \text{dummy2010} + 8.24779$$

The equation was adjusted using the Cochrane-Orcutt iterative method to correct for autocorrelation, a statistical relation that would otherwise bias coefficient estimates in this case.

Rum consumption was found, as expected, to be positively correlated with income in the previous year. The coefficient of 0.89583 in the equation indicates its demand elasticity with respect to income. That is, a 1% increase in real income leads to a 0.89% increase in consumption. The positive coefficient on the trend variable implies that, sans real income growth, consumption would increase over time, by 0.04% per year.

Once this equation was developed, we used it to project consumption for the 2012 through 2041 time period. Our consumption projections and corresponding growth rates are included in Table 6 on the following page. Graph 2 illustrates actual and projected U.S. rum consumption.

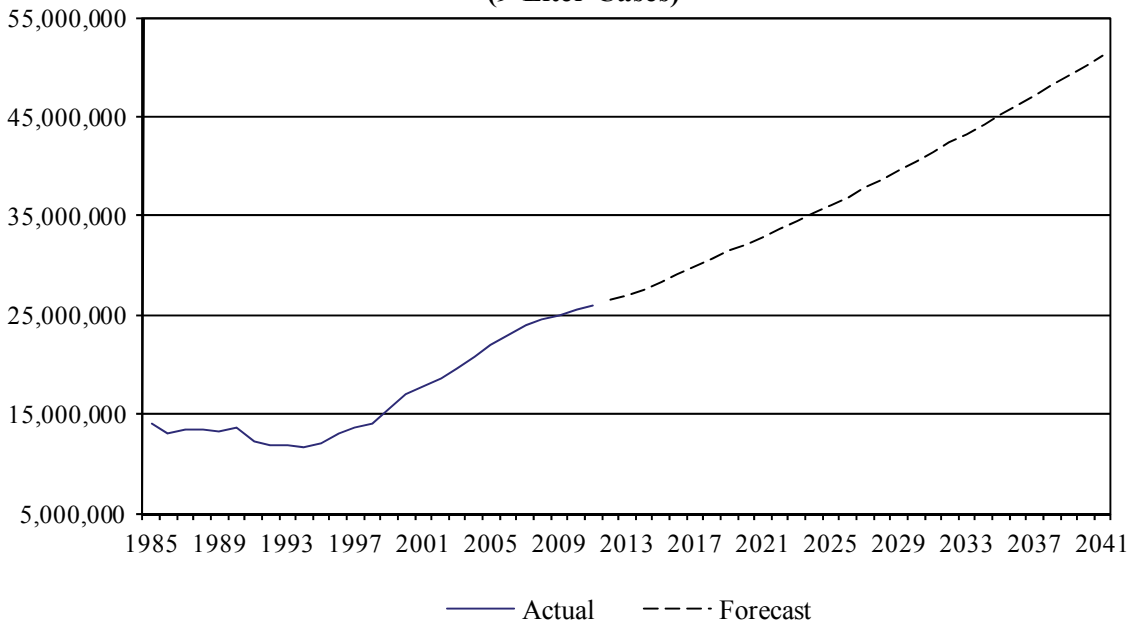
[9] U.S. rum consumption is measured in 9-liter cases and U.S. real personal income is measured in billions of 2000 U.S. dollars.

Table 6
U.S. Consumption-Based Model
Projected U.S. Rum Consumption, 2012-2041
(9-Liter Cases)

Year	Projected Consumption	Growth Rate
2012	26,477,434	2.3%
2013	26,917,458	1.7%
2014	27,559,771	2.4%
2015	28,326,995	2.8%
2016	29,102,191	2.7%
2017	29,934,164	2.9%
2018	30,673,076	2.5%
2019	31,421,782	2.4%
2020	32,178,202	2.4%
2021	32,971,837	2.5%
2022	33,684,799	2.2%
2023	34,445,325	2.3%
2024	35,222,702	2.3%
2025	36,042,591	2.3%
2026	36,900,823	2.4%
2027	37,749,785	2.3%
2028	38,627,277	2.3%
2029	39,528,719	2.3%
2030	40,455,107	2.3%
2031	41,399,217	2.3%
2032	42,306,085	2.2%
2033	43,220,898	2.2%
2034	44,137,932	2.1%
2035	45,081,148	2.1%
2036	46,080,647	2.2%
2037	47,100,196	2.2%
2038	48,127,736	2.2%
2039	49,155,288	2.1%
2040	50,182,481	2.1%
2041	51,217,733	2.1%

Graph 2

U.S. Rum Consumption
(9-Liter Cases)



After average growth of just 1.7% over the last three years, rum consumption is expected to begin to slowly regain some momentum in 2012, expanding 2.3%. The expected deceleration of personal income this year, will slow consumption growth in 2013 to 1.7% , but the expansion will once again begin to pickup in 2014, and continue to accelerate through 2015, when it will reach 2.8%.

Base Projection: Constant Market Share

Assumptions

Under our baseline forecast, we assume that Cruzan (bulk and branded rum) and Captain Morgan will maintain a constant share of the U.S. rum market, while Ronrico sales will remain flat, until each plant reaches its production capacity. The underlying assumptions are the persistence of the tax incentives and subsidies provided by the VI and that both plants will remain in the Virgin Islands, in accordance with the terms of the Cruzan Agreement and the Diageo Agreement. It is also assumed that there will be no adverse impact on Cruzan production as a result of the presence of the Diageo facility, and that the U.S. demand for Cruzan rum is unaffected by the commencement of Diageo production in the VI.

Following very strong growth in FY2008-2010[10], rum shipments from the VI to the US fell 3.4% in FY 2011, to reach a total of 8.4 million proof gallons[11]. As a result, the share of Cruzan bulk and branded

[10] In early 2009 Beam initiated a distillery improvement project, which increased the plant's production capacity from 8.9 million proof gallons per year, to 10.5 million proof gallons.
[11] One 9-liter case is equivalent to 1.897 proof gallons.

rum in the US rum market fell to 15.5% in FY2011, down from 16.3% in the previous year. Still, this is up from less than 13% in FY2007. Under our baseline forecast, we assume that Cruzan (exclusive of Ronrico) will be able to maintain its current share of the U.S. market until the plant reaches capacity in FY 2021. On the other hand, Ronrico's US market share, which has fallen from around 3% in FY 2001 to 1.6% in FY 2011, will continue its decline, reaching 0.8% in FY2041.

Meanwhile, in 2009, before the relocated production from Puerto Rico to the VI, Diageo shipments of Captain Morgan to the U.S. amounted to 11.7 million proof gallons, or 24.7% of U.S. rum consumption. The subsequent years were leaner, with Captain Morgan sales declining slightly in 2010 and 2011. As a result, Captain Morgan's market share was 23.4% in 2011. We assume that Diageo will be able to maintain this share of the U.S. market until it reaches its capacity of 18 million proof gallons in FY 2031. One important thing to note, however, is that in FY 2012 shipments from the Diageo plant will be significantly less than capacity as the plant starts up. The plant came on stream at the end of 2010 and it produced throughout 2011. After 12 months of maturation the blended product became available for sale and the first shipment was sent to the U.S. mainland in February 2012. Because the distilled product was available for shipment only in the final eight months of FY 2012 (which runs from October 2011 to September 2012), we assume that shipments in this initial fiscal year will amount to 6 million proof gallons.

Table 7
Projected Shipments - Baseline Scenario, FY 2012-2041

Fiscal Year	Projected Shipments			
	Cruzan (Bulk + Branded)	Ronrico	Captain Morgan	Total
2012	7,795,584	800,534	5,958,819	14,554,936
2013	7,925,137	800,534	11,936,925	20,662,597
2014	8,114,249	800,534	12,221,768	21,136,552
2015	8,340,138	800,534	12,562,004	21,702,676
2016	8,568,374	800,534	12,905,776	22,274,684
2017	8,813,327	800,534	13,274,726	22,888,587
2018	9,030,880	800,534	13,602,407	23,433,821
2019	9,251,317	800,534	13,934,431	23,986,282
2020	9,474,025	800,534	14,269,876	24,544,435
2021	9,699,466	800,534	14,621,825	25,121,825
2022	9,699,466	800,534	14,937,998	25,437,998
2023	9,699,466	800,534	15,275,264	25,775,264
2024	9,699,466	800,534	15,620,003	26,120,003
2025	9,699,466	800,534	15,983,594	26,483,594
2026	9,699,466	800,534	16,364,189	26,864,189
2027	9,699,466	800,534	16,740,673	27,240,673
2028	9,699,466	800,534	17,129,809	27,629,809
2029	9,699,466	800,534	17,529,566	28,029,566
2030	9,699,466	800,534	17,940,386	28,440,386
2031	9,699,466	800,534	18,000,000	28,500,000
2032	9,699,466	800,534	18,000,000	28,500,000
2033	9,699,466	800,534	18,000,000	28,500,000
2034	9,699,466	800,534	18,000,000	28,500,000
2035	9,699,466	800,534	18,000,000	28,500,000
2036	9,699,466	800,534	18,000,000	28,500,000
2037	9,699,466	800,534	18,000,000	28,500,000
2038	9,699,466	800,534	18,000,000	28,500,000
2039	9,699,466	800,534	18,000,000	28,500,000
2040	9,699,466	800,534	18,000,000	28,500,000
2041	9,699,466	800,534	18,000,000	28,500,000

Revenue Projection

Assuming that Congress extends the federal excise tax rate realized by the VI Government of $13.25 per proof gallon, we can calculate future revenues from Diageo and Cruzan rum, based on the shipment projections. These results are shown in Table 8 on the following page.

Table 8
Projected Total Revenues (Dollars), FY 2012-2041
Constant Market Share Scenario

Fiscal Year	Projected Revenues			
	Cruzan (Bulk + Branded)	Ronrico	Captain Morgan	Total
2012	$103,291,482	$10,607,076	$78,954,346	$192,852,904
2013	$105,008,069	$10,607,076	$158,164,262	$273,779,406
2014	$107,513,805	$10,607,076	$161,938,428	$280,059,309
2015	$110,506,831	$10,607,076	$166,446,555	$287,560,462
2016	$113,530,960	$10,607,076	$171,001,530	$295,139,566
2017	$116,776,581	$10,607,076	$175,890,119	$303,273,776
2018	$119,659,163	$10,607,076	$180,231,895	$310,498,133
2019	$122,579,948	$10,607,076	$184,631,212	$317,818,235
2020	$125,530,831	$10,607,076	$189,075,863	$325,213,770
2021	$128,517,925	$10,607,076	$193,739,179	$332,864,179
2022	$128,517,925	$10,607,076	$197,928,473	$337,053,473
2023	$128,517,925	$10,607,076	$202,397,244	$341,522,244
2024	$128,517,925	$10,607,076	$206,965,035	$346,090,035
2025	$128,517,925	$10,607,076	$211,782,617	$350,907,617
2026	$128,517,925	$10,607,076	$216,825,505	$355,950,505
2027	$128,517,925	$10,607,076	$221,813,920	$360,938,920
2028	$128,517,925	$10,607,076	$226,969,975	$366,094,975
2029	$128,517,925	$10,607,076	$232,266,752	$371,391,752
2030	$128,517,925	$10,607,076	$237,710,116	$376,835,116
2031	$128,517,925	$10,607,076	$238,500,000	$377,625,000
2032	$128,517,925	$10,607,076	$238,500,000	$377,625,000
2033	$128,517,925	$10,607,076	$238,500,000	$377,625,000
2034	$128,517,925	$10,607,076	$238,500,000	$377,625,000
2035	$128,517,925	$10,607,076	$238,500,000	$377,625,000
2036	$128,517,925	$10,607,076	$238,500,000	$377,625,000
2037	$128,517,925	$10,607,076	$238,500,000	$377,625,000
2038	$128,517,925	$10,607,076	$238,500,000	$377,625,000
2039	$128,517,925	$10,607,076	$238,500,000	$377,625,000
2040	$128,517,925	$10,607,076	$238,500,000	$377,625,000
2041	$128,517,925	$10,607,076	$238,500,000	$377,625,000
Total	**$3,723,274,084**	**$318,212,265**	**$6,238,233,028**	**$10,279,719,377**

Alternative Projection: Growing Market Share

In addition to our demand-based model, we produced an alternative, more optimistic forecast in which both Cruzan and Diageo increase their share of the U.S. rum market.

Under this scenario, we use the Total Revenue figures in TTB (OMB) reports to project future Matching Fund Revenues from Cruzan's bulk and branded rum shipments. Future earnings are expressed as a function of U.S. real personal income as follows:[12]

Total Matching Fund Revenue =

0.01009* Real Personal Income + 5.92644* Step (1995) + 15.6466 * Step (2008) - 39.3842

The model has an R-square 0.98, meaning that it explains 98% of the variation in Matching Fund Revenues for the period between 1988 and 2011. A first order moving average term was included to capture the short-term dynamics of revenues.

Projected Matching Fund Revenues from Cruzan's bulk rum shipments are shown in Table 9. As in the Baseline Projection, the U.S. recession has resulted in sluggish income growth and more moderate growth in shipments over the near term. Still, the projected revenues reflect that Cruzan's (excluding Ronrico) market share of U.S. rum consumption will continue to increase steadily, to reach a peak of 16.7% in FY 2018, when the plant will reach capacity. An increasing future VI market share is supported by the assumption that Cruzan's marketing efforts, which have been aimed at attracting "high-end" consumers, continue to be successful. It should be noted that part of the increase in Cruzan's market share of U.S. consumption followed Todhunter's 1994 acquisition of VIRIL and the subsequent expansion of Cruzan's production facilities.[13]

To project revenues from Diageo rum under this scenario, we first project Captain Morgan shipments using historical data for 1991-2011 from the Adam's Liquor Handbook. In this model, Captain Morgan shipments are expressed as a function of U.S. rum consumption as follows:.

Log (Captain Morgan) =

1.59333* log(U.S. Rum Consumption) - 11.4288

The equation was adjusted using the Cochrane-Orcutt iterative method to correct for autocorrelation and has an R-square 0.99. The coefficient of 1.59333 in the equation indicates a 1% increase in U.S. rum consumption leads to a 1.6% increase in Captain Morgan shipments. This means that Captain Morgan's share of the U.S. rum market, which had been steadily increasing before 2009, will begin to rise once again, reaching a peak of 27.5% in FY 2023, when the Diageo plant will reach capacity and continue to produce 18 million proof gallons each year until FY 2041. Again, as in the baseline forecast, during FY

[12] In the equation Step (1995) is a dummy variable that represents Todhunter's acquisition. Step (2008) is also a dummy variable, and reflects the recent investments made to expand production at the VI plant.

[13] Note that this alternative model, like the consumption-based model, also assumes that Cruzan will be able to maintain its current level of production and will maintain its production facilities in the VI.

2012, shipments of rum from the Diageo plant will be limited to 6 million proof gallons due to startup production constraints. From the projected shipments we calculate future Matching Fund Revenues from Diageo using the $13.25 cover-over rate. These results are shown in Table 9.

Similarly, since all US Ronrico consumption will be provided under the Cruzan Agreement from the Cruzan plant, we can project shipments of Ronrico eligible for Matching Funds from a model of US Ronrico consumption. That model is captured by the following equation:

Log (Ronrico) =

-0.14609* log(U.S. Rum Consumption) + 16.1828

The R-square statistic for this equation is just 0.79, a reflection of the small amount of change in US consumption of Ronrico in recent years. Indeed the negative, -0.14609, coefficient indicates a negative trend for Ronrico going forward, resulting in an average decline of 0.3% per year. These results are also included Table 9.

Table 9
Alternative Growing Market Share Model
Projected Total Revenues (Dollars), FY 2012-2041

Fiscal Year	Projected Revenues			
	Cruzan (Bulk + Branded)	Ronrico	Captain Morgan	Total
2012	$105,399,260	$10,571,770	$78,954,346	$194,925,376
2013	$108,713,285	$10,546,346	$161,896,079	$281,155,710
2014	$112,683,559	$10,510,076	$168,094,884	$291,288,519
2015	$116,707,812	$10,468,002	$175,612,231	$302,788,044
2016	$121,040,690	$10,426,796	$183,331,387	$314,798,873
2017	$124,900,685	$10,383,950	$191,752,688	$327,037,323
2018	$128,777,975	$10,347,025	$199,349,490	$338,474,490
2019	$128,814,364	$10,310,636	$207,158,522	$346,283,522
2020	$128,850,132	$10,274,868	$215,160,938	$354,285,938
2021	$128,886,639	$10,238,361	$223,677,866	$362,802,866
2022	$128,918,586	$10,206,414	$231,433,558	$370,558,558
2023	$128,951,821	$10,173,179	$238,500,000	$377,625,000
2024	$128,984,934	$10,140,066	$238,500,000	$377,625,000
2025	$129,018,963	$10,106,037	$238,500,000	$377,625,000
2026	$129,053,646	$10,071,354	$238,500,000	$377,625,000
2027	$129,087,056	$10,037,944	$238,500,000	$377,625,000
2028	$129,120,696	$10,004,304	$238,500,000	$377,625,000
2029	$129,154,354	$9,970,646	$238,500,000	$377,625,000
2030	$129,188,040	$9,936,960	$238,500,000	$377,625,000
2031	$129,221,472	$9,903,528	$238,500,000	$377,625,000
2032	$129,252,772	$9,872,228	$238,500,000	$377,625,000
2033	$129,283,577	$9,841,423	$238,500,000	$377,625,000
2034	$129,313,716	$9,811,284	$238,500,000	$377,625,000
2035	$129,343,976	$9,781,024	$238,500,000	$377,625,000
2036	$129,375,259	$9,749,741	$238,500,000	$377,625,000
2037	$129,406,379	$9,718,621	$238,500,000	$377,625,000
2038	$129,436,971	$9,688,029	$238,500,000	$377,625,000
2039	$129,466,824	$9,658,176	$238,500,000	$377,625,000
2040	$129,495,960	$9,629,040	$238,500,000	$377,625,000
2041	$129,524,642	$9,600,358	$238,500,000	$377,625,000
Total	**$3,789,374,046**	**$301,978,183**	**$6,567,921,988**	**$10,659,274,218**

Alternative Projection: Lower Cover-Over Rate

Since 1999 Congress, has regularly extended a temporary rate increase, bringing the cover-over rate to $13.25 per proof gallon, up from a cap of $10.50. In the absence of Congressional extensions, however, the cover-over rate returns to $10.50 per proof gallon, as it did on January 1, 2012. In this scenario, we calculate Matching Fund Revenues based on the shipment projections under our Baseline scenario, but assuming the cover-over rate reverts to $10.50 over the forecast horizon. The results are shown in Table 10.

Table 10
Alternative 10.50 Cover-Over Rate Scenario
Projected Total Revenues (Dollars), FY 2012-2041

Fiscal Year	Projected Revenues			
	Cruzan (Bulk + Branded)	Ronrico	Captain Morgan	Total
2012	$81,853,628	$8,405,607	$62,567,595	$152,826,829
2013	$83,213,941	$8,405,607	$125,337,717	$216,957,265
2014	$85,199,619	$8,405,607	$128,328,566	$221,933,792
2015	$87,571,451	$8,405,607	$131,901,044	$227,878,102
2016	$89,967,930	$8,405,607	$135,510,647	$233,884,184
2017	$92,539,932	$8,405,607	$139,384,623	$240,330,162
2018	$94,824,242	$8,405,607	$142,825,275	$246,055,124
2019	$97,138,827	$8,405,607	$146,311,526	$251,855,960
2020	$99,477,262	$8,405,607	$149,833,703	$257,716,572
2021	$101,844,393	$8,405,607	$153,529,161	$263,779,161
2022	$101,844,393	$8,405,607	$156,848,979	$267,098,979
2023	$101,844,393	$8,405,607	$160,390,269	$270,640,269
2024	$101,844,393	$8,405,607	$164,010,027	$274,260,027
2025	$101,844,393	$8,405,607	$167,827,735	$278,077,735
2026	$101,844,393	$8,405,607	$171,823,985	$282,073,985
2027	$101,844,393	$8,405,607	$175,777,069	$286,027,069
2028	$101,844,393	$8,405,607	$179,862,999	$290,112,999
2029	$101,844,393	$8,405,607	$184,060,445	$294,310,445
2030	$101,844,393	$8,405,607	$188,374,054	$298,624,054
2031	$101,844,393	$8,405,607	$189,000,000	$299,250,000
2032	$101,844,393	$8,405,607	$189,000,000	$299,250,000
2033	$101,844,393	$8,405,607	$189,000,000	$299,250,000
2034	$101,844,393	$8,405,607	$189,000,000	$299,250,000
2035	$101,844,393	$8,405,607	$189,000,000	$299,250,000
2036	$101,844,393	$8,405,607	$189,000,000	$299,250,000
2037	$101,844,393	$8,405,607	$189,000,000	$299,250,000
2038	$101,844,393	$8,405,607	$189,000,000	$299,250,000
2039	$101,844,393	$8,405,607	$189,000,000	$299,250,000
2040	$101,844,393	$8,405,607	$189,000,000	$299,250,000
2041	$101,844,393	$8,405,607	$189,000,000	$299,250,000
Total	**$2,950,519,085**	**$252,168,210**	**$4,943,505,418**	**$8,146,192,713**

Conclusion

Our review of the records that document the Matching Fund Revenue collection and transfer process confirm that annual Matching Fund Revenues transferred to the VI during the FY 1992 through FY 2011 period were consistent with federal excise taxes collected from U.S. distillers on purchases of bulk VI rum and Customs Service duties levied on cased VI rum. The actual advances transferred to the Government are consistent with the projection and adjustment process as described by TTB and OMB. Specifically, actual advances received in each year are reasonably close to the base advances for that year adjusted by the difference between projected and actual earnings for two FYs earlier. While there are years in the verification period when actual transfers did differ from the transfer that would be expected using this projection and adjustment calculation, these differences are relatively small, and are, on balance, immaterial.

IHS Global Insight's Constant Market Share Scenario, which forecasts Matching Fund Revenues as a function of U.S. rum consumption, projects that both the Cruzan and Captain Morgan plants will have reached production capacity by FY 2031. As a result, from that year forward, Matching Fund Revenues will amount to $378 million a year. Under an alternative, more optimistic scenario, the Growing Market Share Scenario, Matching Fund Revenues grow at a faster pace, until they reach the peak of $378 million per year in FY2023. Finally, under the Lower Cover-Over Rate Scenario, Matching Fund Revenues reach $299 million at their peak in FY 2031.

All scenarios assume that Cruzan and Diageo will maintain operations in the VI until FY 2041, as contractually obliged, and will be able to maintain production levels to meet future demand. IHS Global Insight found that, given the economic incentives provided to Cruzan by the Government for maintaining operations in the VI, and increasing them under the terms of the Cruzan Agreement, it was reasonable to assume that Cruzan will maintain its operations in the VI. Similarly, Diageo will receive significant incentives to produce all its U.S. distribution of Captain Morgan rum in the new St Croix distillery for 30 years starting in 2012.

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APPENDIX F

FORM OF OPINION OF BOND COUNSEL

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FORM OF OPINION OF BOND COUNSEL

September 13, 2012

Virgin Islands Public Finance Authority
St. Thomas, Virgin Islands

The Bank of New York Mellon Trust Company, N.A.
Jacksonville, Florida

Ladies and Gentlemen:

We have examined a Record of Proceedings relating to the issuance of $142,640,000 Revenue Bonds (Virgin Islands Matching Fund Loan Notes) Series 2012A (Working Capital) (the "Series 2012A Bonds") of the United States Virgin Islands Public Finance Authority (herein called the "Authority"), a body corporate and politic, constituting a public corporation and autonomous governmental instrumentality of the Government of the United States Virgin Islands (the "Government"), organized and existing under and pursuant to the Revised Organic Act of 1954, as amended (48 U.S.C. Section 1574 et seq.) (the "Revised Organic Act"), and the Virgin Islands Public Finance Authority Act (Title 29, Chapter 15, of the Virgin Islands Code), as amended, and 2012 V.I. Act 7342, as amended (collectively, the "Act"), and Resolution No. 12-009, dated August 14, 2012 (the "Bond Resolution").

The Series 2012A Bonds are issued under and pursuant to the Revised Organic Act, the Act, the Bond Resolution, an Indenture of Trust, dated as of May 1, 1998 (the "Indenture of Trust"), as previously supplemented and amended, including as supplemented by a Seventh Supplemental Indenture of Trust, dated as of September 1, 2012 (the "Seventh Supplemental Indenture" and, together with the Indenture of Trust, the "Indenture"), each by and between the Authority and The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, as successor trustee (the "Trustee"). All terms not otherwise defined herein shall have the meanings set forth in the Indenture.

The Series 2012A Bonds shall be secured by the Indenture, which pledges and assigns to the Trustee a lien on and a security interest in the Trust Estate, subject to the provisions of the Indenture.

The proceeds of the Series 2012A Bonds are being loaned by the Authority to the Government pursuant to a Loan Agreement, dated as of September 1, 2012, by and among the Authority, the Government and the Trustee (the "Series 2012A Loan Agreement"), against delivery by the Government of its $142,640,000 principal amount Series 2012A Matching Fund Loan Note (the "Series 2012A Loan Note").

The Series 2012A Bonds shall be dated, shall mature, shall be subject to redemption prior to maturity and shall have such other terms as set forth in the Indenture.

The proceeds of the Series 2012A Bonds will be used to (i) pay a portion of the payroll costs of the Government, outstanding income tax refunds for tax years up to and including 2010, certain outstanding debt of the Government and the hospitals to the Virgin Islands Water and Power Authority for Fiscal Year 2012, and certain past due or current workers' compensation claims and provider services, (ii) fund the Series 2012A Senior Lien Debt Service Reserve Subaccount in an amount equal to the Series 2012A Debt Service Reserve Requirement, and (iii) pay certain costs of issuing the Series 2012A Bonds.

Pursuant to the Indenture, the Authority is authorized to issue Additional Senior Lien Bonds from time to time upon the terms and conditions set forth therein.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2012A Bonds in order that interest on the Series 2012A Bonds will be and remain excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of gross proceeds of the Series 2012A Bonds, yield and other restrictions on investments of gross proceeds, and the Arbitrage Rebate Requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2012A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2012A Bonds from gross income under Section 103 of the Code. In rendering the opinion in paragraph four hereof, we have assumed that the Authority and the Government will comply with the provisions and procedures set forth in the Arbitrage and Use of Proceeds Certificate.

We are of the opinion that:

1. The Authority is duly created and validly existing under the provisions of the Act and the Revised Organic Act.

2. The Indenture has been duly authorized, executed and delivered by the Authority and, assuming the due authorization, execution and delivery thereof by the Trustee, is valid and binding upon the Authority and enforceable in accordance with its terms. The Indenture creates the valid pledge which it purports to create of the Trust Estate, moneys, securities and funds held or set aside under the Indenture, subject only to the application thereof to the purposes and on the conditions permitted by the Indenture.

3. The Series 2012A Bonds are valid and binding special limited obligations of the Authority, enforceable in accordance with their terms and the terms of the Indenture and entitled to the benefits of the Indenture, the Revised Organic Act, and the Act, and the Series 2012A Bonds have been duly and validly authorized and issued in accordance with law (including the Act and the Revised Organic Act) and the Indenture.

4. Under existing statutes and court decisions, interest on the Series 2012A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code and interest on the Series 2012A Bonds is not treated as a preference item in calculating the alternative minimum taxable income imposed on individuals and corporations under the Code, such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax. Under existing statutes, interest on the Series 2012A Bonds is exempt from any income tax imposed on individuals by the Government or any political subdivision thereof or by any

state, territory or possession or by any political subdivisions thereof or by the District of Columbia pursuant to the Revised Organic Act and the Virgin Islands Code.

This opinion is issued as of the date hereof, and we assume no obligation to (i) update, revise or supplement this opinion to reflect any actions hereafter taken or not taken, or any facts or circumstances, or any changes in law or interpretations thereof, that may hereafter occur, or for any other reason whatsoever, (ii) notify you or any other person if the conditions stated in paragraph four above have not been met, or (iii) review any legal matters incident to the authorization, issuance, validity and tax exemption of the Series 2012A Bonds, or the purposes to which the proceeds thereof are to be applied, after the date hereof.

Except as stated in paragraph 4, we express no opinion regarding any other federal, state, local or foreign tax consequences with respect to the Series 2012A Bonds. We express no opinion regarding the federal, state, local or foreign tax consequences of any action hereafter taken or not taken in reliance upon an opinion of other counsel with respect to the Series 2012A Bonds.

We express no opinion as to the accuracy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the Series 2012A Bonds.

This opinion letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material of any kind not specifically opined on above. It is understood that the rights of the holders of the Series 2012A Bonds under the Indenture and the enforceability thereof under the same may be subject to the exercise of judicial discretion, the sovereign police powers of the Government and the constitutional powers of the United States of America, and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined one of each of the Series 2012A Bonds as executed, and, in our opinion, the form of said Series 2012A Bonds and their execution are regular and proper.

Very truly yours,

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APPENDIX G

BOOK-ENTRY-ONLY SYSTEM

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DTC BOOK-ENTRY-ONLY SYSTEM

The information contained in this APPENDIX G has been extracted from a document prepared by DTC, entitled "SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING DTC AND BOOK-ENTRY-ONLY ISSUANCE."

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount thereof, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee do not effect any change in beneficial ownership.

DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Agent or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Agent. Under such circumstances, in the event that a successor depository is not obtained, definitive Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this APPENDIX G concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the Co-Placement Agents believe to be reliable, but the Authority and the Co-Placement Agents take no responsibility for the accuracy thereof.

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APPENDIX H

FORM OF CONTINUING DISCLOSURE AGREEMENT

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FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "**Disclosure Agreement**"), dated as of September 1, 2012, is executed and delivered by the Virgin Islands Public Finance Authority (the "**Authority**") and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the "**Disclosure Dissemination Agent**" or "**DAC**") for the benefit of the Holders and the Co-Placement Agents (hereinafter defined) of the Bonds (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time ("**Rule 15c2-12**") and the laws of the United States Virgin Islands.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in Rule 15c2-12 or, to the extent not in conflict with Rule 15c2-12, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

"**Additional Disclosure**" means the information provided to the Disclosure Dissemination Agent by the Authority pursuant to Sections 9(a) and 9(b).

"**Annual Filing Date**" means the date set forth in Sections 2(a) and 2(f) by which the Annual Report is to be filed with the Repository.

"**Annual Financial Information**" means annual financial information as such term is used in paragraph (b)(5)(i) of Rule 15c2-12 and specified in Section 3(a) of this Disclosure Agreement.

"**Annual Report**" means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

"**Audited Financial Statements**" means the financial statements (if any) of the Authority for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of Rule 15c2-12 and specified in Sections 3(b) and 3(c) of this Disclosure Agreement.

"**Bonds**" means the bonds, with the 9-digit CUSIP numbers relating thereto, listed on the attached **Exhibit A**.

"**Certification**" means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Quarterly Report, Additional Disclosure, Voluntary Report or notice of a Listed Event delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Quarterly Report, Additional Disclosure, Voluntary Report or notice of a Listed Event required to be submitted to the Repository under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Authority and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

"**Co-Placement Agents**" means the placement agents of the Series 2012A Bonds listed in **Exhibit A**.

"**Disclosure Dissemination Agent**" or "**DAC**" means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Authority pursuant to Section 13.

"**Disclosure Representative**" means the Director of Finance and Administration of the Authority or his or her designee, or such other person as the Authority shall designate in writing to the

Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

"**Event**" means an event listed in Sections 7(a) of this Disclosure Agreement.

"**Holder**" means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

"**Information**" means the Annual Financial Information, the Audited Financial Statements (if any), the Quarterly Report, the Additional Disclosure, the Voluntary Report and the notice of the Listed Event.

"**MSRB**" means the Municipal Securities Rulemaking Board established pursuant to Section 16B(b)(1) of the Securities Exchange Act of 1934.

"**Private Placement Memorandum**" means that Private Placement Memorandum prepared by the Authority in connection with the issuance of the Series 2012A Bonds or the Official Statement prepared in connection with the issuance of all other series of Bonds listed in **Exhibit A**.

"**Quarterly Report**" shall mean information required to be provided on a quarterly basis as specified in Section 5 of this Disclosure Agreement.

"**Quarterly Report Date**" shall mean within 45 days after of the end of each quarter of each Fiscal Year.

"**Repository**" means (i) MSRB or any other entity designated or authorized by the SEC to receive reports pursuant to Rule 15c2-12 and (ii) any State Depository. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"**SEC**" means the United States Securities and Exchange Commission.

"**State Depository**" means any public or private depository or entity designated by the Government of the Virgin Islands as a state information depository.

"**Trustee**" means the institution defined as such in the document under which the respective issue of Bonds was issued.

"**Underwriters**" means the underwriters of the respective issue of Bonds other than the Series 2012A Bonds listed in **Exhibit A**.

"**Voluntary Report**" means the information provided to the Disclosure Dissemination Agent by the Authority pursuant to Section 10.

SECTION 2. Provision of Annual Reports.

(a) The Authority shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the Repository not

later than 270 days after the end of each fiscal year of the Authority, commencing with the fiscal year ending September 30, 2012. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 6 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Authority of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Authority will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such fiscal year will be provided and instruct the Disclosure Dissemination Agent that a Listed Event as described in Section 7(a)(17) has occurred and to immediately send a notice to the Repository in substantially the form attached as **Exhibit B**.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 12:00 noon on the first business day following the Annual Filing Date for the Annual Report, a Listed Event described in Section 7(a)(17) shall have occurred and the Authority irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the Repository in substantially the form attached as **Exhibit B**.

(d) If Audited Financial Statements of the Authority are prepared but not available prior to the Annual Filing Date, the Authority shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certificate, together with a copy for the Trustee, for filing with the Repository.

(e) The Disclosure Dissemination Agent shall:

(i) determine the name and address of the Repository each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Section 2(a) with the Repository;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the Repository;

(iv) upon receipt, promptly file the text of each disclosure to be made with the MSRB and a completed copy of the MSRB Material Event Notice Cover Sheet in the form attached as **Exhibit C**, describing the event by checking the appropriate box on the form attached as **Exhibit C** when filing pursuant to:

1. Section 7(c) and the relevant subsection of Section 7(a) of this Disclosure Agreement; or

2. Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement, together with a completed copy of **Exhibit B** to this Disclosure Agreement.

(v) provide the Authority evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Authority may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the Repository, provided that the period between the existing Annual Filing Date and the new Annual Filing Date shall not exceed one year.

SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Authority, including an update to the tabular information provided in the Official Statement under the headings "MATCHING FUND REVENUES" and "THE RUM INDUSTRY" and an update of the information under the heading "VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY – Outstanding Indebtedness of the Authority."

(b) Audited Financial Statements of the Authority prepared in accordance with generally accepted accounting principles ("**GAAP**") as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with GAAP will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

(c) Audited Financial Statements of the Government prepared in accordance with GAAP as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with GAAP will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

(d) Solely with respect to the Series 2004A Bonds, each Annual Report shall contain Form 10-K of Beam Global Spirits & Wine, Inc. or any subsequent owner of Cruzan VIRIL, Ltd., as and only as required by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended.

(e) The information regarding amendments to this Disclosure Agreement pursuant to Section 16 of this Disclosure Agreement will be included in the Annual Report.

SECTION 4. Provision of Quarterly Reports.

(a) The Authority shall provide, quarterly, an electronic copy of the Quarterly Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Quarterly Filing Date. Promptly upon receipt of an electronic copy of the Quarterly Report and the Certification, the Disclosure Dissemination Agent shall provide a Quarterly Report to the Repository not later than 45 days after the end of each quarter of each fiscal year of the Authority, commencing with the quarter ending June 30 of fiscal year ending September 30, 2012. Such date and each 45 days after each quarter thereof is the Quarterly Filing Date. The Quarterly Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 6 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Quarterly Filing Date, the Disclosure Dissemination Agent has not received a copy of the Quarterly Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Authority of its undertaking to provide the Quarterly Report pursuant to Section 4(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Quarterly Report and the Certification) no later than two (2) business days prior to the Quarterly Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Authority will not be able to file the Quarterly Report within the time required under this Disclosure Agreement, state the date by which the Quarterly Report for such quarter will be

provided and instruct the Disclosure Dissemination Agent that a Listed Event as described in Section 7(a)(17) has occurred and to immediately send a notice to the Repository in substantially the form attached as **Exhibit B**.

(c) If the Disclosure Dissemination Agent has not received a Quarterly Report and Certification by 12:00 noon on the first business day following the Quarterly Filing Date for the Quarterly Report, an Event described in Section 7(a)(17) shall have occurred and the Authority irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the Repository in substantially the form attached as **Exhibit B**.

(d) The Disclosure Dissemination Agent shall:

(i) determine the name and address of the Repository prior to the Quarterly Filing Date;

(ii) upon receipt, promptly file each Quarterly Report received under Section 4(a) with the Repository; and

(iii) upon receipt, promptly file with the MSRB the text of each disclosure and a completed copy of the MSRB Material Event Notice Cover Sheet in the form attached as **Exhibit C**, describing the event by checking the appropriate box on the form attached as **Exhibit C** when filing pursuant to:

1. Section 7(c) and the relevant subsection of Section 7(a) of this Disclosure Agreement; or

2. Section 4(b)(ii) or Section 4(c) of this Disclosure Agreement, together with a completed copy of **Exhibit B** to this Disclosure Agreement; and

(iv) provide the Authority evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

SECTION 5. Content of Quarterly Reports.

(a) The Authority and the Government shall provide quarterly summaries of the information provided by the Virgin Islands Bureau of Alcohol Control Board on rum shipments and excise taxes collected as reported by the Bureau of Alcohol, Tobacco and Firearms submitted to the United States Department of the Interior with respect to Matching Fund Revenues.

(b) During construction of the Cruzan Wastewater Treatment Project, Cruzan shall provide to the Authority quarterly updates on the construction progress of the Cruzan Wastewater Treatment Project against the plans for completion of construction, which, promptly upon receipt, the Authority shall transmit to the Disclosure Dissemination Agent.

SECTION 6. Incorporation by Reference; Modified Data.

(a) Any or all of the items listed in Section 3 and Section 5 hereof may be included by specific reference from other documents, including official statements of debt issues with respect to which the Authority is an "obligated person" (as defined by Rule 15c2-12), which have been previously filed with the Repository or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Authority will clearly identify each such document so incorporated by reference.

(b) The requirements contained under Section 3 and Section 5 hereof are intended to set forth a general description of the type of financial information and operating data to be provided; such descriptions are not intended to state more than general categories of financial information and operating data; and where the provisions of Section 3 or Section 5 call for information that no longer can be generated or is no longer relevant because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided.

(c) Any annual or quarterly financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 7. Event Disclosure.

(a) The Authority will provide or cause to be provided to the MSRB a notice of the occurrence of any Event not later than ten (10) business days after the occurrence of an Event. Each notice an Event shall be so captioned and shall prominently state the title, date and CUSIP number of the Bonds. "Event" means any one of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements relating to the Bonds reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or issuance by the IRS of proposed or final determination of taxability or of a Notice or Proposed Issue;
6. Tender Offers;
7. Defeasances;
8. Rating Changes;
9. Bankruptcy, insolvency, receivership or similar event of the obligated person;
10. Unless described in 7(a)(5), other material notices or determinations by the IRS with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds
11. Modifications to rights of Bond Holders;
12. Optional, unscheduled or contingent Bond calls, if material;
13. Release, substitution, or sale of property securing repayment of the Bonds, if material;
14. Non-payment related defaults, if material;

15. Consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligation person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relation to any such actions, other than pursuant to its terms;

16. Appointment of a successor or additional trustee or the change of name of a trustee;

17. Failure to provide annual or quarterly financial information as required; and

18. Other material event notice (specify) _____.

Note: for the purposes of the Event identified in subparagraph 7(a)(9) above, the Event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

Notwithstanding the foregoing, notice of the Event described in subparagraphs 7(a)(7) or 7(a)(12) need not be given any earlier than the notice (if any) of the underlying event is given to the Bondholders of affected Bonds pursuant to the Resolution.

The Authority shall promptly notify the Disclosure Dissemination Agent in writing upon the occurrence of any Event listed above. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c). Such notice shall be accompanied with the text of the disclosure that the Authority desires to make, the written authorization of the Authority for the Disclosure Dissemination Agent to disseminate such information, and the date the Authority desires for the Disclosure Dissemination Agent to disseminate the information, provided that such disclosure must occur within 10 days of the occurrence of the Event.

(b) The Disclosure Dissemination Agent is under no obligation to notify the Authority or the Disclosure Representative of an event that may constitute an Event. If the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative shall within five (5) business days of receipt of such notice, instruct the Disclosure Dissemination Agent that (i) an Event has not occurred and no filing is to be made or (ii) an Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c), together with the text of the disclosure that the Authority desires to make, the written authorization of the Authority for the Disclosure Dissemination Agent to disseminate such information, and the date the Authority desires for the Disclosure Dissemination Agent to disseminate the information.

(c) If the Disclosure Dissemination Agent has been instructed by the Authority as prescribed in subsection (a) or (b)(ii) of this Section to report the occurrence of an Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the Repository.

SECTION 8. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, notices of Events, Quarterly Reports, Additional

Disclosure and Voluntary Reports, the Authority shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 9. Additional Disclosure Obligations.

(a) Upon receipt from Cruzan, the Authority shall promptly transmit the following information to the Disclosure Dissemination Agent:

(i) With respect to the Cruzan Facility, Cruzan promptly shall provide to the Authority information with respect to any interruption of production that could materially adversely affect the supply of rum products to be sold by Cruzan in the U.S. and any material deviation from the production plans set forth in the Cruzan Agreement.

(b) Upon receipt from Diageo USVI, the Authority shall promptly transmit the following information to the Disclosure Dissemination Agent:

(i) After the Diageo Project becomes fully operational, Diageo USVI promptly shall provide to the Authority information with respect to any interruption of production that could materially impact the supply of rum used to manufacture Captain Morgan branded products to be sold in the U.S. and any material deviation from the production plans set forth in the Diageo Agreement.

(c) Upon receipt from the Authority of an Additional Disclosure and a Certification of the Disclosure Representative accompanying such information, the Disclosure Dissemination Agent shall:

(i) in the case of an Additional Disclosure received under Section 9(a)(i) or 9(b)(i), promptly file with the MSRB the text of the Annual Disclosure and a completed copy of the MSRB Material Event Notice Cover Sheet in the form attached as **Exhibit C**, describing the Event by checking the appropriate box on the form attached as **Exhibit C** together with the summary description provided by the Disclosure Representative; and:

(ii) provide the Authority evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

SECTION 10. Voluntary Reports.

(a) The Authority may instruct the Disclosure Dissemination Agent to file information with the Repository, from time to time pursuant to a Certification of the Disclosure Representative accompanying such information.

(b) Upon receipt, the Disclosure Dissemination Agent shall promptly file the text of each Voluntary Report to be made with the MSRB and a completed copy of the MSRB Material Event Notice Cover Sheet in the form attached as **Exhibit C**, describing the event by checking the appropriate box on the form attached as **Exhibit C** together with the summary description provided by the Disclosure Representative.

(c) Nothing in this Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Annual Financial Statement, Quarterly Report, Additional Disclosure, Voluntary Report or notice of an Event, in addition to that required by this Disclosure Agreement. If the Authority chooses to include any information in any Annual Report, Annual Financial Statement, Quarterly Report, Voluntary

Report or notice of an Event in addition to that which is specifically required by this Disclosure Agreement, the Authority shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Annual Financial Statement, Quarterly Report, Voluntary Report or notice of an Event.

SECTION 11. Other State and Federal Law Obligations. The Authority acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Authority, and that the failure of the Disclosure Dissemination Agent to advise the Authority that state and federal laws, including securities laws and disclosure obligations thereunder, may apply to the Authority shall not constitute a breach by the Disclosure Dissemination Agent of any of its duties and responsibilities under this Disclosure Agreement. The Authority acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 12. Termination of Reporting Obligation. The obligations of the Authority and the Disclosure Dissemination Agent under this Disclosure Agreement, the obligations of the Government pursuant to Sections 3(c) and 5(a) hereof, the obligations of Cruzan pursuant to Sections 5(b) and 9(a) hereof and the obligations of Diageo USVI pursuant to Section 9(b) hereof with respect to a series of Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of all Bonds of such series, when the Authority is no longer an obligated person with respect to such Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required; provided, however, that the respective obligations of the Authority and Cruzan pursuant to Section 5(b) hereof shall terminate upon the completion of the construction of the Cruzan Wastewater Treatment Project and the Cruzan Expansion.

SECTION 13. Disclosure Dissemination Agent. The Authority has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Authority may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Authority or DAC, the Authority agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders and the Underwriters of the Bonds. Notwithstanding any replacement or appointment of a successor, the Authority shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Authority.

SECTION 14. Remedies in Event of Default. In the event of a failure of the Authority or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement; provided that any Holder or Underwriter seeking to require compliance with this Disclosure Agreement shall first provide to the Disclosure Representative at least 30 days' prior written notice of the Authority's failure, giving reasonable details of such failure, following which notice the Authority shall have 30 days to comply. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default with respect to the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default with respect to the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 15. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Authority has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Authority and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Authority's failure to report to the Disclosure Dissemination Agent a Listed Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Authority has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Authority at all times.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Authority. The obligations of the Authority under this Section 15(b) shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

SECTION 16. Amendment; Waiver.

(a) The Authority at any time and from time to time may waive any provision of this Disclosure Agreement or enter into any amendments to this Disclosure Agreement for any of the following purposes:

(i) to comply with or conform to Rule 15c2-12 or any amendments thereto or authoritative interpretations thereof by the SEC or its staff (whether required or optional) which are applicable to the Disclosure Agreement;

(ii) to replace or appoint a successor to the Disclosure Dissemination Agent; or

(iii) for any other purpose as a result of a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Authority, or type of business conducted; provided that (a) the Disclosure Agreement, as amended, would have complied with the requirements of Rule 15c2-12 at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of Rule 15c2-12, as well as any change in circumstances, (b) the amendment or change does not materially impair the interests of Holders, as determined by counsel expert in federal securities laws and (c) the Authority receives a written opinion of counsel expert in federal securities laws that such amendment is authorized or permitted by this Disclosure Agreement;

provided neither the Authority or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto; and further provided that, if an amendment of this Disclosure Agreement affects the respective obligations of the Government, Cruzan or Diageo USVI hereunder, the Authority and the Disclosure Dissemination Agent may not amend this Disclosure Agreement without obtaining prior written consent of the Government, Cruzan or Diageo USVI, as applicable, to such an amendment.

(b) Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of Rule 15c2-12 as announced by the SEC from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Authority. No such amendment shall become effective if the Authority shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 17. Beneficiaries; Applicability to Prior Bonds.

(a) This Disclosure Agreement shall inure solely to the benefit of the Authority, the Trustee, the Disclosure Dissemination Agent, the Underwriters and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

(b) This Disclosure Agreement covers those Bonds heretofore issued by the Authority as set forth in Exhibit A as such Exhibit A may be supplemented or amended from time to time.

SECTION 18. Governing Law. This Disclosure Agreement shall be governed by the laws of the United States Virgin Islands (other than with respect to conflicts of laws).

SECTION 19. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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The Disclosure Dissemination Agent and the Authority have caused this Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as
Disclosure Dissemination Agent

By:_____
Paula Stuart
CEO

VIRGIN ISLANDS
PUBLIC FINANCE AUTHORITY

By:_____
Angel E. Dawson, Jr.
Executive Director

ACKNOWLEDGEMENT AND AGREEMENT:

The Government of the United States Virgin Islands hereby acknowledges the Authority's undertaking to provide information in accordance with Rule 15c2-12 as described herein and agrees to make available (i) within 270 days of the end of the Government's fiscal year, information set forth in Section 3(c) hereof, and (ii) within 45 days of the end of each quarter of the Government's fiscal year, information set forth in Section 5(a) hereof.

By: _____
Angel E. Dawson, Jr.
Commissioner of Finance

ACKNOWLEDGEMENT AND AGREEMENT:

Cruzan VIRIL, Ltd. hereby acknowledges the Authority's undertaking to provide information in accordance with Rule 15c2-12 as described herein and agrees to make available to the Authority, (i) within 45 days of the end of each quarter of the Authority's Fiscal Year, information set forth in Section 5(b) hereof and (ii) timely provide the information set forth in Section 9(a) hereof. This acknowledgment and agreement is limited to the information specified above only, and Cruzan does not admit that it comes within the definition of an Issuer of Municipal Securities or an Obligated Person for purposes of Rule 15c2-12.

By: _____
Gary C. Nelthropp
President and Chief Executive Officer

ACKNOWLEDGEMENT AND AGREEMENT:

Diageo USVI Inc. hereby acknowledges the Authority's undertaking to provide information in accordance with Rule 15c2-12 as described herein and agrees to make available to the Authority, within the respective time limits provided in Section 9(b) hereof, the information set forth in such Section. This acknowledgment and agreement is limited to the information specified above only, and Diageo USVI Inc. does not admit that it comes within the definition of an Issuer of Municipal Securities or an Obligated Person for purposes of Rule 15c2-12.

By: _____
Dan Kirby
Vice President

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer:	Virgin Islands Public Finance Authority
Obligated Person(s):	Virgin Islands Public Finance Authority
Principal Amount & Name of Bond Issue:	$94,000,000 Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2004A
Date of Official Statement:	December 2, 2004
Date of Issuance:	December 15, 2004
Underwriter(s):	Citi, Morgan Stanley, et al.
CUSIP Number(s):	927676LM6
	927676LN4
	927676LP9
	927676LQ7
	927676LR5
	927676LS3
	927676LT1
	927676LU8
	927676LV6
	927676LW4
	927676LX2
	927676LY0
	927676LZ7
	927676MA1
	927676MB9

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer:	Virgin Islands Public Finance Authority
Obligated Person(s):	Virgin Islands Public Finance Authority
Principal Amount & Name of Bond Issue:	$250,000,000 Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Note – Diageo Project), Series 2009A
Date of Official Statement:	June 26, 2009
Date of Issuance:	July 9, 2009
Underwriter(s):	J.P. Morgan, et al.
CUSIP Number(s):	927676NP7 927676NQ5 927676NR3 927676NS1

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer:	Virgin Islands Public Finance Authority
Obligated Person(s):	Virgin Islands Public Finance Authority
Principal Amount & Name of Bond Issue:	$86,350,000 Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2009A-1 Bonds (Senior Lien/Capital Projects/Tax-Exempt) $8,650,000 Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2009A-2 Bonds (Senior Lien/Capital Projects/Federally Taxable) $266,330,000 Revenue Refunding Bonds (Virgin Islands Matching Fund Loan Note), Series 2009B Bonds (Senior Lien/Refunding) $97,510,000 Revenue Refunding Bonds (Virgin Islands Matching Fund Loan Note), Series 2009C Bonds (Subordinate Lien/Refunding)
Date of Official Statement:	October 1, 2009
Date of Issuance:	October 28, 2009
Underwriter(s):	Citi, et al.

CUSIP Number(s):

Series 2009A-1	Series 2009A-2	Series 2009B	Series 2009C
927676NT9	927676QF6	927676PH3	927676PU4
927676NU6	927676QG4	927676PJ9	927676PV2
927676NV4		927676PK6	927676PW0
927676NW2		927676PL4	927676PX8
927676NX0		927676PM2	927676PY6
927676NY8		927676PN0	927676PZ3
927676NZ5		927676PP5	927676QA7
927676PA8		927676PQ3	927676QB5
927676PB6		927676PR1	927676QC3
927676PC4		927676PS9	927676QD1
927676PD2		927676PT7	927676QE9
927676PE0			
927676PF7			
927676PG5			

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer:	Virgin Islands Public Finance Authority
Obligated Person(s):	Virgin Islands Public Finance Authority
Principal Amount & Name of Bond Issue:	$39,190,000 Subordinated Revenue Bonds (Virgin Islands Matching Fund Loan Note – Cruzan Project), Series 2009A
Date of Official Statement:	December 8, 2009
Date of Issuance:	December 17, 2009
Underwriter(s):	Citi, et al.
CUSIP Number(s):	927676QH2 927676QJ8 927676QK5 927676QL3 927676QM1 927676QN9 927676QP4 927676QQ2 927676QR0 927676QS8 927676QT6

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer:	Virgin Islands Public Finance Authority
Obligated Person(s):	Virgin Islands Public Finance Authority
Principal Amount & Name of Bond Issue:	$305,000,000 Virgin Islands Public Finance Authority Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2010A (Senior Lien/Working Capital) $94,050,0000 Virgin Islands Public Finance Authority Revenue Bonds (Virgin Islands Matching Fund Loan Note), Series 2010B (Subordinate Lien/Working Capital)
Date of Official Statement:	July 8, 2010
Date of Issuance:	July 15, 2010
Underwriter(s):	Jefferies & Company, Inc., et al.

CUSIP Number(s):

Series 2010A	Series 2010B
927676QW9	927676RF5
927676QX7	927676RE8
927676QY5	927676RD0
927676QZ2	
927676RA6	
927676RB4	
927676RC2	
927676QU3	
927676QV1	

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer:	Virgin Islands Public Finance Authority
Obligated Persons:	Virgin Islands Public Finance Authority
Principal Amount & Name of Bond Issue:	$142,640,000 Virgin Islands Public Finance Authority Revenue Bonds (Virgin Islands Matching Fund Loan Bonds), Series 2012A (Working Capital)
Date of Official Statement:	September 7, 2012
Date of Issuance:	September 13, 2012
Co-Placement Agents:	Jefferies & Company, Inc. and Bostonia Global Securities LLC
CUSIP Numbers:	Series 2012A 927676RH1 927676RJ7 927676RK4

EXHIBIT B

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL/QUARTERLY REPORT

Name of Issuer Virgin Islands Public Finance Authority

Name of Bond Issue: _____

Date of Issuance: _____

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual/Quarterly Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of September 1, 2012, between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual/Quarterly Report will be filed by _____.

Dated: _____

Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent, on behalf of the Issuer

cc: Issuer
Obligated Person(s)

EXHIBIT C

EVENT NOTICE COVER SHEET

This cover sheet and material event notice will be sent to the Municipal Securities Rulemaking Board pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D) and the State Depository, if any, pursuant to the laws of the United States Virgin Islands.

Issuer's and/or Other Obligated Person's Name:

Issuer's Six-Digit CUSIP Number:

or Nine-Digit CUSIP Number(s) of the bonds to which this material event notice relates:

Number of pages of attached material event notice: _____

Description of Material Event Notice (Check One):

"Event" means any one of the following events with respect to the Bonds:

1. ___ Principal and interest payment delinquencies;
2. ___ Unscheduled draws on debt service reserves reflecting financial difficulties;
3. ___ Unscheduled draws on credit enhancements relating to the Bonds reflecting financial difficulties;
4. ___ Substitution of credit or liquidity providers, or their failure to perform;
5. ___ Adverse tax opinions or issuance by the IRS of proposed or final determination of taxability or of a Notice or Proposed Issue;
6. ___ Tender Offers;
7. ___ Defeasances;
8. ___ Rating Changes
9. ___ Bankruptcy, insolvency, receivership or similar event of the obligated person;
10. ___ Unless described in 7(e), other material notices or determinations by the IRS with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds
11. ___ Modifications to rights of Bond Holders;
12. ___ Optional, unscheduled or contingent Bond calls, if material;;
13. ___ Release, substitution, or sale of property securing repayment of the Bonds, if material;
14. ___ Non-payment related defaults, if material;
15. ___ Consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligation person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relation to any such actions, other than pursuant to its terms;
16. ___ Appointment of a successor or additional trustee or the change of name of a trustee;
17. ___ Failure to provide annual or quarterly financial information as required; and
18. ___ Other material event notice (specify) _____.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Employer: Digital Assurance Certification, L.L.C.

Address: _____

City, State, Zip Code: _____

Voice Telephone Number: _____

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