

POLARIS HOLDING COMPANY LIMITED

Consolidated Financial Statements
(With Independent Auditors' Report Thereon)

March 31, 2011



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated financial statements of Polaris Holding Company Limited (the "Company"), which comprise the consolidated balance sheet as at March 31, 2011 and the consolidated statements of operations, retained earnings, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Polaris Holding Company Limited as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

Chartered Accountants
Hamilton, Bermuda
August 30, 2011

POLARIS HOLDING COMPANY LIMITED

Consolidated Balance Sheet

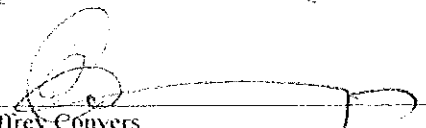
March 31, 2011

(Expressed in Bermuda Dollars)

	<u>2011</u>	<u>2010</u>
Assets		
Current assets		
Cash and cash equivalents (Note 3)	\$ 4,038,836	\$ 5,024,424
Accounts receivable (Notes 12 and 15)	1,219,931	615,864
Inventory (Note 4)	1,153,133	1,016,072
Prepaid expenses	262,681	166,536
Pension receivable (Note 10)	—	29,533
Total current assets	6,674,581	6,852,429
Investments (Note 5)	942,493	813,826
Property, plant and equipment (Note 7)	3,734,614	3,734,188
Total assets	\$ 11,351,688	\$ 11,400,443
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued expenses	\$ 659,813	\$ 551,608
Capital lease - current portion (Note 8)	—	6,437
Long-term debt - current portion (Note 9)	415,311	362,224
Total current liabilities	1,075,124	920,269
Long-term debt (Note 9)	1,328,101	2,242,759
Total liabilities	2,403,225	3,163,028
Shareholders' equity		
Share capital (Note 11)	1,244,600	1,244,600
Share premium (Note 13)	122,650	122,650
General reserve	1,250,000	1,250,000
Retained earnings	5,684,179	5,101,798
Accumulated other comprehensive income	647,034	518,367
Total shareholders' equity	8,948,463	8,237,415
Total liabilities and shareholders' equity	\$ 11,351,688	\$ 11,400,443

See accompanying notes to consolidated financial statements

Signed on behalf of the Board by:


 Jeffrey Conyers
 Director


 Michael L. Chan
 Director

POLARIS HOLDING COMPANY LIMITED

Consolidated Statement of Operations

Year ended March 31, 2011
(Expressed in Bermuda Dollars)

	<u>2011</u>	<u>2010</u>
Revenue		
Stevedoring revenue (Note 12)	\$ 10,114,756	\$ 10,359,247
Stevedoring expenses (Note 4)	<u>5,590,958</u>	<u>4,972,739</u>
Stevedoring gross profit	4,523,798	5,386,508
Investment income (Note 6)	<u>47,038</u>	<u>67,904</u>
Total income	4,570,836	5,454,412
Expenses		
Salaries and wages	1,756,577	1,442,812
General and administrative expenses	754,805	748,199
Amortization (Note 7)	565,855	693,125
Employee benefits (Note 10)	485,710	3,109,354
Professional fees	274,630	238,068
Interest expense (Note 8)	<u>150,878</u>	<u>63,284</u>
Total expenses	3,988,455	6,294,842
Net income (loss)	\$ 582,381	\$ (840,430)
Earnings (loss) per share (Note 14)	\$ 0.47	\$ (0.68)

See accompanying notes to consolidated financial statements

POLARIS HOLDING COMPANY LIMITED

Consolidated Statement of Retained Earnings

Year ended March 31, 2011
(Expressed in Bermuda Dollars)

	<u>2011</u>	<u>2010</u>
Retained earnings at beginning of year	\$ 5,101,798	\$ 5,942,228
Net income (loss)	<u>582,381</u>	<u>(840,430)</u>
Retained earnings at end of year	<u>\$ 5,684,179</u>	<u>\$ 5,101,798</u>

See accompanying notes to consolidated financial statements

POLARIS HOLDING COMPANY LIMITED

Consolidated Statement of Comprehensive Income

Year ended March 31, 2011
(Expressed in Bermuda Dollars)

	<u>2011</u>	<u>2010</u>
Comprehensive income		
Net income (loss)	\$ 582,381	\$ (840,430)
Other comprehensive income:		
Change in unrealized gains and losses on available-for-sale investments arising during the year	<u>128,667</u>	<u>107,214</u>
Total comprehensive income (loss)	<u>\$ 711,048</u>	<u>\$ (733,216)</u>
Accumulated other comprehensive income at beginning of year	\$ 518,367	\$ 411,153
Other comprehensive income	<u>128,667</u>	<u>107,214</u>
Accumulated other comprehensive income at end of year	<u>\$ 647,034</u>	<u>\$ 518,367</u>

See accompanying notes to consolidated financial statements

POLARIS HOLDING COMPANY LIMITED

Consolidated Statement of Cash Flows

Year ended March 31, 2011
(Expressed in Bermuda Dollars)

	<u>2011</u>	<u>2010</u>
Operating activities		
Net income (loss)	\$ 582,381	\$ (840,430)
Adjustments for:		
Amortization	565,855	693,125
Net changes in non-cash working capital balances:		
(Increase) decrease in accounts receivable	(604,067)	607,063
(Increase) decrease in prepaid expenses	(96,145)	18,497
Increase in inventory	(137,061)	(1,784)
Increase (decrease) in accounts payable and accrued expenses	108,205	(287,970)
Decrease in pension receivable	<u>29,533</u>	<u>(244,099)</u>
Net cash provided by (used in) operations	<u>448,701</u>	<u>(55,598)</u>
Investing activities		
Purchase of property, plant and equipment	(566,281)	(64,835)
Decrease in short-term deposits, net	<u>—</u>	<u>2,380,299</u>
Net cash (used in) provided by investing activities	<u>(566,281)</u>	<u>2,315,464</u>
Financing activities		
Long-term debt principal repayments	(861,571)	(615,640)
Capital lease principal repayments	(6,437)	(74,398)
Proceeds received from long-term debt	<u>—</u>	<u>2,693,934</u>
Net cash (used in) provided by financing activities	<u>(868,008)</u>	<u>2,003,896</u>
(Decrease) increase in cash and cash equivalents	(985,588)	4,263,762
Cash and cash equivalents at beginning of year	<u>5,024,424</u>	<u>760,662</u>
Cash and cash equivalents at end of year	<u>\$ 4,038,836</u>	<u>\$ 5,024,424</u>
Cash flows in relation to:		
Interest paid	<u>\$ 150,878</u>	<u>\$ 63,284</u>

See accompanying notes to consolidated financial statements

POLARIS HOLDING COMPANY LIMITED

Notes to Consolidated Financial Statements

March 31, 2011

(Expressed in Bermuda Dollars)

1. General

Polaris Holding Company Limited (the "Company") was incorporated on January 24, 2011 under the laws of Bermuda and was created to facilitate the restructuring of the Stevedoring Services Limited group by way of a court approved Scheme of Arrangement (the "Scheme"). The Scheme was the vehicle by which the shares of Stevedoring Services Limited were transferred to Polaris Holding Company Limited on the same basis as they were held in Stevedoring Services Limited, and these new shares replaced the shares of Stevedoring Services Limited listed on the Bermuda Stock Exchange.

At a Board of Directors meeting held on November 24, 2010, the Board authorized management to execute the Scheme, which required the incorporation of the newly formed holding company called Polaris Holding Company Limited. The Company is the holding company for the group of companies which comprise of Stevedoring Services Limited, Equipment Sales and Rental Limited, and Mill Reach Holding Company Limited. The Scheme became effective on March 28, 2011 after shareholder and Supreme Court approval. The group restructuring has been accounted for on a continuation of interests basis with transfers being recorded at their carrying value.

Stevedoring Services Limited, a wholly-owned subsidiary, is incorporated under the laws of Bermuda and carries on business as a stevedoring company. In January 2011, this subsidiary was awarded a 5 year license by the Corporation of Hamilton, with provisions for a further license of 5 years subject to satisfactory performance. Equipment Sales and Rental Limited, a wholly-owned subsidiary is incorporated under the laws of Bermuda and carries on the business of purchasing and leasing heavy operating machinery and equipment. At a Board of Directors meeting held on February 24, 2010, it was decided and approved that Stevedoring Services Limited would transfer a portion of its heavy port operating equipment to Equipment Sales and Rental Limited. Mills Reach Holding Limited, a wholly-owned subsidiary is incorporated under the laws of Bermuda and was incorporated on February 10, 2010 and acquired land held at Mill Reach Lane, Pembroke from Stevedoring Services Limited.

2. Summary of significant accounting policies

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant areas subject to such estimates and assumptions include the carrying amount of property, plant and equipment, valuation allowances for receivables and inventory, and investments. Actual results could differ from those estimates. The following are the significant accounting policies adopted by the Company:

(a) Basis of consolidation

The consolidated financial statements include the accounts and results of operations of the Company and its wholly-owned subsidiaries. All significant inter-company transactions are eliminated on consolidation.

(b) Revenue recognition

Stevedoring revenues include stevedoring and dock handling revenues, and are recognized in the accounting period in which the services are rendered.

Investment income comprises dividend income from equity investments and interest on bank deposits. Dividend income is recognized when the right to receive payment is established. Interest income is recognized on the accruals basis.

POLARIS HOLDING COMPANY LIMITED

Notes to Consolidated Financial Statements

March 31, 2011

(Expressed in Bermuda Dollars)

2. Summary of significant accounting policies (continued)

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization. Amortization is charged on a straight-line basis over the estimated useful lives of the assets, with the exception of cranes, which are amortized on a declining balance basis. Improvements to leased premises are capitalized and amortized over the related lease period. Land is not amortized.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized.

(d) Financial instruments

Financial instruments are classified either as available for sale, held for trading, held to maturity, loans and receivables, or other financial liabilities.

Cash and cash equivalents are classified as held for trading and are measured at fair value with changes therein recognized in the consolidated statement of operations.

The Company has classified its investments in equity securities as available-for-sale. Available-for-sale investments are valued at fair value as at the reporting date based on the last quoted market price as reported on the primary securities exchange on which it is traded on the reporting date. Changes in fair value are included as a separate component of shareholders' equity (other comprehensive income) until they are realized.

Other financial assets, being accounts receivable are classified as loans and receivables. All financial liabilities are classified as other financial liabilities. Loans and receivables and other financial liabilities are recorded at amortized cost using the effective interest method adjusted for any impairment.

Financial instrument fair value

Accounting standards over fair value measurements defines fair value, establishes a framework for measuring fair value using a three-tier hierarchy of inputs to value the Company's investments, and requires additional disclosure about fair value. The hierarchy of inputs is summarized below:

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – significant unobservable inputs (including management's own assumptions in determining the fair value of investments)

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, including, for example, the type of investment, the liquidity of markets, and other characteristics particular to the investment. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for investments categorized in level 3 of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The fair value hierarchy is disclosed in Note 15.

POLARIS HOLDING COMPANY LIMITED

Notes to Consolidated Financial Statements

March 31, 2011

(Expressed in Bermuda Dollars)

2. Summary of significant accounting policies (continued)

(e) Comprehensive income

Comprehensive income consists of net income and other comprehensive income ("OCI"). OCI represents the change in equity during the year from unrealized gains and losses on investments classified as available for sale.

(f) Cash and cash equivalents

For the purposes of the statement of cash flows the Company considers all cash on hand, deposits with financial institutions that can be withdrawn without prior notice or penalty and short-term deposits with an original maturity of three months or less as equivalent to cash.

(g) Employee benefits

Effective June 1, 2009, the Company's defined benefit pension scheme was frozen such that no further benefits would accrue to the members of the plan beyond that date. The Company made the decision to freeze the plan in light of the growing deficit and heavy financial burden on the Company. On October 1, 2009, the wind-up of the pension scheme was instituted and all active members in the pension plan were given the opportunity to purchase annuities, purchase a third party investment vehicle, or enroll in the Company's defined contribution pension plan. On December 17, 2009 the Company paid \$2,305,745 in settlement for the deficit on the defined benefit pension plan.

The Company accrued its obligations and the related costs under its employee defined benefits pension plan, net of plan assets. The cost of pension benefits earned by employees was actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan asset investment performance, rate of compensation increase and retirement ages of employees.

For the purpose of calculating the expected return of plan assets, those assets are valued at fair value. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

The costs of employee benefits payable in respect of the Company's defined contribution pension plan are charged to the consolidated statement of operations in the year they are incurred.

(h) Inventory

Inventory represents spare parts and is recorded at cost less any provision for obsolete or slow-moving items. Cost is determined on a specific item basis.

(i) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Bermuda dollars at the rates of exchange prevailing at the balance sheet date, while associated revenues and expenses are translated into Bermuda dollars at the actual rates prevailing at the date of the transaction. Resulting gains or losses are recorded in the consolidated statement of operations.

POLARIS HOLDING COMPANY LIMITED

Notes to Consolidated Financial Statements

March 31, 2011

(Expressed in Bermuda Dollars)

2. **Summary of significant accounting policies (continued)**

(j) *Leases*

Payments made under operating leases are recognized in the consolidated statement of operations on a straight-line basis over the term of the lease.

Minimum lease payments made under capital leases are apportioned between the interest expense and the reduction of the outstanding liability. The interest expense is allocated each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(k) *Future accounting pronouncements*

The Canadian Institute of Chartered Accountants has decided to transition to International Financial Reporting Standards ("IFRS") for publicly accountable entities effective January 1, 2011. The Company currently meets the definition of a publicly accountable entity.

The Company expects to adopt IFRS in its financial statements for the year ending March 31, 2012. The Company's transition date for the conversion to IFRS will be April 1, 2010 and will require the restatement for comparative purposes of amounts reported by the Company for the year ending March 31, 2011. While the Company is continuing to assess the adoption of IFRS, the financial reporting impact of the transition cannot be reasonably estimated at this time.

3. **Cash and cash equivalents**

The effective interest rate earned on cash and cash equivalents for the year ended March 31, 2011 was 0.25% (2010 - 1.24%).

4. **Inventory**

Inventory of \$1,153,133 (2010 - \$1,016,072) is stated net of a provision for obsolescence of \$35,166 (2010 - \$205,500). Inventory recognized as an expense amounted to \$370,453 (2010 - \$438,718) and is included in stevedoring expenses in the consolidated statement of operations. A total of \$170,334 (2010 - \$nil) of obsolete inventory was written-off in the current year.

5. **Available-for-sale investments**

Available-for-sale investments comprise the following:

	2011		2010	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Equity securities	\$ 942,493	\$ 295,459	\$ 813,826	\$ 295,459

At March 31, 2011, the Company's holdings in equity securities consist of two securities of companies incorporated or operating from Bermuda. The investee companies comprise of a company with diversified operations in Bermuda (26.0% (2010 - 30.6%)) and an insurance company with global operations (74.0% (2010 - 69.4%)).

Management has the ability and intention to hold investments over the long-term but may dispose of individual investments in response to liquidity needs or adverse market conditions.

POLARIS HOLDING COMPANY LIMITED

Notes to Consolidated Financial Statements

March 31, 2011

*(Expressed in Bermuda Dollars)***6. Investment income**

Investment income comprises of the following:

	<u>2011</u>	<u>2010</u>
Dividend income	\$ 25,626	\$ 35,339
Interest income	<u>21,412</u>	<u>32,565</u>
	<u>\$ 47,038</u>	<u>\$ 67,904</u>

7. Property, plant and equipment

	Estimated life	Cost	2011 Accumulated amortization	Net book value	2010 Net book value
Land	—	\$ 61,992	\$ —	\$ 61,992	\$ 61,992
Buildings	10 years	296,041	258,719	37,322	53,013
Cranes and heavy equipment	10 years	9,767,320	6,173,865	3,593,455	3,519,604
Miscellaneous equipment	3-5 years	729,754	729,754	—	3,501
Furniture and fixtures	3-4 years	293,015	287,655	5,360	15,032
Computer hardware and software	3-5 years	<u>1,788,823</u>	<u>1,752,338</u>	<u>36,485</u>	<u>81,046</u>
		<u>\$ 12,936,945</u>	<u>\$ 9,202,331</u>	<u>\$ 3,734,614</u>	<u>\$ 3,734,188</u>

The cost and accumulated amortization of property, plant and equipment at March 31, 2010 were \$12,370,664 and \$8,636,476, respectively.

8. Obligations under capital lease

During the year ended March 31, 2011 the Company made payments of \$6,475 (2010 - \$77,700) in relation to a lease for computer software, including an interest expense of \$38 (2010 - \$3,301). The lease was for a term of 5 years and ended in April 2010.

9. Long-term debt

In December 2009 the Company secured a loan of \$2,693,934 from a Bermuda bank for the funding of the defined benefit pension plan deficit, the wind-up of the defined benefit plan (Note 10), and the retirement of an outstanding loan with another Bermuda financial institution. The loan consists of a variable rate promissory note with monthly payments of \$42,701 and is due on May 15, 2016. The interest rate is set at 2.90% above the bank's Bermuda dollar base rate. The effective interest rate for the year was 5.86% (2010 - 6.15%). The loan is secured by a debenture over the heavy equipment assets held by Equipment Sales and Rental Limited and a collateralized fixed deposit.

POLARIS HOLDING COMPANY LIMITED

Notes to Consolidated Financial Statements

March 31, 2011

(Expressed in Bermuda Dollars)

9. Long-term debt (continued)

The expected loan principal payments due by financial year are as follows:

2012	\$ 415,311
2013	443,085
2014	471,116
2015	<u>413,900</u>
	<u>\$ 1,743,412</u>

10. Employee pension benefits

The Company's defined benefit pension plan was wound up and annuities were purchased for the plan members as at October 1, 2009. This settlement had a value of \$5,704,030 as at October 1, 2009. Under Section 3461, *Employee Future Benefits*, since the entire benefit obligation was settled, all remaining unrecognized gains or losses and transitional obligations were recognized immediately. The total cash contributions made by the Company during the year ended March 31, 2010 were \$2,889,616 and consisted of special contributions to purchase annuities for all plan members on settlement of the accrued benefit obligation. The Company measures the fair value of the asset and liabilities as at March 31. The most recent actuarial valuation of the pension plan for the wind up purposes was as at October 1, 2009. Information on the Company's defined benefit plan as at March 31 is as follows:

	<u>2011</u>	<u>2010</u>
Accrued benefit obligation		
Balance at beginning of year	\$ —	\$ 5,875,993
Current service cost	—	21,969
Interest cost	—	152,001
Benefits paid	—	(5,704,030)
Employee contributions	—	10,134
Actuarial loss	<u>—</u>	<u>(356,067)</u>
Balance at end of year	—	—
Plan assets		
Fair value at beginning of year	29,533	2,455,041
Actual return on plan assets	—	378,772
Employer contributions	—	2,889,616
Employee contributions	—	10,134
Benefits paid	<u>(29,533)</u>	<u>(5,704,030)</u>
Fair value at end of year	—	29,533
Funded status – plan surplus	—	29,533
Unamortized net actuarial loss	—	—
Unamortized transitional obligation	<u>—</u>	<u>—</u>
Pension receivable (accrued benefit asset)	<u>\$ —</u>	<u>\$ 29,533</u>

POLARIS HOLDING COMPANY LIMITED

Notes to Consolidated Financial Statements

March 31, 2011

(Expressed in Bermuda Dollars)

10. Employee pension benefits (continued)

The Company's net defined benefit plan expense is as follows:

	<u>2011</u>	<u>2010</u>
Current service cost	\$ —	\$ 21,969
Interest cost	—	152,001
Expected loss on plan assets	—	(52,645)
Amortization of net actuarial loss	—	2,349,173
Amortization of transitional obligation	—	<u>175,020</u>
Net defined benefit plan expense	\$ —	<u>\$ 2,645,518</u>

On December 14, 2009, the former members of the Company's defined benefit pension plan became members of the Company's defined contribution plan and were given the option to transfer their accrued benefits from the defined benefit pension plan into the defined contribution plan.

The total expense incurred for the defined contribution plan was \$218,114 (2010 - \$235,251).

The total pension benefits expense is included in employee benefits in the consolidated statement of operations. Employee benefits also include the expense of providing health insurance benefits to employees during the term of their employment.

11. Share capital

The Company's authorized share capital is \$2,000,000 represented by 2,000,000 common shares of par value \$1 each. At the balance sheet date 1,244,600 (2010 - 1,244,600) shares were issued and fully paid. As explained in Note 1, Polaris Holding Company Limited was created to facilitate the restructuring of the Stevedoring Services Limited group by way of a court approved Scheme of Arrangement (the "Scheme"). The Scheme was the vehicle by which the shares of Stevedoring Services Limited were transferred to Polaris Holding Company Limited on the same basis as they were held in Stevedoring Services Limited, and these new shares replaced the shares of Stevedoring Services Limited listed on the Bermuda Stock Exchange. The Scheme became effective on March 28, 2011 after shareholder and Supreme Court approval.

As at March 31, 2011, the total directors' and officers' shareholdings were 61,211 (2010 - 61,211) shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer.

12. Related party transactions

Bermuda Container Line Ltd., Meyer Agencies Ltd. and First Bermuda Group Ltd. are companies which are related by virtue of common significant influence by directors of the Company.

During the year, the Company earned revenues from Bermuda Container Line Ltd., of \$4,290,460 (2010 - \$4,398,123). Included in accounts receivable at year end is \$483,753 (2010 - \$424,505) due from Bermuda Container Line Ltd.

The Company also earned revenues of \$5,616,796 (2010 - \$5,750,739) from Meyer Agencies Ltd. Included in accounts receivable as at March 31, 2010 is \$713,475 (2010 - \$185,098) due from Meyer Agencies Ltd.

As at March 31, 2010, the Company had cash of \$310,190 (2010 - \$306,710) on deposit at First Bermuda Group Ltd.

All related party transactions are in the normal course of operations and are measured at the exchange amount which is the consideration established and agreed to between the related parties.

POLARIS HOLDING COMPANY LIMITED

Notes to Consolidated Financial Statements

March 31, 2011

(Expressed in Bermuda Dollars)

13. **Share premium**

Share premium represents amounts received on subscription for share capital in excess of the stated par value.

14. **Earnings (loss) per share**

Earnings (loss) per share is computed by dividing net income (loss) by the monthly weighted average number of shares outstanding during the year.

15. **Financial instruments**

(a) Fair value

The fair value of cash and cash equivalents, short-term deposits, accounts receivable and accounts payable and accrued expenses approximates their carrying value due to their short-term maturity. The fair value of investments is based on quoted market prices and is presented in Note 5.

The fair values of the capital lease obligation and long-term debt approximate their carrying values as they attract interest rates that approximate market rates.

Certain items such as inventory, property, plant and equipment and prepaid expenses are excluded from fair value disclosure. Thus the total fair value amounts cannot be aggregated to determine the underlying economic value of the Company.

The table below summarizes the inputs used to value the Company's financial assets carried at fair value at March 31, 2011.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Available-for-sale investments	\$ 942,493	\$ —	\$ —	\$ 942,493
	<u>\$ 942,493</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 942,493</u>

(b) Credit risk

A concentration of credit risk exists when there are significant contracts with individual counterparties or when groups of issuers or counterparties have similar business characteristics that would cause their ability to meet contractual commitments to be adversely affected, in a similar manner, by changes in the economy or other market conditions.

At March 31, 2011, 63% (2010 - 51%) of the Company's cash and cash equivalents are held with a single Bermuda bank.

At March 31, 2011, 98% (2010 - 99%) of the Company's accounts receivable balance is due from two customers.

Management does not believe that there is any significant credit risk with respect to its cash and cash equivalents as the financial institutions at which these balances are held are regulated by the Bermuda Monetary Authority.

POLARIS HOLDING COMPANY LIMITED

Notes to Consolidated Financial Statements

March 31, 2011

(Expressed in Bermuda Dollars)

15. Financial instruments (continued)

In addition, the Company's major customers have been transacting with the Company for a number of years and losses have not occurred. Therefore, management does not believe there is significant credit risk arising from accounts receivable balances. The maximum exposure to credit risk for accounts receivable is represented by the carrying value on the balance sheet. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of accounts receivable. The ageing of accounts receivable at the reporting date is as follows:

	<u>2011</u>	<u>2010</u>
Current	\$ 851,372	\$ 607,719
Past 30 days	368,128	9,572
Past 60 days	394	501
Past 90 days	<u>1,037</u>	<u>500</u>
	1,220,931	618,292
Less: allowance for impairment	<u>(1,000)</u>	<u>(2,428)</u>
	<u>\$ 1,219,931</u>	<u>\$ 615,864</u>

The movement in the allowance for impairment in respect of accounts receivable during the year is as follows:

	<u>2011</u>	<u>2010</u>
Opening balance	\$ 2,428	\$ 22,691
Decrease in allowance	-	(19,952)
Amounts written-off	<u>(1,428)</u>	<u>(311)</u>
	<u>\$ 1,000</u>	<u>\$ 2,428</u>

(c) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect interest earned on cash and cash equivalents and interest paid on long-term debt and capital leases. Interest is earned on cash and cash equivalents at variable rates. Interest is paid on the Company's long-term debt at variable rates. Interest on the capital lease is at a fixed rate. Management does not believe that the Company is exposed to significant interest rate risk. An increase of one percent in interest rates at the reporting date would have increased shareholders' equity and net income for the year by \$23,000 (2010 - \$24,000) assuming all other variables remain constant. An equal change in the opposite direction would have decreased shareholders' equity and net income by the same amount.

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15. Financial instruments (continued)

(d) Market risk

Equity price risk arises from available-for-sale marketable securities held by the Company. The primary goal of the Company's investment strategy is to maximize investment returns. Management is assisted by external advisors in this regard. The performance of the investment portfolio is actively monitored. All of the Company's equity investments are listed on the Bermuda Stock Exchange and are classified as available for sale. A two percent increase in market prices at the reporting date, assuming all other variables remain constant, would have increased shareholders' equity by \$18,850 (2010 - \$16,270). An equal change in the opposite direction would have decreased shareholders' equity by the same amount. There would be no impact on the Company's reported net income for the year.

Management does not believe that the Company is exposed to significant currency risk, as the majority of the Company's transactions are denominated in Bermuda dollars or United States dollars and there are no significant foreign currency denominated assets and liabilities at the balance sheet date.

(e) Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company maintains sufficient cash together with cash generated from the collection of accounts receivable to meet all its liabilities as they fall due.

The table below categorizes the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are contractual undiscounted cash flows.

	Total	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years
As at March 31, 2011					
Accounts payable and accrued expenses	\$ 659,812	\$ 659,812	\$ -	\$ -	\$ -
Long-term debt	<u>1,961,076</u>	<u>256,206</u>	<u>256,206</u>	<u>512,412</u>	<u>936,252</u>
	\$ 2,620,888	\$ 916,018	\$ 256,206	\$ 512,412	\$ 936,252
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	Total	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years
As at March 31, 2010					
Accounts payable and accrued expenses	\$ 551,608	\$ 551,608	\$ -	\$ -	\$ -
Capital lease	6,475	6,475	-	-	-
Long-term debt	<u>3,134,430</u>	<u>256,206</u>	<u>256,206</u>	<u>1,024,824</u>	<u>1,597,194</u>
	\$ 3,692,513	\$ 814,289	\$ 256,206	\$ 1,024,824	\$ 1,597,194
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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16. Capital management

The Company's capital comprises shareholders' equity, which consists of share capital, share premium, general reserve, retained earnings and accumulated other comprehensive income. Polaris Holding Company Limited's capital management approach is driven by its operational requirements whilst functioning within Bermuda's economic, commercial, and regulatory environment. The Company's strategy is approved by the Board of Directors. The Board of Directors also monitors the level of dividends to ordinary shareholders. It is the Company's policy to maintain a strong capital base to support operational needs at all times, to provide returns to its shareholders and to maintain investor, creditor and market confidence, and to sustain future development of the business. The Company also maintains discipline over its investment decisions. The allocation of capital is monitored to ensure that returns are appropriate after taking account of capital cost.

Polaris Holding Company Limited's capital management policies and principles define the process by which the Company examines the risk profiles from both economic and regulatory capital viewpoints. This ensures that the minimum levels of capital are maintained to meet the following circumstances:

- i. Remain sufficient to support the Company's risk profile and outstanding commitments.
- ii. Capable of withstanding a severe economic downturn scenario.
- iii. Remain consistent with the Company's strategic and operational goals whilst maintaining the Board of Directors' and shareholders' expectations.

There were no changes to the Company's approach to capital management during the year. The Company is not exposed to externally imposed capital requirements.
