STEVEDORING SERVICES LTD.

Stevedoring Services Limited

2005 – 2006 Annual Report

Street Address: Stevedore House, 38 Front Street, Hamilton HM 12, Bermuda · Postal Address: P.O. Box HM 377, Hamilton HM BX, Bermuda
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DIRECTORS

J. Henry Hayward	Chairman
Michael J. Lohan	Deputy Chairman
Kenneth L. Joaquin	President & CEO
C. N. A. Butterfield	
W. Neville Conyers	
L. Eugene Saunders	
C. F. Alex Cooper	
E. John Thompson	Secretary

OFFICERS

Kenneth L. Joaquin
President & CEO

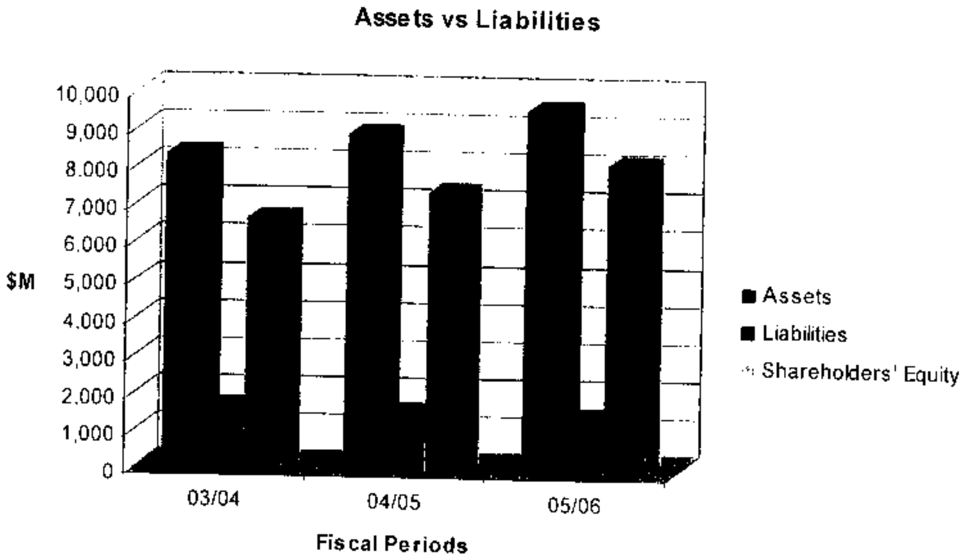
Dwight A. Furbert
Financial Controller

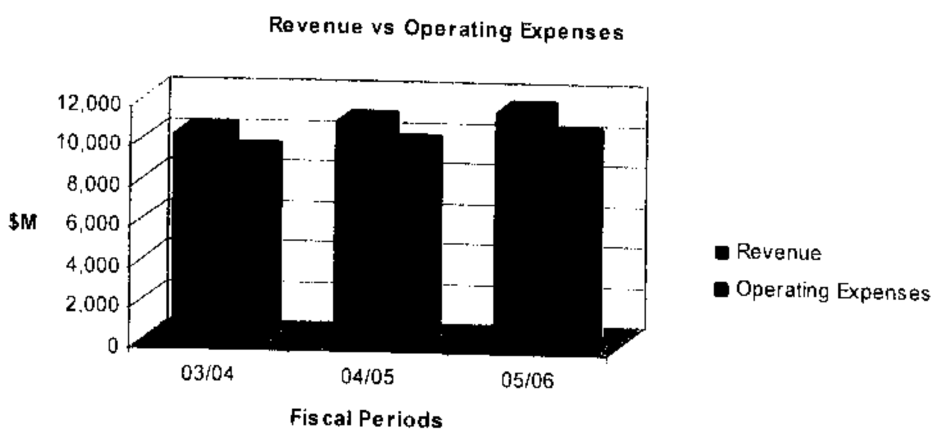
Candy-Lee Foggo
Operations Manager

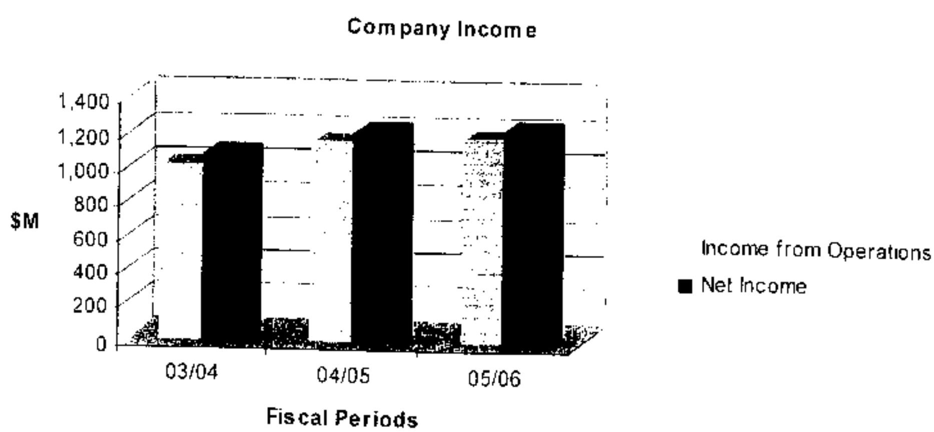
Wylie Rudo
Human resource Manager

Financial Highlights:

In BDA $	March 31, 2006	March 31, 2005	March 31, 2004
Revenue	11,508,559	10,919,278	10,301,382
Operating Expenses	10,331,488	9,948,882	9,290,001
Income from Operations	1,177,071	970,396	1,011,381
Net Income	1,227,321	1,210,593	1,072,805
Assets	9,563,422	8,904,342	8,304,556
Liabilities	1,462,534	1,532,935	1,645,902
Shareholders' Equity	8,100,888	7,371,407	6,658,654
Earnings Per Share	0.99	0.97	0.86







CHAIRMAN'S REPORT:

Terminal Operator's License:

Perhaps the most pressing issue to be discussed that was noted from my report of last year was that of the Company's Terminal License. The Terminal License is the vehicle that ensures our existence as a going concern and our ability to facilitate the Hamilton Docks. After what can be described as a protracted negotiating period the Company was able to secure a 5 year license term with a renewal option for an additional 5 years.

During this period we are looking forward to working with the Corporation of Hamilton with the common objective of maximizing the utility of the Hamilton Docks.

New Equipment:

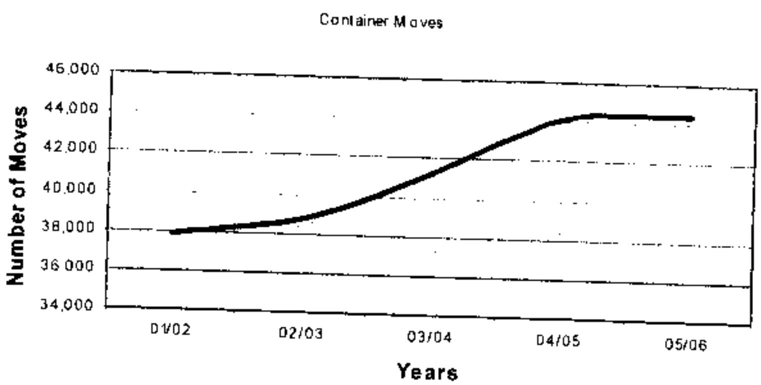
As a consequence of a license term of a more substantial nature the Company is now in a position to make sizeable capital investments in new equipment that will assist in the productivity of the operation. To that end, the Company has committed in excess of $1 million to the purchase of two new reach stackers which are expected to arrive early in the second quarter of fiscal 06/07. These vehicles will be a welcomed addition to our fleet as a major expense on the Profit & Loss statement is related to the cost of repair and maintenance of the existing fleet. It is expected that these vehicles will afford some respite in this area.

Information Technology:

As planned, I am pleased to report the Company now has an internet presence at www.stevedoring.com. The Company has posted an interactive website that provides miscellaneous information to the general public and industry specific information to our business partners. The web site is actively used and the utilization is growing. The website represents our first step in the process in automating the operation. From a broader IT perspective we are looking, firstly to make the operation as paperless as possible and secondly to provide on-line, real-time cargo information to facilitate greater operational efficiencies. To accomplish the second objective, we have partnered with Tideworks Inc.; a U.S. based company that is one of the largest providers of Dock information systems in the world. They have a strong presence in ports throughout Europe, America, South America, America and the Caribbean. It is anticipated that we will go live with their product early in the second half of fiscal 06/07.

The Year in Review

From a general perspective, whilst cargo volumes have remained relatively high given the history of the Hamilton Docks, as was anticipated and mentioned in my report for fiscal 04/05, we have realized the leveling effect on container and cargo volumes that we had expected. Container volumes experienced extremely modest growth over the last fiscal period at less than 1%; far below the respective increases for fiscals 2004 and 2005 of 6.5% and 7.6%. The insert below illustrates this point more clearly.



Despite the general comment made previously, it is more relevant to looking at the Company's two distinct operational divisions:

- The discharge of FCL (Full Container Load) containers & other cargo
- The deconsolidation of LCL (Less than Container Load) containers

Operations related to FCL & other Cargo:

This segment of the business operation still remains our core business, accounting for some 85% of the Company's gross revenue. This operation, by its nature, is the most labour intensive function that we undertake; consequently the majority of our labour costs are borne here. With volumes of cargo and corresponding revenues having remained relatively static when compared to last fiscal year the focus for the company has been cost containment by promoting greater efficiencies where possible. By actively working with our employees we have been able to achieve that objective with relative success.

Perhaps the single greatest challenge to this segment of the operation is the availability of physical space to store the cargo. Due to our new approach to handling containers we are less encumbered by the growing container volumes. However it is with other cargo types such as vehicles, trailers, loose and break-bulk cargo that we are most challenged. Because of the non-standardized shape and awkwardness of these types of cargo, finding sufficient space for them in peak operational periods becomes difficult. To address this challenge we have been working closely with the Corporation of Hamilton, consignees and are other partners to reduce cargo dwell time and remove it off the dock as quickly as possible; to date this strategy has proven effective.

Notwithstanding our ability to cope with present volumes, assuming that Hamilton Docks remain where they are over the next decade and that the volumes of all types of cargo continue to increase; eventually we will have to look at alternate avenues to provide additional space. Essentially there are two options and at some stage one or both of them will need to be employed.

Increase Stacking Density: The first option is literally to build towers. Currently we stack containers on a vertical three high basis. Using the existing foot print, if we now stack containers on a 4 high basis we can increase our current container capacity by approximately 28%. The new equipment that we are purchasing will allow for us to stack containers at this density while still retaining our same levels of efficiency.

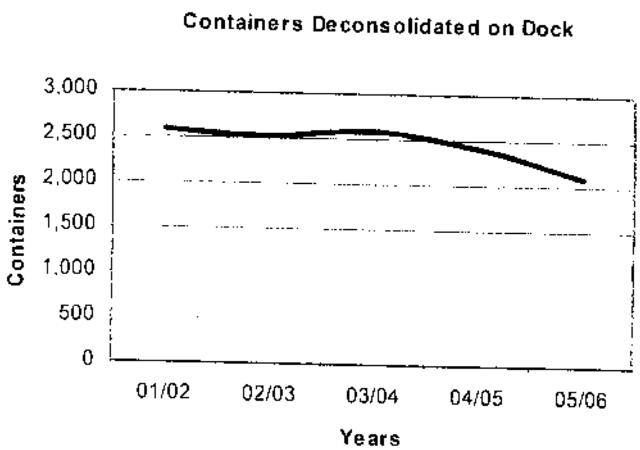
The Removal of Shed 7: The second option involves the removal of Shed 7. Doing so would create additional capacity over our current situation by a further 28%. The two options combined would increase the dock container capacity by nearly 60% and provide more than adequate flexibility for most other types of cargo, this would see the operation poised well into the next decade.

Whilst the first option is more easily implemented, option two presents some notable obstacles as are discussed below.

LCL Operation:

In April of 2005 the Company was able to secure a rate increase in the deconsolidation of LCL containers. The rate went from $350 per container to $700 per container. Whilst a 100% rate increase may seem drastic, at a rate of $350 per container the Company recouped about 1/3 of the total associated unit stripping cost. Faced with the increased pressure of rising costs in this area the Company could no longer afford to subsidize this operation through its other activities at this level.

As is indicated by the graph below, as a consequence of the increased deconsolidation rate and to a larger extent much of the uncertainty surrounding the future of Shed 7 the company has seen the lowest volumes in this segment than in the past 15 years. Indications for the early part of fiscal 06/07 are that this trend is likely to continue.



There remains quite a bit of uncertainty surrounding the future of the LCL Operation. As was planned, Shed 8 was removed in the early part of this fiscal year. This proved extremely beneficial as it was instrumental in allowing for greater dock capacity, better container handling efficiency and faster inventory turnaround. However, as we were advised by the Corporation of Hamilton, this was to be the first phase of a process that would ultimately see the removal of Shed 7. The Corporation of Hamilton is yet to commit to when or if the removal of Shed 7 will occur. Many of our major LCL customers have either already made plans or are in the process of making alternate plans for their cargo in contemplation of the removal of Shed 7. The Corporation of Hamilton has elected to adopt a measured approach to determine how they will address the future status of Shed 7.

Corporation of Hamilton's Planned City Waterfront Development

It would be remiss of me not to mention in my report the proposal that has been put forward by the Corporation of Hamilton for the development of the City's waterfront. The Corporation's plan, as a quintessential component, calls for the relocation of the Hamilton Container Dock to, at this point, an undisclosed location. With the plan calling for the better part of a billion dollars in capital and extensive remodeling of Front Street I don't believe it would be inappropriate to call the plan extremely ambitious.

However, as little information is known as to:

1. Where the Hamilton Container Docks will be relocated.
2. Who will build another container port
3. How much it will cost
4. When this will all occur

We have elected to take a guarded wait and see approach and when more definitive information becomes available we will act accordingly.

Conclusion

In closing I would like to thank the employees of Stevedoring Services Ltd., for without their commitment and on-going dedication none of the success the Company has enjoyed over the past year would have been possible.

J. Henry Hayward
Chairman

KPMG
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Stevedoring Services Limited as at March 31, 2006 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2006 and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

KPMG

Chartered Accountants
Hamilton, Bermuda
July 3, 2006

STEVEDORING SERVICES LIMITED

Consolidated Balance Sheet

March 31, 2006
(Expressed in Bermuda Dollars)

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	$ 1,261,184	$ 961,281
Short-term deposits (Note 3)	1,147,168	1,295,286
Accounts receivable	1,370,198	973,934
Inventory	996,771	1,082,615
Prepaid expenses	200,150	70,041
Total current assets	4,975,471	4,383,157
Investments available-for-sale (Note 3)	700,423	529,927
Property, plant and equipment (Notes 5 and 7)	3,887,528	3,991,258
Total assets	$ 9,563,422	$ 8,904,342
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued expenses	$ 640,568	$ 743,598
Capital lease (Note 7)	60,343	–
Total current liabilities	700,911	743,598
Accrued benefit liability (Note 6)	546,700	789,337
Capital lease (Note 7)	214,923	–
Total liabilities	1,462,534	1,532,935
Shareholders' equity		
Share capital (Note 8)	1,244,600	1,244,600
Share premium (Note 9)	122,650	122,650
General reserve	1,250,000	1,250,000
Retained earnings	5,483,638	4,754,157
Total shareholders' equity	8,100,888	7,371,407
Total liabilities and shareholders' equity	$ 9,563,422	$ 8,904,342

See accompanying notes to consolidated financial statements

Signed on behalf of the Board by:

J. Henry Hayward Chairman

Kenneth Joaquin Director

STEVEDORING SERVICES LIMITED

Consolidated Statement of Operations and Retained Earnings

Year Ended March 31, 2006
(Expressed in Bermuda Dollars)

	2006	2005
Income		
Stevedoring revenue	$ 11,508,559	$ 10,919,278
Stevedoring expenses	(5,794,760)	(5,578,686)
Stevedoring income	5,713,799	5,340,592
Gain on sale of capital asset	-	183,500
Investment income	50,250	56,697
Total income	5,764,049	5,580,789
Expenses		
Salaries	1,965,939	1,770,081
Employee benefits (Note 6)	803,777	773,377
Professional fees	197,756	160,006
Other general and administrative (Note 7)	903,378	887,480
Amortization (Note 5)	665,878	779,252
Total expenses	4,536,728	4,370,196
Net income	1,227,321	1,210,593
Retained earnings at beginning of year	4,754,157	4,041,404
Dividends	(497,840)	(497,840)
Retained earnings at end of year	$ 5,483,638	$ 4,754,157
Earnings per share (Note 10)	$ 0.99	$ 0.97

See accompanying notes to consolidated financial statements

1. **General**

Stevedoring Services Limited (the "Company") is incorporated under the laws of Bermuda and carries on business as a Stevedoring Company. In January 2006 Stevedoring Services Limited was awarded a 5 year license, with provision for a further period of 5 years subject to satisfactory performance. Management believes that it will continue to meet performance criteria and will therefore achieve renewal of the license.

The Company's wholly-owned subsidiary, Equipment Sales and Rentals Limited, has not traded since March 31, 1989.

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. 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, on a line-by-line basis, the accounts and results of operations of the Company and its wholly-owned subsidiary. All significant inter-company transactions are eliminated on consolidation.

(b) *Income recognition*

Stevedoring revenues and expenses include stevedoring, deconsolidation and dock handling revenues and expenses, are recognized on the accruals basis.

(c) *Property, plant and equipment*

Property, plant and equipment are recorded at cost and are amortized on a straight-line basis over their estimated useful lives (Note 5). Improvements to leased premises are capitalized and amortized over the related lease period.

(d) *Short-term deposits and investments available-for-sale*

Investments are carried at cost less a provision for any loss in value, on an individual basis, that is other than a temporary decline. Interest income is recognized on the accruals basis. Dividend income is recognized on the ex-div date. Realized gains and losses on the sale of investments available-for-sale are recorded on the trade date and are determined using the specific identification basis.

(e) *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 a maturity of three months or less as equivalent to cash.

(f) *Employee defined benefits plan*

The Company accrues its obligations under employee benefits plans and the related costs, net of plan assets. The Company has adopted the following policies:

STEVEDORING SERVICES LIMITED

Consolidated Statement of Cash Flows

Year Ended March 31, 2006
(Expressed in Bermuda Dollars)

	2006	2005
Operating activities		
Net income	$ 1,227,321	$ 1,210,593
Items not affecting cash:		
Amortization	665,878	779,252
Gain on sale of capital assets	-	(183,500)
Net changes in non-cash working capital balances:		
Increase in accounts receivable	(396,264)	(35,886)
(Increase) decrease in prepaid expenses	(130,109)	11,759
Decrease in inventory	85,844	-
Decrease in accounts payable and accrued expenses	(103,030)	(19,423)
Decrease in accrued benefit liability	(242,637)	(93,544)
Cash provided by operations	1,107,003	1,669,251
Investing activities		
Proceeds on sale of property, plant and equipment	-	183,500
Purchase of property, plant and equipment	(286,882)	(465,219)
Proceeds from maturities of short-term deposits, net	148,118	1,570,477
Purchase of quoted investments, net	(170,496)	(2,018,750)
Cash used in investing activities	(309,260)	(729,992)
Financing activities		
Dividends paid	(497,840)	(497,840)
Cash used in financing activities	(497,840)	(497,840)
Net increase in cash and cash equivalents	299,903	441,419
Cash and cash equivalents at beginning of year	961,281	519,862
Cash and cash equivalents at end of year	$ 1,261,184	$ 961,281

See accompanying notes to consolidated financial statements

(Expressed in Bermuda Dollars)

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

(f) *Employee defined benefits plan* (continued)

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan 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 average remaining service period of the active employees covered by the pension plan is 7 years (2005 - 7 years).

(g) *Inventory*

Inventory represents spare parts and is recorded at cost basis.

3. **Short-term deposits and investments available-for-sale**

(a) Short-term deposits represent fixed deposit balances which carry interest rates of between 1.85% and 3.60% (2005 - 1.50% and 6.00%). The short-term deposits mature within six months of the balance sheet date.

(b) Investments available-for-sale comprise the following:

	2006		2005	
	Fair value	Cost	Fair value	Cost
Equity securities	$ 1,357,716	$ 700,423	$ 968,859	$ 529,927

The Company's holdings in equity securities are diversified, with no significant concentration by industry type or geographic region.

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.

4. **Concentration of Credit Risk**

At March 31, 2006, 77% of the Company's cash and cash equivalents were held with a single Bermuda bank (2005 - 80%). In addition, at March 31, 2006 100% of the Company's short-term deposits were held at the same Bermuda bank (2005 - 92%).

At March 31, 2006, 73% of the Company's accounts receivable are due from two customers (2005 - 86%).

(Expressed in Bermuda Dollars)

5. **Property, plant and equipment**

Property, plant and equipment consists of the following:

	Estimated Life	2006 Cost	2006 Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Land	–	$ 61,992	$ –	$ 61,992	$ 61,992
Buildings	10 years	368,066	257,447	110,619	113,003
Cranes and heavy equipment	10 years	6,995,299	3,870,868	3,124,431	3,496,472
Miscellaneous equipment	3-5 years	853,513	799,008	54,505	118,394
Furniture and fixtures	3-4 years	431,942	390,838	41,104	32,133
Computer hardware and software	3-5 years	1,612,898	1,118,021	494,877	169,264
		$ 10,323,710	$ 6,436,182	$ 3,887,528	$ 3,991,258

Included within computer hardware and software are items costing $327,000 which are held under capital leases (see Note 7). The accumulated amortization at March 31, 2006 and amortization expense for the year then ended totalled $59,992.

6. **Employee pension benefits**

The Company's employees participate in a contributory defined benefit pension plan. The pension plan provides pension benefits based on the length of service and career earnings.

Information about the Company's defined benefit plan is as follows:

	2006	2005
Accrued benefit obligation		
Balance at beginning of year	$ 4,617,880	$ 7,046,079
Current service cost	113,997	108,937
Interest cost	245,417	353,453
Benefits paid	(504,340)	(2,962,407)
Employees contributions	78,836	71,818
Actuarial loss	510,356	–
Balance at end of year	5,062,146	4,617,880
Plan assets		
Fair value at beginning of year	1,703,756	3,968,198
Actual return on plan assets	123,444	169,747
Employer contribution	716,232	456,400
Employees' contributions	78,836	71,818
Benefits paid	(504,340)	(2,962,407)
Fair value at end of year	2,117,928	1,703,756
Funded status – plan deficit	(2,944,218)	(2,914,124)
Unamortized net actuarial loss	1,959,968	1,599,727
Unamortized transitional obligation	437,550	525,060
Accrued benefit liability	$ (546,700)	$ (789,337)

(Expressed in Bermuda Dollars)

6. **Employee benefits** (continued)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	2006	2005
Discount rate	5.50%	5.50%
Expected long-term rate of return on plan assets	6.25%	6.25%
Rate of compensation increase	3.00%	3.00%

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

	2006	2005
Current service cost, net of employee contributions	$ 113,997	$ 108,937
Interest cost	245,417	353,453
Expected return on plan assets	(115,570)	(355,990)
Amortization of net actuarial loss	142,242	168,945
Amortization of transitional obligation	87,510	87,510
Net benefit plan expense	$ 473,596	$ 362,855

The assumptions used above are based on an actuarial study performed at April 1, 2004.

On April 1, 1997, the Company established a defined contribution plan for all new employees. On inception of the new plan, no new members were admitted to the contributory defined benefit plan described above. Existing members of the contributory defined benefits plan were given the option to transfer their accrued benefits into the defined contribution plan. There have been no changes to the plan in the year to March 31, 2006.

The total expense for the Company's defined contribution plan is $189,013 (2005 - $143,933).

Employee benefits included in the consolidated statement of operations also includes the expense of providing health insurance benefits to employees during the term of their employment.

(Expressed in Bermuda Dollars)

7. **Obligation under capital leases**

The Company entered into a new capital lease for computer software during the year which is scheduled to continue in perpetuity with lease payments due over a 5 year period up to April 2010. The total future minimum lease payments, discounted at a rate of 7%, are as follows:

2007	$ 77,700
2008	77,700
2009	77,700
2010	77,700
2011	12,950
	323,750
Less interest	(48,484)
Total of obligations under capital leases	275,266
Less current portion	(60,343)
Long-term portion of obligation under capital lease	$ 214,923

During the year ended March 31, 2006 the Company made payments of $71,225 in relation to the above lease, including an interest expense of $19,491 which has been recognized within other general and administrative expenses.

8. **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 shares were issued and fully paid.

As at March 31, 2006, the total directors' and officers' shareholdings were 61,211 shares. No rights to subscribe for shares in the Company have been granted to or exercised by any Director or Officer.

9. **Share premium**

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

10. **Earnings per share**

Earnings per share figures are based on the monthly weighted average number of shares outstanding during the year.

11. **Fair value of financial instruments**

The fair value of short-term deposits, accounts receivable and accounts payable and accrued liabilities approximates the carrying value due to their short-term maturity. The fair value of investments available-for-sale are based on quoted market prices and is presented in Note 3.

The fair value of the capital lease liability approximates fair value as it has an interest rate that approximates market rates.

12. **Subsequent event**

In April 2006 the Company secured a loan of $1,040,000 from a local Bermuda bank for the purchase of 2 Lierbherr Reachstackers. It is expected that these two pieces of equipment will be delivered during July 2006. Thereafter, the loan is repayable over 5 years through monthly payments of $20,594.

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