

**STEVEDORING SERVICES LIMITED**

**Consolidated Financial Statements**  
(With Independent Auditors' Report Thereon)

March 31, 2010



**KPMG**  
Crown House  
4 Par-la-Ville Road  
Hamilton HM 08, Bermuda  
Mailing Address:  
P.O. Box HM 906  
Hamilton HM DX, Bermuda

Telephone 441 295 5063  
Fax 441 295 9132  
Internet [www.kpmg.bm](http://www.kpmg.bm)

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the consolidated balance sheet of Stevedoring Services Limited as at March 31, 2010 and the consolidated statements of operations, retained earnings, comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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 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, 2010 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 12, 2010

**STEVEDORING SERVICES LIMITED**

Consolidated Balance Sheet

March 31, 2010

(Expressed in Bermuda Dollars)

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 3)	\$ 5,024,424	\$ 760,662
Short-term deposits (Note 4)	-	2,380,299
Accounts receivable (Notes 13 and 16)	615,864	1,222,927
Inventory (Note 5)	1,016,072	1,014,288
Prepaid expenses	166,536	185,033
Pension receivable (Note 11)	<u>29,533</u>	<u>-</u>
Total current assets	6,852,429	5,563,209
Investments (Note 6)	813,826	706,612
Property, plant and equipment (Note 8)	<u>3,734,188</u>	<u>4,362,478</u>
Total assets	<u>\$ 11,400,443</u>	<u>\$ 10,632,299</u>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 551,608	\$ 839,578
Capital lease - current portion (Note 9)	6,437	74,398
Long-term debt - current portion (Note 10)	<u>362,224</u>	<u>221,335</u>
Total current liabilities	920,269	1,135,311
Long-term debt (Note 10)	2,242,759	305,354
Accrued benefit liability (Note 11)	-	214,566
Capital lease - long-term portion (Note 9)	<u>-</u>	<u>6,437</u>
Total liabilities	<u>3,163,028</u>	<u>1,661,668</u>
<b>Shareholders' equity</b>		
Share capital (Note 12)	1,244,600	1,244,600
Share premium (Note 14)	122,650	122,650
General reserve	1,250,000	1,250,000
Retained earnings	5,101,798	5,942,228
Accumulated other comprehensive income	<u>518,367</u>	<u>411,153</u>
Total shareholders' equity	<u>8,237,415</u>	<u>8,970,631</u>
Total liabilities and shareholders' equity	<u>\$ 11,400,443</u>	<u>\$ 10,632,299</u>

See accompanying notes to consolidated financial statements

Signed on behalf of the Board by:

  
 J. Henry Hayward  
 Chairman

  
 Michael Lohan  
 Director

**STEVEDORING SERVICES LIMITED**

## Consolidated Statement of Operations

Year ended March 31, 2010  
(Expressed in Bermuda Dollars)

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	<u>2010</u>	<u>2009</u>
<b>Revenue</b>		
Stevedoring revenue (Note 13)	\$ 10,359,247	\$ 10,302,207
Stevedoring expenses	<u>4,972,739</u>	<u>5,709,554</u>
Stevedoring gross profit	5,386,508	4,592,653
Investment income (Note 7)	<u>67,904</u>	<u>79,422</u>
Total income	<u>5,454,412</u>	<u>4,672,075</u>
<b>Expenses</b>		
Employee benefits (Note 11)	3,109,354	803,908
Salaries and wages	1,442,812	1,471,254
General and administrative expenses	748,199	871,304
Amortization (Note 8)	693,125	720,606
Professional fees	238,068	356,433
Interest expense	<u>63,284</u>	<u>48,992</u>
Total expenses	<u>6,294,842</u>	<u>4,272,497</u>
Net (loss) income	<u>\$ (840,430)</u>	<u>\$ 399,578</u>
(Loss) earnings per share (Note 15)	<u>\$ (0.68)</u>	<u>\$ 0.32</u>

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*See accompanying notes to consolidated financial statements*

**STEVEDORING SERVICES LIMITED**

Consolidated Statement of Retained Earnings

Year ended March 31, 2010  
*(Expressed in Bermuda Dollars)*

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	<u>2010</u>	<u>2009</u>
Retained earnings at beginning of year	\$ 5,942,228	\$ 6,040,489
Net (loss) income	(840,430)	399,578
Dividends (Note 12)	<u>—</u>	<u>(497,839)</u>
Retained earnings at end of year	<u>\$ 5,101,798</u>	<u>\$ 5,942,228</u>

*See accompanying notes to consolidated financial statements*

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**STEVEDORING SERVICES LIMITED**

## Consolidated Statement of Comprehensive Income

Year ended March 31, 2010

*(Expressed in Bermuda Dollars)*

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	<u>2010</u>	<u>2009</u>
<b>Comprehensive income</b>		
Net (loss) income	\$ (840,430)	\$ 399,578
Other comprehensive income:		
Change in unrealized gains and losses on available-for-sale investments arising during the year	<u>107,214</u>	<u>(168,131)</u>
<b>Total comprehensive (loss) income</b>	<u>\$ (733,216)</u>	<u>\$ 231,447</u>
<b>Accumulated other comprehensive income at beginning of year</b>	\$ 411,153	\$ 579,284
Other comprehensive income	<u>107,214</u>	<u>(168,131)</u>
<b>Accumulated other comprehensive income at end of year</b>	<u>\$ 518,367</u>	<u>\$ 411,153</u>

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*See accompanying notes to consolidated financial statements*

**STEVEDORING SERVICES LIMITED**

## Consolidated Statement of Cash Flows

Year ended March 31, 2010

*(Expressed in Bermuda Dollars)*

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	<u>2010</u>	<u>2009</u>
<b>Operating activities</b>		
Net (loss) income	\$ (840,430)	\$ 399,578
Items not affecting cash:		
Amortization	693,125	720,606
Net changes in non-cash working capital balances:		
Decrease (increase) in accounts receivable	607,063	(129,162)
Decrease in prepaid expenses	18,497	35,446
(Increase) decrease in inventory	(1,784)	3,121
Decrease in accounts payable and accrued expenses	(287,970)	(105,603)
Change in accrued benefit liability/asset	<u>(244,099)</u>	<u>(123,272)</u>
Net cash (used in) provided by operations	<u>(55,598)</u>	<u>800,714</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(64,835)	(1,001,263)
Decrease (increase) in short-term deposits, net	<u>2,380,299</u>	<u>(208,489)</u>
Net cash provided by (used in) investing activities	<u>2,315,464</u>	<u>(1,209,752)</u>
<b>Financing activities</b>		
Dividends paid	—	(497,839)
Proceeds received from long-term debt	2,693,934	—
Long-term debt principal repayments	(615,640)	(206,453)
Capital lease principal repayments	<u>(74,398)</u>	<u>(69,383)</u>
Net cash provided by (used in) financing activities	<u>2,003,896</u>	<u>(773,675)</u>
Increase (decrease) in cash and cash equivalents	4,263,762	(1,182,713)
Cash and cash equivalents at beginning of year	<u>760,662</u>	<u>1,943,375</u>
Cash and cash equivalents at end of year	<u>\$ 5,024,424</u>	<u>\$ 760,662</u>
<b>Cash flows in relation to:</b>		
Interest paid	<u>\$ 63,284</u>	<u>\$ 48,992</u>

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*See accompanying notes to consolidated financial statements*

# STEVEDORING SERVICES LIMITED

## Notes to Consolidated Financial Statements

March 31, 2010

*(Expressed in Bermuda Dollars)*

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### 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, the Company was awarded a 5 year license by the Corporation of Hamilton, with provisions for a further license of 5 years subject to satisfactory performance. Management believes that the Company will continue to meet the requirements of the Corporation of Hamilton and will therefore receive renewal of the license.

As of the reporting date, Stevedoring Services Limited has not secured renewal of the license agreement. Even though the current license agreement is due to expire in January 2011, the Corporation of Hamilton has provided Stevedoring Services Limited with a non-binding comfort letter indicating that the Corporation is confident that the license agreement will be renewed before the expiration date. Management continues to work very closely with the Corporation of Hamilton to finalize the terms and conditions of the Terminal Operator's License for the Port of Hamilton Docks.

The Company has consolidated the results of its wholly-owned subsidiaries, Equipment Sales and Rentals and Mills Reach Holdings Limited. Both companies are incorporated in Bermuda. Mills Reach Holding Limited was incorporated on February 10, 2010. At a Board of Directors meeting held on February 24, 2010, it was decided and approved that Stevedoring Services Limited would transfer certain of its property, plant and equipment at carrying value to its subsidiaries as part of a group reorganization.

### 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, investment fair value and assets and obligations related to employee future benefits. 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 short-term and bank deposits. Dividend income is recognized when the right to receive payment is established. Interest income is recognized on the accruals basis.

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# STEVEDORING SERVICES LIMITED

## Notes to Consolidated Financial Statements

March 31, 2010

*(Expressed in Bermuda Dollars)*

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### 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.

Short-term deposits and 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.

#### *(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.

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# STEVEDORING SERVICES LIMITED

## Notes to Consolidated Financial Statements

March 31, 2010

*(Expressed in Bermuda Dollars)*

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

#### *(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 is 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.

#### *(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.

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# STEVEDORING SERVICES LIMITED

## Notes to Consolidated Financial Statements

March 31, 2010

(Expressed in Bermuda Dollars)

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

#### (k) *New accounting pronouncements*

##### *Classification of impairment of financial assets*

In August 2009, the Canadian Institute of Chartered Accountants (“CICA”) amended Section 3855, *Financial Instruments – Recognition and Measurement*, to achieve substantial consistency with International Financial Reporting Standards (“IFRS”) and adopt the definition of loans and receivables from IFRS. The amendments were effective for the Company commencing April 1, 2009. The new definition of loans and receivables allows debt securities not quoted in an active market to be classified as loans and carried at amortized cost, or permits the Company to designate these instruments as available-for-sale, measured at fair value with unrealized gains and losses recorded through other comprehensive income. The amendments have no impact on the Company’s financial statements.

##### *Financial instrument disclosures*

In June 2009, the CICA issued amendments to Section 3863, *Financial Instruments - Disclosure* to expand disclosures of financial instruments consistent with new disclosure requirements made under IFRS. These amendments were effective for the Company commencing April 1, 2009 and introduce a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of instruments. The fair values of the three levels are based on:

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – models using observable inputs other than quoted market prices
- Level 3 – models using inputs that are not based on observable market data

The Company classifies its investments in equity securities as Level 1.

In February 2008, “CICA” issued Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced existing Handbook Section 3062, *Goodwill and Other Intangible Assets*, and Handbook Section 3450, *Research and Development*. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for the Company’s fiscal year commencing April 1, 2009. The adoption of this standard has had no impact on the Company’s financial statements.

#### (l) *Future accounting pronouncements*

The CICA 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, 2011 and will require the restatement of 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.

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**STEVEDORING SERVICES LIMITED**

## Notes to Consolidated Financial Statements

March 31, 2010

*(Expressed in Bermuda Dollars)***3. Cash and cash equivalents**

The effective interest rate earned on cash and cash equivalents for the year ended March 31, 2010 is 1.24% (2009 - 2.57%).

**4. Short-term deposits**

Short-term deposits represent fixed deposit balances at March 31, 2009 which carried interest rates of between 1.25% and 2.25% per annum. Short-term deposits mature within six months of the balance sheet date.

**5. Inventory**

Inventory of \$1,016,072 (2009 - \$1,014,288) is stated net of a provision for obsolescence of \$205,500 (2009 - \$120,000). Inventory recognized as an expense amounted to \$438,718 (2009 - \$733,826) and is included in stevedoring expenses in the consolidated statement of operations. There was no write-off of inventory in the current year (2009 - \$Nil).

**6. Available-for-sale investments**

Available-for-sale investments comprise the following:

	2010		2009	
	Fair value	Cost	Fair value	Cost
Equity securities	\$ 813,826	\$ 295,459	\$ 706,612	\$ 295,459

At March 31, 2010, 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 30.6% (2009 - 39%) and an insurance company with global operations 69.4% (2009 - 61%).

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.

**7. Investment income**

Investment income comprises of the following:

	2010	2009
Dividend income	\$ 35,339	\$ 22,812
Interest income	<u>32,565</u>	<u>56,610</u>
	\$ 67,904	\$ 79,422

**STEVEDORING SERVICES LIMITED**

## Notes to Consolidated Financial Statements

March 31, 2010

*(Expressed in Bermuda Dollars)***8. Property, plant and equipment**

	Estimated life		2010		2009
		Cost	Accumulated amortization	Net book value	Net book value
Land	—	\$ 61,992	\$ —	\$ 61,992	\$ 61,992
Buildings	10 years	296,041	243,028	53,013	69,289
Cranes and heavy equipment	10 years	9,201,038	5,681,434	3,519,604	3,995,968
Miscellaneous equipment	3-5 years	729,755	726,254	3,501	23,724
Furniture and fixtures	3-4 years	293,015	277,983	15,032	32,751
Computer hardware and software	3-5 years	<u>1,788,823</u>	<u>1,707,777</u>	<u>81,046</u>	<u>178,754</u>
		<u>\$ 12,370,664</u>	<u>\$ 8,636,476</u>	<u>\$ 3,734,188</u>	<u>\$ 4,362,478</u>

The cost and accumulated amortization of property, plant and equipment at March 31, 2009 were \$12,306,715 and \$7,944,237, respectively.

Included within computer hardware and software are items costing \$327,000 (2009 - \$327,000) which are held under capital leases and are being amortized over a period of 5 years (Note 9). The accumulated amortization in respect of leased assets at March 31, 2010 is \$321,628 (2009 - \$256,264) and amortization expense for the year then ended totaled \$65,364 (2009 - \$65,543).

**9. Obligations under capital lease**

The Company leases computer software under a capital lease with lease payments due over a 5 year period up to April 2010. The effective interest rate imputed under the lease is 7% per annum. The expected future minimum lease payments by financial year are as follows:

2011	\$ 6,475
Less: interest	<u>(38)</u>
Total obligations under capital lease	<u>\$ 6,437</u>

During the year ended March 31, 2010 the Company made payments of \$77,700 (2009 - \$77,700) in relation to the above lease, including an interest expense of \$3,301 (2009 - \$8,317). The capital lease is secured against the underlying leased assets.

# STEVEDORING SERVICES LIMITED

## Notes to Consolidated Financial Statements

March 31, 2010

*(Expressed in Bermuda Dollars)*

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### 10. 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, 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 2010 was 6.15%. The loan is secured by a debenture over the heavy equipment assets held by Stevedoring Services Limited and a collateralized fixed deposit.

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

2011	\$	362,224
2012		385,221
2013		409,591
2014		435,503
2015		463,054
2016		492,349
2017		<u>57,041</u>
	\$	<u>2,604,983</u>

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**STEVEDORING SERVICES LIMITED**

## Notes to Consolidated Financial Statements

March 31, 2010

*(Expressed in Bermuda Dollars)***11. 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 is settled, all remaining unrecognized gains or losses and transitional obligations must be recognized immediately. The total cash contributions made by the Company during the year were \$2,889,616 (2009 - \$751,945) and consist 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>2010</u>	<u>2009</u>
Accrued benefit obligation		
Balance at beginning of year	\$ 5,875,993	\$ 5,597,040
Current service cost	21,969	145,809
Interest cost	152,001	273,986
Benefits paid	(5,704,030)	(447,718)
Employee contributions	10,134	67,259
Actuarial loss	(356,067)	239,617
Balance at end of year	—	5,875,993
Plan assets		
Fair value at beginning of year	2,455,041	2,696,096
Actual return (loss) on plan assets	378,772	(612,541)
Employer contributions	2,889,616	751,945
Employee contributions	10,134	67,259
Benefits paid	(5,704,030)	(447,718)
Fair value at end of year	29,533	2,455,041
Funded status – plan surplus (deficit)	29,533	(3,420,952)
Unamortized net actuarial loss	—	3,031,366
Unamortized transitional obligation	—	175,020
Pension receivable (accrued benefit asset liability)	\$ 29,533	\$ (214,566)

# STEVEDORING SERVICES LIMITED

## Notes to Consolidated Financial Statements

March 31, 2010

(Expressed in Bermuda Dollars)

### 11. Employee pension benefits (continued)

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

	<u>2010</u>	<u>2009</u>
Discount rate	—	5.00%
Expected long-term rate of return on plan assets	—	5.00%
Rate of compensation increase	—	4.00%

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

	<u>2010</u>	<u>2009</u>
Current service cost	\$ 21,969	\$ 145,809
Interest cost	152,001	273,986
Expected loss on plan assets	(52,645)	(201,729)
Amortization of net actuarial loss	2,349,173	323,096
Amortization of transitional obligation	<u>175,020</u>	<u>87,510</u>
Net defined benefit plan expense	<u>\$ 2,645,518</u>	<u>\$ 628,672</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 \$235,251 (2009 - \$146,986).

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

### 12. 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 (2009 - 1,244,600) shares were issued and fully paid.

As at March 31, 2010, the total directors' and officers' shareholdings were 61,211 (2009 - 61,211) shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer.

During the year ended March 31, 2009 the Company declared dividends of \$0.40 per share resulting in a total dividend of \$497,839 for the year. There were no dividends declared in the current year.



# STEVEDORING SERVICES LIMITED

## Notes to Consolidated Financial Statements

March 31, 2010

*(Expressed in Bermuda Dollars)*

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### 13. **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 \$4,398,123 (2009 - \$4,348,459). Included in accounts receivable at year end is \$424,505 (2009 - \$442,494) due from Bermuda Container Line Ltd.

The Company also earned revenues of \$5,750,739 (2009 - \$5,533,974) from Meyer Agencies Ltd. Included in accounts receivable as at March 31, 2010 is \$185,098 (2009 - \$796,778) due from Meyer Agencies Ltd.

As at March 31, 2010, the Company had cash of \$306,710 (2009 - \$302,153) 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.

### 14. **Share premium**

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

### 15. **(Loss) earnings per share**

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

### 16. **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 6.

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.

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**STEVEDORING SERVICES LIMITED**

## Notes to Consolidated Financial Statements

March 31, 2010

*(Expressed in Bermuda Dollars)***16. Financial instruments (continued)***(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, 2010, 51% (2009 - 60%) of the Company's cash and cash equivalents are held with a single Bermuda bank. In addition, at March 31, 2009 100% of the Company's short-term deposits were held with one Bermuda bank.

At March 31, 2010, 89% (2009 - 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 and short-term deposits as the financial institutions at which these balances are held are well established.

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>2010</u>	<u>2009</u>
Current	\$ 607,719	\$ 902,647
Past 30 days	9,572	303,525
Past 60 days	501	16,757
Past 90 days	<u>500</u>	<u>22,689</u>
	618,292	1,245,618
Less: allowance for impairment	<u>(2,428)</u>	<u>(22,691)</u>
	<u>\$ 615,864</u>	<u>\$ 1,222,927</u>

**STEVEDORING SERVICES LIMITED**

## Notes to Consolidated Financial Statements

March 31, 2010

*(Expressed in Bermuda Dollars)***16. Financial instruments (continued)***(b) Credit risk (continued)*

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

	<u>2010</u>	<u>2009</u>
Opening balance	\$ 22,691	\$ 22,586
(Decrease) increase in allowance	(19,952)	2,813
Amounts written-off	<u>(311)</u>	<u>(2,708)</u>
	<u>\$ 2,428</u>	<u>\$ 22,691</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 short-term deposits and interest paid on long-term debt and capital leases. Interest is earned on cash and cash equivalents and short-term deposits 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 \$24,000 (2009 - \$26,100) 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.

*(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 \$16,270 (2009 - \$14,100). 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.

# STEVEDORING SERVICES LIMITED

## Notes to Consolidated Financial Statements

March 31, 2010

(Expressed in Bermuda Dollars)

### 16. Financial instruments (continued)

#### (e) Liquidity risk (continued)

	Total	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years
<b>As at March 31, 2010</b>					
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>
	<u>\$ 3,692,513</u>	<u>\$ 814,289</u>	<u>\$ 256,206</u>	<u>\$ 1,024,824</u>	<u>\$ 1,597,194</u>
<b>As at March 31, 2009</b>					
	<u>Total</u>	<u>6 months or less</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>
Accounts payable and accrued expenses	\$ 839,578	\$ 839,578	\$ -	\$ -	\$ -
Capital lease	84,175	38,850	38,850	6,475	-
Long-term debt	<u>566,446</u>	<u>123,564</u>	<u>123,564</u>	<u>319,318</u>	<u>-</u>
	<u>\$ 1,490,199</u>	<u>\$1,001,992</u>	<u>\$ 162,414</u>	<u>\$ 325,793</u>	<u>\$ -</u>

### 17. 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. Stevedoring Services 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.

Stevedoring Services 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.