

POLARIS HOLDING COMPANY LIMITED

Consolidated Financial Statements
(With Independent Auditors' Report Thereon)

March 31, 2015



KPMG Audit Limited
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Polaris Holding Company Limited

We have audited the accompanying consolidated financial statements of Polaris Holding Company Limited (the "Company"), which comprise the consolidated statements of financial position as at March 31, 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year ended March 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company'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 consolidated 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 consolidated financial position of the Company as at March 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year ended March 31, 2015 in accordance with International Financial Reporting Standards.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
August 25, 2015

POLARIS HOLDING COMPANY LIMITED

Consolidated Statement of Financial Position

March 31, 2015

(Expressed in Bermuda Dollars)

	<u>2015</u>	<u>2014</u> (As restated – Note 4)
Assets		
Non-current assets		
Investments (Note 5)	\$ 148,405	\$ 167,634
Investment property (Note 6)	1,830,000	1,900,000
Property, plant and equipment (Note 7)	<u>4,983,869</u>	<u>5,540,504</u>
Total non-current assets	6,962,274	7,608,138
Current assets		
Cash and cash equivalents (Notes 8 and 19(b))	2,674,239	3,802,073
Accounts receivable (Notes 15, and 19(b))	887,390	892,469
Inventory (Note 9)	419,589	379,358
Prepaid expenses	<u>186,187</u>	<u>264,391</u>
Total current assets	<u>4,167,405</u>	<u>5,338,291</u>
Total assets	<u>\$ 11,129,679</u>	<u>\$ 12,946,429</u>
Liabilities		
Non-current liabilities		
Long-term debt (Note 12)	\$ 1,784,182	\$ 2,458,593
Accrued expenses (Note 18)	<u>280,619</u>	<u>302,871</u>
Total non-current liabilities	<u>\$ 2,064,801</u>	<u>\$ 2,761,464</u>
Current liabilities		
Accounts payable and accrued expenses	684,850	784,583
Long-term debt - current portion (Note 12)	<u>190,284</u>	<u>519,055</u>
Total current liabilities	<u>875,134</u>	<u>1,303,638</u>
Total liabilities	<u>2,939,935</u>	<u>4,065,102</u>
Equity		
Share capital (Note 13)	1,244,600	1,244,600
Share premium (Note 14)	122,650	122,650
General reserve (Note 14)	1,250,000	1,250,000
Retained earnings (Note 4)	5,572,001	6,244,355
Accumulated other comprehensive income	<u>493</u>	<u>19,722</u>
Total equity attributable to the Company's shareholders	<u>8,189,744</u>	<u>8,881,327</u>
Total liabilities and equity	<u>\$ 11,129,679</u>	<u>\$ 12,946,429</u>

See accompanying notes to consolidated financial statements

Signed on behalf of the Board



Director

Director

POLARIS HOLDING COMPANY LIMITED

Consolidated Statement of Comprehensive Income

Year ended March 31, 2015
(Expressed in Bermuda Dollars)

	<u>2015</u>	<u>2014</u> (As restated Note 4)
Revenue		
Stevedoring revenue (Notes 4 and 15)	\$ 9,217,427	\$ 9,304,977
Stevedoring expenses (Notes 9 and 11)	<u>5,727,363</u>	<u>5,605,226</u>
Stevedoring gross profit	3,490,064	3,699,751
Rental income (Note 6)	<u>136,800</u>	<u>131,295</u>
Total income	3,626,864	3,831,046
Expenses		
Administrative salaries and wages (Note 11)	1,382,030	1,644,927
General and administrative expenses (Note 15)	1,072,559	1,251,417
Depreciation (Note 7)	693,243	661,452
Employee benefits (Notes 4, 10, 11 and 18)	454,620	519,732
Professional fees	245,849	428,286
Depreciation of investment property buildings (Note 6)	70,000	100,000
Impairment of investment property (Note 6)	<u>—</u>	<u>1,000,000</u>
Total expenses	3,918,301	5,605,814
Results from operating activities	(291,437)	(1,774,768)
Finance income (Note 16)	16,075	13,761
Finance expense (Note 12)	<u>(148,072)</u>	<u>(176,353)</u>
Net finance expense	(131,997)	(162,592)
Loss for the year (attributable to owners of the Company)	(423,434)	(1,937,360)
Other comprehensive income items that may be reclassified to profit or and loss:		
Net change in fair value of available-for-sale investments (Note 5)	<u>(19,229)</u>	<u>(4,930)</u>
Total comprehensive loss for the year	\$ (442,663)	\$ (1,942,290)
Loss per share (Note 4 and 17)	\$ (0.34)	\$ (1.56)

All items included in the consolidated statement of comprehensive income relate to continuing operations.

See accompanying notes to consolidated financial statements

POLARIS HOLDING COMPANY LIMITED

Consolidated Statement of Changes in Equity

Year ended March 31, 2015

(Expressed in Bermuda Dollars)

	Share capital	Share premium	General reserve	Retained earnings	Accumulated other comprehensive income	Total equity
Balance at April 1, 2013, as previously reported	\$ 1,244,600	\$ 122,650	\$ 1,250,000	\$ 8,600,986	\$ 24,652	\$ 11,242,888
Prior period adjustments (Note 4)	—	—	—	(170,351)	—	(170,351)
Balance at April 1, 2013	\$ 1,244,600	\$ 122,650	\$ 1,250,000	\$ 8,430,635	\$ 24,652	\$ 11,072,537
Total comprehensive loss:						
Loss for the year (as restated in Note 4)	—	—	—	(1,937,360)	—	(1,937,360)
Other comprehensive loss	—	—	—	—	(4,930)	(4,930)
Transactions with owners of the Company recognized directly in equity:						
Dividends declared and paid (Note 13)	—	—	—	(248,920)	—	(248,920)
Balance at March 31, 2014 (as restated in Note 4)	\$ 1,244,600	\$ 122,650	\$ 1,250,000	\$ 6,244,355	\$ 19,722	\$ 8,881,327
Balance at April 1, 2014	\$ 1,244,600	\$ 122,650	\$ 1,250,000	\$ 6,244,355	\$ 19,722	\$ 8,881,327
Total comprehensive loss:						
Loss for the year	—	—	—	(423,434)	—	(423,434)
Other comprehensive loss	—	—	—	—	(19,229)	(19,229)
Transactions with owners of the Company recognized directly in equity:						
Dividends declared and paid (Note 13)	—	—	—	(248,920)	—	(248,920)
Balance at March 31, 2015	\$ 1,244,600	\$ 122,650	\$ 1,250,000	\$ 5,572,001	\$ 493	\$ 8,189,744

See accompanying notes to consolidated financial statements

POLARIS HOLDING COMPANY LIMITED

Consolidated Statement of Cash Flows

Year ended March 31, 2015
(Expressed in Bermuda Dollars)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Loss for the year	\$ (423,434)	\$ (1,937,360)
Adjustments for:		
Depreciation	693,243	661,452
Depreciation of investment property	70,000	100,000
Impairment of investment property	—	1,000,000
Net finance expense	131,997	162,592
Net changes in non-cash working capital balances:		
Decrease in accounts receivable	5,079	200,036
Decrease (increase) in prepaid expenses	78,204	(70,661)
(Increase) decrease in inventory	(40,231)	453,018
(Decrease) increase in accounts payable and accrued expenses	(99,733)	194,573
Decrease in accrued expenses (Note 18)	<u>(22,252)</u>	<u>(20,326)</u>
Net cash provided by operating activities	<u>392,873</u>	<u>743,324</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(142,652)	(5,001)
Disposal of property, plant and equipment	6,044	—
Interest and dividends received	<u>16,075</u>	<u>13,761</u>
Net cash (used in) provided by investing activities	<u>(120,533)</u>	<u>8,760</u>
Cash flows from financing activities		
Long-term debt principal repayments	(1,003,182)	(489,189)
Dividends paid	(248,920)	(248,920)
Interest paid	<u>(148,072)</u>	<u>(176,353)</u>
Net cash used in financing activities	<u>(1,400,174)</u>	<u>(914,462)</u>
Decrease in cash and cash equivalents	(1,127,834)	(162,378)
Cash and cash equivalents at beginning of year	<u>3,802,073</u>	<u>3,964,451</u>
Cash and cash equivalents at end of year	<u>\$ 2,674,239</u>	<u>\$ 3,802,073</u>

See accompanying notes to consolidated financial statements

POLARIS HOLDING COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2015

1. **General**

Polaris Holding Company Limited (the “Company” or “PHC”) was incorporated on January 24, 2011 under the laws of Bermuda. The address of the Company’s registered office is Clarendon House, 2 Church Street, Hamilton, Bermuda. The Company was created to facilitate the restructuring of the Stevedoring Services Limited (“SSL”) group by way of a court approved Scheme of Arrangement (the “Scheme”). The Scheme was the vehicle by which the shares of SSL were transferred to PHC on the same basis as they were held in SSL, and these new shares replaced the shares of SSL listed on the Bermuda Stock Exchange. There is no ultimate controlling party.

The Company is the holding company for the group of companies which comprise of SSL, Equipment Sales and Rental Limited (“ESR”), and Mill Reach Holding Company Limited (“MRH”). The Scheme became effective on March 28, 2011 after shareholder and Supreme Court approval. The group restructuring has been accounted for as a combination of entities under common control with transfers being recorded at their carrying value.

Stevedoring Services Limited, a wholly-owned subsidiary of the Company, is incorporated under the laws of Bermuda and carries on business as a stevedoring company. In February 2011, this subsidiary was awarded a 5 year terminal operator’s license by the Corporation of Hamilton to function on the Hamilton docks from January 1, 2011 to December 31, 2015, with provisions for a further license of 5 years subject to satisfactory performance. The contract provides Stevedoring Services Limited a further five-year renewal, from January 1, 2016 to December 31, 2020, upon it providing the Corporation of Hamilton with written notice of its desire to extend the agreement within six months of the conclusion of that agreement. Stevedoring Services Limited has provided notice and is not in breach of the contract’s obligations and Stevedoring Services Limited sees no basis on which the contract will not be renewed. ESR, 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. MRH, 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 SSL.

2. **Basis of preparation**

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The consolidated financial statements were authorized for issue by the Board of Directors on August 25, 2015.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for available-for-sale investments measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Bermuda dollars, which is the Company’s functional currency.

2. **Basis of preparation** (continued)

(d) *Use of estimates and judgments*

The preparation of the consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions about future considerations. The use of available information and the application of judgment are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Revisions to accounting estimates, if any, are recognized in the period in which the estimate is revised and in any future periods affected. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the following notes:

- Note 3(l) – impairment of financial assets
- Note 3(m) – impairment of non-financial assets
- Note 6 – valuation of investment property
- Note 9 – valuation of inventory
- Note 19(b) – allowance for impairment of accounts receivable

(e) *Comparative figures*

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

3. **Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

(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.

(c) *Investment income*

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 using the effective interest method.

(d) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and include capitalized borrowing costs. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets, with the exception of cranes, which are depreciated on a reducing balance basis. Improvements to leased premises are capitalized and depreciated over the remainder of the related lease period. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components). Items of property, plant and equipment are depreciated from the date that they are installed and ready for use.

POLARIS HOLDING COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2015

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

The estimated useful lives of significant items of property, plant and equipment are as follows:

Buildings	10 years
Furniture and fixtures	3-4 years
Computer equipment	3-5 years
Cranes and heavy equipment	5-15 years
Miscellaneous equipment	3-5 years

(e) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and accumulated impairment losses. Land held as investment property is not subject to depreciation. The buildings are stated at cost less accumulated depreciation and depreciated over their estimated useful lives of 10 years. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(f) 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 comprehensive income.

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 the investments are traded on the reporting date. Changes in fair value are included as a separate component of changes in equity 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.

3. **Significant accounting policies** (continued)

(f) *Financial instruments* (continued)

Fair value hierarchy

Accounting standards (IFRS 13) 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 19(a).

(g) *Comprehensive (loss)/ income*

Comprehensive (loss)/income consists of (loss)/profit for the year and other comprehensive income ("OCI"). OCI represents the change in fair value during the year from unrealized gains and losses on investments classified as available-for-sale.

(h) *Cash and cash equivalents*

For the purposes of the consolidated 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.

(i) *Employee benefits*

The costs of employee benefits payable in respect of the Company's defined contribution pension plan are charged to the consolidated statement of comprehensive income in the year in which the related services are rendered by the employees. The Company pays fixed contributions to a separate entity and has no obligation to pay further amounts.

(j) *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.

3. **Significant accounting policies** (continued)

(k) *Foreign currency translation*

Monetary assets and liabilities denominated in foreign currencies are translated into Bermuda dollars at the rates of exchange prevailing at the consolidated statement of financial position, 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 comprehensive income.

(l) *Impairment of financial assets*

At each reporting date the Company assesses whether there is objective evidence that financial assets are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, and the current fair value, less any impairment loss recognized previously in profit or loss. If, in a subsequent period, the fair value of impaired available-for-sale equity securities increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in other comprehensive income.

(m) *Impairment of non-financial assets*

Property, plant and equipment and investment property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized in profit or loss if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation if no impairment loss had been recognized.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use the estimated future cash flows are discounted to their present value using a discount rate that reflects the time value of money and any risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

3. **Significant accounting policies** (continued)

(n) *Taxation*

Under current Bermuda law the Company is not subject to income tax on its profits or capital gains. Accordingly no provision for current or deferred income tax has been made in the consolidated financial statements.

(o) *New standards and interpretations adopted during the year*

The amendments to IAS 32 regarding the offsetting of financial assets and liabilities clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is considered to be equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 1, 2014 and interim periods within those annual periods.

The adoption of this standard did not have a material impact on the Company.

(p) *New standards and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015, and have not been applied in preparing these financial statements. Those that may be relevant to the Company are set out below. The company does not plan to adopt these standards early.

(i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

(ii) IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

POLARIS HOLDING COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2015

4. Prior period adjustment

The Company has restated its 2014 consolidated financial statements for adjustments in revenue and employee benefits as summarized in the table below:

	<u>Balance as previously reported</u>	<u>Adjustment</u>	<u>Balance as restated</u>	
Statement of comprehensive income				
Stevedoring revenue				
March 31, 2014	\$ 9,457,823	\$ (152,846)	\$ 9,304,977	(a)
Employee benefits				
March 31, 2014	\$ 540,058	\$ (20,326)	\$ 519,732	(b)
Statement of financial position				
Retained earnings				
April 1, 2013	\$ 8,600,986	\$ (170,351)	\$8,430,635	(a) and (b)
March 31, 2014	\$ 6,547,226	\$ (302,871)	\$ 6,244,355	(b)
Non-current accrued expenses				
March 31, 2014	\$ —	\$ 302,871	\$ 302,871	(b)
Statement of comprehensive income				
Profit (loss) for the year				
March 31, 2014	\$(1,804,840)	\$ (132,520)	\$(1,937,360)	(a) and (b)
Earnings (loss) per share				
March 31, 2014	\$ (1.45)	\$ (0.11)	\$ (1.56)	

(a) During the current year, management noted a timing error in the recording of \$152,846 of income, originally reflected in 2014 which should have been reflected in 2013.

This restatement has no net financial effect to the Company's overall financial position at March 31, 2015 or 2014.

(b) During the current year, management identified and formalized two obligations relating to providing and paying for health insurance for two ex-employees. Previously management had recorded this post employment benefit as health insurance premiums were paid. However, upon investigation management concluded that the Company are committed to paying future premiums for the full term of the post-employment benefit and therefore a liability of \$323,197 has been recorded at April 1, 2013. As a result, health insurance premiums of \$20,326 previously expensed in the year ended March 31, 2014 have now resulted in a reduction in the liability.

POLARIS HOLDING COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2015

5. Investments

Investments classified as available-for-sale comprise the following:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Equity securities	\$ 147,912	\$ 148,405	\$ 147,912	\$ 167,634

At March 31, 2014, the Company's holdings in equity securities consist of one security of a company incorporated and operating from Bermuda.

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

During the year the Company recognized a change in unrealized loss of \$19,229 (2014 - \$4,930) on its equity investments which are recognized in other comprehensive income as a separate component within equity.

6. Investment property

Investment property comprises land and buildings being held in MRH and is depreciated. The property, which is leased to three tenants on terms of 36, 48 and 60 months respectively, earned rental income of \$136,800 for the year (2014 - \$131,295).

Deemed cost less impairment losses

	<u>2015</u>	<u>2014</u>
Land	\$ 1,150,000	\$ 1,150,000
Buildings	<u>850,000</u>	<u>850,000</u>
	\$ 2,000,000	\$ 2,000,000

The property was valued by an independent appraiser on March 24, 2014 at a fair value of \$2,000,000. The independent appraiser used a combination of the contractors approach, comparable analysis and investment approach in determining the fair value. Given the reduced level of real estate transactions in Bermuda in recent years, this measurement would be classified as Level 3 in the fair value hierarchy (Note 3(f)). This fair value is considered to not be significantly different as at March 31, 2015 based on market conditions. Impairment losses on assets carried at deemed cost less impairment losses are measured as the difference between the carrying amount of the asset and the market value. Impairment losses are recognized in profit or loss. In 2014 an impairment loss of \$1,000,000 was recognized in results from operating activity.

	<u>2015</u>	<u>2014</u>
Balance at April 1	\$ 1,900,000	\$ 3,000,000
Impairment loss	-	(1,000,000)
Depreciation for the year	<u>(70,000)</u>	<u>(100,000)</u>
Balance at March 31	\$ 1,830,000	\$ 1,900,000

POLARIS HOLDING COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2015

7. Property, plant and equipment

	Buildings	Cranes and heavy equipment	Miscellaneous equipment	Furniture and fixtures	Computer equipment	Total
Cost						
At April 1, 2013	\$ 296,041	\$ 9,327,051	\$ 729,754	\$ 293,015	\$ 1,788,823	\$ 12,434,684
Additions	—	—	5,000	—	—	5,000
At March 31, 2014	\$ 296,041	\$ 9,327,051	\$ 734,754	\$ 293,015	\$ 1,788,823	\$ 12,439,684
At April 1, 2014	\$ 296,041	\$ 9,327,051	\$ 734,754	\$ 293,015	\$ 1,788,823	\$ 12,439,684
Additions	—	126,376	10,266	—	6,010	142,652
Disposals	—	(6,044)	—	—	(1,003,693)	(1,009,737)
At March 31, 2015	\$ 296,041	\$ 9,447,383	\$ 745,020	\$ 293,015	\$ 791,140	\$ 11,572,599
Depreciation						
At April 1, 2013	\$ 287,556	\$ 3,138,580	\$ 729,754	\$ 293,015	\$ 1,788,823	\$ 6,237,728
Depreciation for the year	2,672	658,363	417	—	—	661,452
Disposals	—	—	—	—	—	—
At March 31, 2014	\$ 290,228	\$ 3,796,943	\$ 730,171	\$ 293,015	\$ 1,788,823	\$ 6,899,180
At April 1, 2014	\$ 290,228	\$ 3,796,943	\$ 730,171	\$ 293,015	\$ 1,788,823	\$ 6,899,180
Depreciation for the year	2,406	687,954	2,369	—	514	693,243
Disposals	—	—	—	—	(1,003,693)	(1,003,693)
At March 31, 2015	\$ 292,634	\$ 4,484,897	\$ 732,540	\$ 293,015	\$ 785,644	\$ 6,588,730
Carrying amounts						
At March 31, 2013	\$ 8,485	\$ 6,188,471	\$ —	\$ —	\$ —	\$ 6,196,956
At March 31, 2014	\$ 5,813	\$ 5,530,108	\$ 4,583	\$ —	\$ —	\$ 5,540,504
At March 31, 2015	\$ 3,407	\$ 4,962,486	\$ 12,480	\$ —	\$ 5,496	\$ 4,983,869

POLARIS HOLDING COMPANY LIMITED

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8. Cash and cash equivalents

The effective interest rate earned on cash and cash equivalents for the year ended March 31, 2015 was 0.50% (2014 - 0.37%).

9. Inventory

Inventory of \$419,589 (2014 - \$379,358) is stated net of a provision for obsolescence of \$232,139 (2014 - \$502,741). Inventory, when relieved, is classified as an equipment repairs and maintenance expense. Equipment repairs and maintenance recognized as an expense in the year amounted to \$325,336 (2014 - \$412,197). Inventory written down during the year amounted to \$nil (2014 - \$372,823). Equipment repairs and maintenance and inventory written down are included in stevedoring expenses in the consolidated statement of comprehensive income.

10. Employee pension benefits

The total expense incurred for the Company's defined contribution plan was \$169,328 (2014 - \$181,854).

The total pension benefits expense is included in employee benefits in the consolidated statement of comprehensive income. Employee benefits also include the expense of providing health insurance benefits to employees during the term of their employment and to a former officer and director and former employee as described in Note 18.

11. Personnel expenses

	<u>2015</u>	<u>2014</u>
Short term employment benefits	\$ 4,446,381	\$ 4,393,221
Key management compensation	496,996	492,828
Compulsory payroll tax, social insurance and health scheme contributions	1,068,527	1,097,089
Payments to defined contribution pension scheme (Note 10)	169,328	181,854
Retirement packages, severance costs and other employee benefits	<u>97,650</u>	<u>192,579</u>
	<u>\$ 6,278,882</u>	<u>\$ 6,357,571</u>

Personnel expenses are included in stevedoring expenses and administrative salaries and wages in the consolidated statement of comprehensive income.

POLARIS HOLDING COMPANY LIMITED

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12. Long-term debt

In December 2009 the Company secured a loan of \$2,693,934 from a Bermuda bank. The loan was a variable rate promissory note and the amount outstanding at March 31, 2015 was \$nil (2014 - \$823,187). The interest rate was set at 2.90% above the bank's Bermuda dollar base rate. The effective interest rate for the year was 6.40% (2014 - 6.40%). Interest expense for the year was \$43,297 (2014 - \$63,933).

In December 2011 a subsidiary company, ESR, secured a 15 year United States dollar loan of \$3 million from William E. Meyer Ltd., a related party. The loan is an adjustable promissory note and at year end the monthly payments were \$23,723 currently bearing interest at 5.0% per annum. The rate is adjusted and fixed at the beginning of the 6th and 11th year of the loan to reflect a rate equal to 1.5% above a Bermuda Bank's Bermuda dollar base rate. Interest paid to the related party during the year was \$104,775 (2014 - \$112,420).

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

2016	\$	190,284
2017		200,023
2018		210,356
2019		221,265
2020 and beyond		<u>1,152,538</u>
	\$	<u>1,974,466</u>

13. 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 March 31, 2015 1,244,600 (2014 - 1,244,600) shares were issued and fully paid. As explained in Note 1, PHC was created to facilitate the restructuring of the SSL group by way of a court approved Scheme of Arrangement. The Scheme was the vehicle by which the shares of SSL were transferred to PHC on the same basis as they were held in SSL, and these new shares replaced the shares of SSL listed on the Bermuda Stock Exchange. The Scheme became effective on March 28, 2011 after shareholder and Supreme Court approval.

As at March 31, 2015, the direct shareholding ownership of directors and officers was 350 (2014 - 350) shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer.

The holders of common shares are entitled to receive dividends as declared from time to time. The following dividends were declared and paid by the Company:

	<u>2015</u>	<u>2014</u>
0.05 (2014 - 0.05) cents per qualifying ordinary share – June	\$ 62,230	\$ 62,230
0.05 (2014 - 0.05) cents per qualifying ordinary share – September	62,230	62,230
0.05 (2014 - 0.05) cents per qualifying ordinary share – December	62,230	62,230
0.05 (2014 - 0.05) cents per qualifying ordinary share – March	<u>62,230</u>	<u>62,230</u>
	\$ 248,920	\$ 248,920

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14. **Share premium and general reserve**

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

General reserve represents amounts appropriated by the directors.

15. **Related party transactions**

Bermuda International Shipping Ltd (“BISL”) and Somers Isles Shipping Ltd (“SISL”) are companies which are related by virtue of common significant influence by directors of the Company. Meyer Freight Ltd is the agent for BISL and SISL.

The Company earned Stevedoring revenue of \$4,917,778 (2014 - \$5,076,947) from both BISL and SISL. Included in accounts receivable as at March 31, 2015 is \$459,621 (2014 - \$475,947) due from both companies.

Meyer Technologies Ltd is related by virtue of common significant influence by a director of the Company. Meyer Technologies Ltd is a subsidiary of the Meyer Group of Companies. The Company incurred information technology expenses of \$97,906 from Meyer Technologies Ltd. (2014 - \$26,120) which are included in general and administrative expenses in the consolidated statement of comprehensive income.

During the year ended March 31, 2015, the Company incurred professional fees of \$51,123 (2014-\$nil) from Forensic First, a company related by significant influence, which is included in general and administrative expenses in the consolidated statement of comprehensive income.

16. **Finance income**

Finance income comprises of the following:

	<u>2015</u>	<u>2014</u>
Dividend income	\$ 12,326	\$ 7,396
Interest income	<u>3,749</u>	<u>6,365</u>
	<u>\$ 16,075</u>	<u>\$ 13,761</u>

17. **Loss per share**

Loss per share is computed by dividing loss for the year by the monthly weighted average number of shares outstanding during the year.

The calculation of basic loss per share at March 31, 2015 was based on the loss attributable to ordinary shareholders of \$(423,434) (2014 – loss (\$1,937,360) as restated), and a weighted average number of ordinary shares outstanding of 1,244,600 (2014 - 1,244,600), calculated as follows:

	<u>2015</u>	<u>2014</u>
Issued ordinary shares and weighted average number of shares at April 1, 2014 and March 31, 2015	1,244,600	1,244,600

There were no dilutive potential ordinary shares as at March 31, 2015 or March 31, 2014.

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March 31, 2015

18. Commitments

The Company has committed to provide and pay the health insurance costs for a former officer and director of the Company for the five years ended March 31, 2020 and it has committed to provide and pay the health insurance costs for a former employee for the rest of her life. The present value of these future obligations is estimated at \$280,619 (2014 - \$302,871) and has been included in accrued expenses in the consolidated statement of financial position (see Note 4).

19. 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 value of the long-term debt is included in Note 19(e) and takes into account the interest rate of the loan. This is considered a level 2 measurement in the fair value hierarchy (Note 3(f)).

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 fair value hierarchy table below summarizes the inputs used to value the Company's financial assets carried at fair value:

<u>2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments – equity securities	\$ <u>148,405</u>	\$ <u>–</u>	\$ <u>–</u>	\$ <u>148,405</u>
	\$ <u>148,405</u>	\$ <u>–</u>	\$ <u>–</u>	\$ <u>148,405</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments – equity securities	\$ <u>167,634</u>	\$ <u>–</u>	\$ <u>–</u>	\$ <u>167,634</u>
	\$ <u>167,634</u>	\$ <u>–</u>	\$ <u>–</u>	\$ <u>167,634</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

There have been no transfers between the fair value hierarchy during the year.

(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, 2015, 64% (2014 - 73%) of the Company's cash and cash equivalents are held with a single Bermuda bank.

POLARIS HOLDING COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2015

19. **Financial instruments** (continued)

(b) *Credit risk* (continued)

At March 31, 2015, 96% (2014 - 97%) of the Company's accounts receivable balance is due from three 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.

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 consolidated statement of financial position. 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>2015</u>	<u>2014</u>
Current	\$ 880,240	\$ 790,540
Past 30 days	2,224	15,231
Past 60 days	-	2,160
Past 90 days	<u>4,926</u>	<u>95,580</u>
	887,390	903,511
Less: allowance for impairment	<u>-</u>	<u>(11,042)</u>
	<u>\$ 887,390</u>	<u>\$ 892,469</u>

The movement in the allowance for impairment in respect to trade and other receivables was as follows:

Balance at March 31, 2014	\$ 11,042
Decrease in provision	<u>(11,042)</u>
Balance at March 31, 2015	<u>\$ -</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. Interest is earned on cash and cash equivalents at variable rates. Interest is paid on the Company's long-term debt at variable rates as explained in Note 12. 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 decreased equity and increased losses for the year by \$27,261 (2014 - \$30,468) assuming all other variables remain constant. An equal change in the opposite direction would have decreased equity and profit by the same amount.

POLARIS HOLDING COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2015

19. **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. The performance of the investment portfolio is actively monitored. 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 equity by \$2,968 (2014 - \$3,353). An equal change in the opposite direction would have decreased equity by the same amount. There would be no impact on the Company's reported profit 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 reporting 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 consolidated cash flows and represents future payments and principal balances including interest accrual.

	<u>Total</u>	<u>6 months or less</u>	<u>6 - 12 months</u>	<u>1 - 2 years</u>	<u>2 - 15 years</u>
As at March 31, 2015					
Accounts payable and accrued expenses	\$ 684,850	\$ 684,850	\$ —	\$ —	\$ —
Long-term debt	<u>2,429,678</u>	<u>142,343</u>	<u>142,343</u>	<u>569,371</u>	<u>1,717,964</u>
	<u>\$ 3,114,528</u>	<u>\$ 827,193</u>	<u>\$ 142,343</u>	<u>\$ 569,371</u>	<u>\$ 1,717,964</u>
As at March 31, 2014					
Accounts payable and accrued expenses	\$ 784,583	\$ 784,583	\$ —	\$ —	\$ —
Long-term debt	<u>3,601,016</u>	<u>332,771</u>	<u>332,771</u>	<u>1,076,961</u>	<u>1,858,513</u>
	<u>\$ 4,385,599</u>	<u>\$ 1,117,354</u>	<u>\$ 332,771</u>	<u>\$ 1,076,961</u>	<u>\$ 1,858,513</u>

20. 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. The Company'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.

PHC'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.

21. Operating segments

The reportable operating segments are as follows:

1. PHC carries on business as an investment holding company in Bermuda.
2. SSL carries on the business as a stevedoring company in Bermuda.
3. ESR carries on the business of purchasing and leasing heavy operating machinery and equipment in Bermuda.
4. MRH carries on the business of leasing its land to businesses as office and business space in Bermuda.

For management purposes, the Group is organized into these four separate business segments based on their products and services. For financial reporting purposes, these four companies are the main contributing factors for the consolidated financial statements of PHC.

Management including the chief operating decision maker, monitors the operating results of the business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on the profit or loss of the company which is explained in the table below.

Due to a leasing arrangement between ESR (the "lessor") and SSL (the "lessee") for the use of the heavy port operating equipment, an elimination transaction in the amount of \$1,224,141 (2014 - \$1,230,597) was recognized under the PHC group structure.

Due to a collateral pledge arrangement between ESR (the "borrower") and MRH (the "securer") for a third party loan ESR held, an elimination transaction in the amount of \$18,000 (2014 - \$18,000) was recognized under the PHC group structure.

POLARIS HOLDING COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2015

21. **Operating segments (continued)**

2015

Revenue/expenses (stated in \$000's)

	<u>PHC</u>	<u>SSL</u>	<u>ESR</u>	<u>MRH</u>	<u>Elimination</u>	<u>Consolidated</u>
Stevedoring revenue	\$ —	\$ 9,217	\$ —	\$ —	\$ —	\$ 9,217
Rental Income	—	—	—	137	—	137
Inter-segment	592	—	1,224	18	(1,834)	—
Finance income	<u>14</u>	<u>2</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>16</u>
Total revenue	\$ 606	\$ 9,219	\$ 1,224	\$ 155	\$ (1,834)	\$ 9,370
Stevedoring expenses	\$ —	\$ 5,727	\$ —	\$ —	\$ —	\$ 5,727
Depreciation	\$ —	\$ 32	\$ 661	\$ —	\$ —	\$ 693
Depr. of invest. property	—	—	—	70	—	70
Other expenses	<u>670</u>	<u>2,453</u>	<u>5</u>	<u>27</u>	<u>—</u>	<u>3,155</u>
Expenses	\$ 670	\$ 2,485	\$ 666	\$ 97	\$ —	\$ 3,918
Inter-segment	—	1,627	207	—	(1,834)	—
Finance expenses	<u>—</u>	<u>—</u>	<u>148</u>	<u>—</u>	<u>—</u>	<u>148</u>
Total expenses	\$ 670	\$ 9,839	\$ 1,021	\$ 97	\$ (1,834)	\$ 9,793
(Loss) profit for the year	\$ (64)	\$ (620)	\$ 203	\$ 58	\$ —	\$ (423)

2014

Revenue/expenses (stated in \$000's)

	<u>PHC</u>	<u>SSL</u>	<u>ESR</u>	<u>MRH</u>	<u>Elimination</u>	<u>As restated (Note 4) Consolidated</u>
Stevedoring revenue	\$ —	\$ 9,305	\$ —	\$ —	\$ —	\$ 9,305
Rental Income	—	—	—	131	—	131
Inter-segment	631	—	1,213	18	(1,862)	—
Finance income	<u>11</u>	<u>3</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>14</u>
Total revenue	\$ 642	\$ 9,308	\$ 1,213	\$ 149	\$ (1,862)	\$ 9,450
Stevedoring expenses	\$ —	\$ 5,605	\$ —	\$ —	\$ —	\$ 5,605
Depreciation	\$ —	\$ 30	\$ 631	\$ —	\$ —	\$ 661
Depr. of invest. property	—	—	—	100	—	100
Other expenses	<u>630</u>	<u>3,180</u>	<u>6</u>	<u>29</u>	<u>—</u>	<u>3,845</u>
Expenses	\$ 630	\$ 3,210	\$ 637	\$ 129	\$ —	\$ 4,606
Impairment of invest. property	—	—	—	1,000	—	1,000
Inter-segment	—	1,658	204	—	(1,862)	—
Finance expenses	<u>—</u>	<u>—</u>	<u>176</u>	<u>—</u>	<u>—</u>	<u>176</u>
Total expenses	\$ 630	\$ 10,473	\$ 1,017	\$ 1,129	\$ (1,862)	\$ 11,387
(Loss) profit for the year	\$ 12	\$ (1,165)	\$ 196	\$ (980)	\$ —	\$ (1,937)

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21. Operating segments (continued)As at March 31, 2015

	<u>PHC</u>	<u>SSL</u>	<u>ESR</u>	<u>MRH</u>	Total reportable segments	<u>Elimination</u>	<u>Total</u>
Assets	\$ 4,325	\$ 3,296	\$ 5,990	\$ 2,218	\$ 15,829	\$ (4,699)	\$ 11,130
Liabilities	37	2,081	1,974	–	4,092	(1,152)	2,940
Capital expenditure	–	143	–	–	143	–	143

As at March 31, 2014

	<u>PHC</u>	<u>SSL</u>	<u>ESR</u>	<u>MRH</u>	Total reportable segments	<u>Elimination</u>	<u>Total</u>
Assets	\$ 4,593	\$ 3,817	\$ 5,966	\$ 2,117	\$ 16,493	\$ (3,547)	\$ 12,946
Liabilities	(20)	1,973	2,154	(42)	4,065	–	4,065
Capital expenditure	–	5	–	–	5	–	5

Within SSL the Company is reliant on three major customers each of whom represent more than 10 percent of SSL's revenue.

The Company operates in a single geographic region.