

STANDING FIRM

POLARIS
ANNUAL REPORT
2020



 **Polaris**
HOLDING COMPANY LTD.

STANDING FIRM



"It is poor faith that needs fair weather for standing firm. That alone is true faith that stands the foulest weather."

- Mahatma Gandhi



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A man wearing a cap, glasses, a light-colored t-shirt, dark cargo shorts, and work boots stands with his arms crossed in an industrial setting. The background is a warm, orange-toned image of a large, curved metal structure, possibly a tunnel or a large pipe. The man is positioned on the right side of the frame, looking towards the camera.

SECTION I

STANDING FIRM

"For Polaris, the continued commitment to do right by all of its stakeholders, and the faith in the long term success of the Company, has been unwavering."

- Cheryl Hayward-Chew

Report from **THE CHAIRMAN**

Fiscal 2020 was a year of tribulation with Polaris Holding Company Ltd. (“Polaris”) finishing with a net profit of only \$168K- a far cry from the stellar gains of the past four years.

For subsidiary East End Asphalt Company Limited (“EEA”), fiscal 2020 was the year to realize its potential. With faith in the EEA team and in the business plan, Polaris guided the new subsidiary from a culture of cost-cutting to one of people-centric revenue growth. After a long summer of doubt where, up until the final quarter, EEA struggled to gain momentum, the investment bore fruit and was poised for a year-end profit of nearly \$100K, exclusive of the non-cash financial accounting treatment on its lease, and before the interruption of the COVID-19 Shelter in Place.

For Stevedoring Services Limited (“SSL”), fiscal 2020 was a year of reckoning; a year when the division would finally face the renewal of its operating contract. The Corporation of Hamilton’s request for proposal (“RFP”) was issued in September, a six-month delay compared to the March 2019 deadline in the division’s Terminal Operator’s License contract, creating growing levels of uncertainty and anxiety. Board and management took great care and due diligence to ensure that the division’s proposal complied with each element of the RFP’s specifications – a proposal reflecting SSL’s demonstrated track record, establishing it as the first and only option for Bermuda’s licensed terminal operator. Unfortunately, the uncertainty surrounding the RFP continues to this day. Despite being the only respondent to submit a proposal, as of the writing of this report, negotiations have not proceeded.

For many companies, circumstances such as these would bring internal struggle on whether to maintain the level of investment required to ensure delivery of service. However, for Polaris, the continued commitment to do right by all of its stakeholders and the faith in the long term success of the Company has been unwavering. In addition to ongoing investment in staff relations, safety and training, in 2020, the Company’s commitment included nearly two million dollars in equipment and terminal software capital expenditure.

The Polaris Board continues as a diverse group of Directors with a range of perspectives, experiences and qualifications with the common vision of Polaris as “a progressive holding company that supports stability and growth for its investments while maximising shareholder value”. Out of the seven Directors, the Polaris Board has two independent Directors; the Chief Executive Officer is the one executive Director. All Directors are standing for re-election in September 2020.

Polaris is committed to being an employer of choice and as part of that mandate, following authorization by the Members at the 2019 AGM, the Board approved the Employee Share Purchase Plan, with October 2020 being the first opportunity for staff to purchase shares.

With slimmer than budgeted net income throughout 2020 and with the ever-present potential of unplanned critical equipment purchases, the Board took particular care in monitoring its cash position. In March 2020, the final payment in the EEA acquisition of \$300K was made to the sellers and the Polaris shares that were being held as security were repurchased and cancelled. Enhanced cash oversight continues in fiscal year 2021.

The end of fiscal 2020 heralded the beginning of the global COVID-19 disaster, a seismic economic shift for Bermuda and beyond. Polaris’ belief in the importance of what we do and faith that together we will overcome are two powerful characteristics which continue to illuminate our path forward. SSL’s management



and staff quickly responded with a pandemic plan that prioritized health, safety and sustainable operations, and maintained the cargo lines’ regular schedules. In the throes of the crisis, Bermuda residents became acutely aware of their dependence on the container port for food and medical essentials. SSL’s motto of “Quietly Powering Bermuda” was put aside as the essential dockworkers were pushed into the limelight of appreciation.

The COVID-19 crisis impacts Polaris directly with depressed cargo volumes due to lack of economic activity, lack of visitors and decreased population, with the only questions being how much and for how long? The impact was quantified by the downward adjustment of the Polaris 2021 budgeted net income of over \$500K, with the adjusted plan assuming EEA regains its revenue momentum and SSL creates cost-saving measures in collaboration with the Union. The Board aligned with the work being done by management and staff by deferring the June 2020 dividend in support of this new journey. In addition, in order to ensure stability and continuity for the Company and in particular for the Bermuda public, and to understand the longer-term impact of COVID-19 on dock operations, SSL and the Corporation of Hamilton have agreed to extend the Terminal Operator’s License which is due to expire in February 2021.

Before ending, I would like to take this opportunity to recognize the yeoman’s task Polaris Director the Hon. Wayne M. Caines, JP, MP performed for Bermuda as the Government Minister of National Security during the COVID-19 crisis. Mr. Caines brought a unique combination of knowledge and experience as well as drive and human touch that made his contribution exceptional.

Last year’s report ended with a reference to the Polaris Board striving for long-term, sustainable growth. In the current crisis, the word “growth” feels like a reference to a past lifetime. However the COVID-19 crisis is also forcing us to work differently, to re-think our assumptions and strive for a new level of stakeholder collaboration; therefore, the crisis also has created a fresh environment where new possibilities can exist or perhaps even thrive. It is with this in mind that in addition to thanking staff, management and the Board for their commitment and hard work to date, I also pledge that as we move forward together in this new environment, Polaris stands firm in its commitment to the Company’s future.

Cheryl Hayward-Chew
Chairman of the Board
Polaris Holding Company Ltd.



SECTION II

FACING FORWARD

"Integrity is doing the right thing even when no one is watching." - *C.S. Lewis*

THE BOARD



Cheryl Hayward-Chew
Chairman of the Board
Chairman, Nomination and Corporate Governance, and Human Resource and Compensation Committees



Appointed to the Board in July 2006 and as Chairman in June 2013



Wayne Caines*
Director



Appointed to the Board in October 2009



Jeffrey Conyers
Director



Appointed to the Board in July 2006



Howard Pitcher
Chairman, Audit and Risk Management Committee



Appointed to the Board in February 2014



Paul Hubbard
Independent Director*



Appointed to the Board in March 2015



Tammy Richardson-Augustus
Independent Director*



Appointed to the Board in September 2017



Warren Jones
Chief Executive Officer
Chairman, Investment Committee



Appointed to the Board in September 2016

Board Committee Membership

	NG	AR	HR	I
Cheryl Hayward-Chew	C		C	
Wayne Caines				
Jeffrey Conyers				
Howard Pitcher		C		
Paul Hubbard				
Tammy Richardson-Augustus				
Warren Jones				C

Committees

- NG** Nomination and Corporate Governance
- AR** Audit and Risk Management
- HR** Human Resource and Compensation
- I** Investment
- C** Committee Chair

*Independent as defined by the UK Corporate Governance Code

+ Government Minister of National Security

Committee Reports from **THE BOARD**

Audit and Risk Management Committee

The Audit and Risk Management Committee's ("ARMC") mandate is "to assist the Board with its responsibility for overseeing the integrity of the financial statements, the financial reporting process, internal accounting and financial controls, the engagement and evaluation of independent auditors and compliance with legal and regulatory bodies and their requirements."

The members of the ARMC are Mr. Wayne Caines, Mr. Jeff Conyers, Mr. Paul Hubbard (independent) and it is chaired by Mr. Howard Pitcher. This past year we also had Mr. L. Lloyd Holder the Board Apprentice attend the committee meetings at the invitation of the Chair.

The ARMC makes recommendations to the Board regarding the independent auditor, monitors the statutory audit, reviews the findings and ensures implementation of the independent auditor recommendations. The ARMC also reviews and ensures the accuracy of the Company's internal reporting and accounting controls including the quarterly compliance certificate and the business continuity plan.

The beginning of the financial year saw the addition of EEA to the Company's portfolio. The ARMC worked with management to establish Key Performance Indicators for EEA and worked to incorporate them into the risk register. This process is ever-evolving as new risks are highlighted.

New audit procedures were worked out for EEA as this is the first year that they will have a full review under Polaris' more stringent policies due to being a publicly listed company.

The ARMC has stayed up to date with Personal Information Protection Act 2016 legislation and awaits the guidelines from the newly appointed commissioner expected in late 2020. Towards the end of the fiscal year, Polaris as a whole started to see the effects of COVID-19 and started preparations well before being mandated.

Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee ("NCGC") mandate is "to oversee the composition, independence, structure, practices and evaluation of the Board and its committees and play a leadership role in shaping the corporate governance of the Company." The NCGC is guided by the UK Corporate Governance Code.

The members of the NCGC are Mr. Wayne Caines, Ms. Tammy Richardson-Augustus, Mr. Howard Pitcher and it is chaired by Ms. Cheryl Hayward-Chew.

In 2020, the NCGC was responsible for overseeing the appointed Board Apprentice, Mr. L. Lloyd Holder, a young, professional Bermudian with knowledge and experience in global information security. During the year, Mr. Holder attended, received Board packets and participated in meetings at the pleasure and guidance of the Chair but was not entitled to vote. Further, Mr. Holder had the same confidentiality obligations as members of the Board. The past year has been a value-added experience for both Polaris and Mr. Holder, and as such his contract was extended until the 2021 AGM.

The NCGC is tasked with confirming the Company's independent directors as defined by the UK Corporate Governance Code. In March 2020, the Board considered whether Ms. Richardson-Augustus' change to a politically exposed person as a result of her appointment to the Board of the statutory body "Bermuda Deposit Insurance Company" would impair or appear to impair her independence. The NCGC, with Ms. Richardson-Augustus recused, recommended to the Board that it did not impede her independence, and the Board confirmed that the independence of Ms. Richardson-Augustus as a non-executive director is not compromised. The independent directors are Mr. Hubbard and Ms. Richardson-Augustus.

The NCGC concluded this year with a review and update of the Company Board Profile and Committee Charters, which will go to the Board for their consideration and approval in September 2020.



L. Lloyd Holder
Board Apprentice

Human Resource and Compensation Committee

The Human Resource and Compensation Committee (“HRCC”) mandate is “to ensure that the human resource and compensation practices support the successful recruitment and retention of executive talent and employees that are capable of achieving the corporate business objectives.” The mandate is aligned with the Company’s Strategic Action Plan objective to ensure that Polaris is appropriately staffed to achieve its vision of being a progressive holding company that supports stability and growth for its investments while maximizing shareholder value.

The members of the HRCC are Ms. Tammy Richardson-Augustus, Mr. Howard Pitcher and it is chaired by Ms. Cheryl Hayward-Chew, working closely with Mr. Warren Jones in his capacity of CEO.

In fiscal 2020 the HRCC ensured the alignment of EEA’s human resource and health and safety practices with that of Polaris, promoting an environment of stability and security. EEA employees participated in their first annual employee survey and the HRCC awarded its first Polaris Holding Company Limited Educational Award to an EEA recipient.

For SSL, fiscal 2020 brought a protracted period of low staff morale, exacerbated by the building anxiety of the issuing of the operating license RFP and repeated equipment breakdowns. The HRCC supported management’s initiatives to facilitate improved communications with the annual employee survey proving to be an important tool for both management and the Union.

The HRCC supervised the formation of the Employee Share Purchase Plan, which was enthusiastically received by staff.

The fiscal year ended with the onset of the COVID-19 crisis which brought enhanced health and safety oversight and training for operations and administration. The HRCC recognizes the additional commitment required to sustain these protective protocols by staff in both SSL and EEA operations.

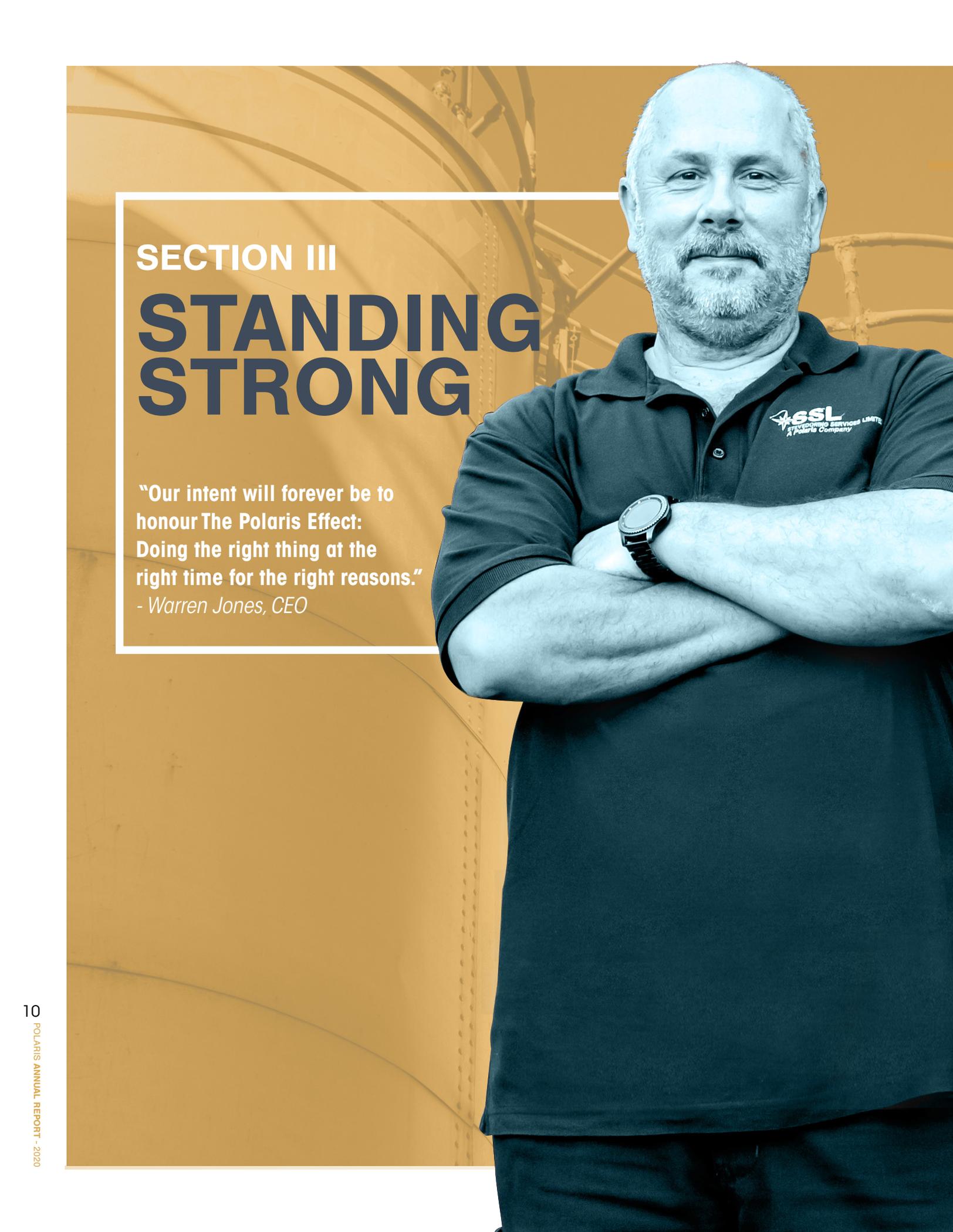
Investment Committee

The Investment Committee (“IC”) mandate is to support the Company’s investment strategy by ensuring that “a prudent framework exists in relation to investment activities. More specifically the IC mandate is to adhere to the financial objectives set in the Strategic Action Plan adopted by the Board, which seeks to balance risk while striving for a return on equity of 12.0% or better.”

The IC is comprised of Mr. Jeffrey Conyers, Ms. Tammy Richardson-Augustus, Mr. Paul Hubbard and it is chaired by CEO Mr. Warren Jones. The IC is supported by acting Vice President of Finance Mr. Todd Boyd.

The IC played a vital role in the assimilation of EEA into Polaris. EEA had a tumultuous year; starting with solid financial results before enduring a very difficult summer, second quarter, and just as it looked like it would rebound and achieve a profitable end result, the Shelter in Place shuttered the operation and shelved lucrative end of year projects. Through it all, the IC acted as a sounding board to the CEO in the acquisition of key equipment, plant repairs and the establishment of the General Manager role for the new holding.

With COVID-19 changing the landscape of Bermuda, as it has across the globe, the IC continues to work with the CEO to test and challenge various proposals designed to mitigate the projected outcomes of the pandemic. This includes the consideration of proposed operational changes within SSL.

A photograph of Warren Jones, CEO of SSL, standing with his arms crossed. He is wearing a dark polo shirt with the SSL logo and text: "SSL", "STEVEDORING SERVICES LIMITED", and "A Polaris Company". The background is a large, curved industrial structure, possibly a ship's hull, with a warm, orange-toned lighting.

SECTION III

STANDING STRONG

"Our intent will forever be to honour The Polaris Effect: Doing the right thing at the right time for the right reasons."

- Warren Jones, CEO

Report from the **CHIEF EXECUTIVE OFFICER**

In the 2019 Annual Report, I noted two significant issues. Firstly, winning the concession for the Port of Hamilton and secondly, consolidating EEA into the Polaris group.

It would have been my hope to report we had won the concession and operating the port for the next twenty years. However, in spite of being the only bidder, a combination of the Shelter in Place, due to the COVID-19 pandemic, and ongoing consultation with the Corporation of Hamilton, this remains unresolved.

As the financial analysis and audit report will attest, this was a difficult year for Polaris; the worst we have seen in a few years. While we registered a profit, it is poles apart from just one year ago.

The story in SSL is expenses! A combination of equipment failure, unbillable overtime and minimum service level payouts represented the theme for the year. While Equipment Sales and Rentals Limited's ("ESR") twelve-year old Terex American Crane was successfully reconditioned, it came at a high labour cost.

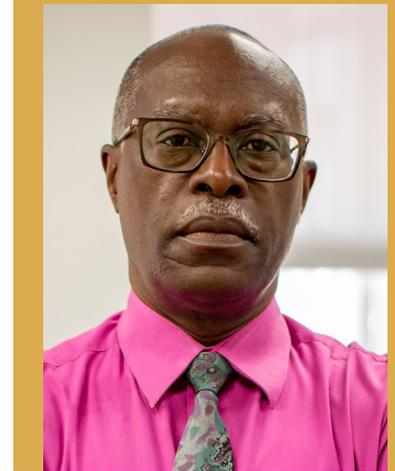
The good news out of this is that SSL can now boast a third crane to ensure consistent customer service. An area of concern for several years.

In addition to the financial stresses, strained relationships between management and Union (staff) impacted morale for the better part of the year. If that were not enough, the COVID-19 pandemic closed the Island for close to two months.

However, it was at the country's lowest point that the Stevedoring Services' staff rose to their highest, showing character and resilience in the face of the most difficult period in living memory.

Each member of the team needs to be commended for their contribution during the Shelter in Place and since. SSL's staff showed once again that they understand the role they play in the sustainability of our Island home.

Management and staff pulled together to ensure that there was no gap in the supply chain from US ports to local stores. It was not an easy time to leave their families and oftentimes be the only persons on our roads to make it to the port to ensure that our cargo carriers were able to maintain their schedules.



The year ahead will not be any easier for SSL. Cargo projections are down significantly and this requires difficult discussions that will again test the relationship between management and Union. However, our commitment is to be open, transparent and honest. Notwithstanding the challenges to finding a way forward, we are committed to treating our staff fairly.

EEA is now a full and productive part of the Polaris group. In its first year, its finances attest to a rollercoaster start.

Key accomplishments were the reestablishment of the brand as a quality, dependable and reliable entity. EEA has a small committed workforce who have proven to be extremely skilled and knowledgeable of the asphalt business.

The recruitment of Travis Gilbert as General Manager represents Polaris' commitment to entrepreneurship and innovation. Having successfully run several independent businesses and projects, Polaris is now reaping the rewards of his boundless energy and customer focus.

Although EEA did not achieve a profit, had it not been for the Shelter in Place, the Company would have exceeded expectations for its first year.

The projection for EEA looks bright. Significant projects for the Bermuda Government and others, plus the focus on marketing to the private homeowners suggest a better year for that entity.

I wish to thank the entire Polaris team and those working within its holdings. We may not always agree but my intent will forever be to honour the "Polaris Effect" –

"To do the right thing, at the right time, for the right reasons."

Warren Jones
Chief Executive Officer
Polaris Holding Company Ltd.

IN THE COMMUNITY

While 2019 included continued emphasis on community engagement as a principal driver of our Corporate Social Responsibility mandates, 2020 slowed our planned sponsorship activities and social activities.

COVID-19

What emerged from the Government imposed Shelter in Place was a spotlight on the often thankless work of the island’s essential workers, including the stevedores. SSL received praise and recognition from The Premier, The Bermuda Sailors’ Home which donated take away meals and The Salvation Army which dedicated a live Zoom church service to essential workers. The virtual service featured profiles and videos of the SSL team. The Royal Gazette did a feature on the stevedores: Heroes on the Front Line which featured video interviews as well as a tribute to the stevedores by 10 year old Mataio Cameron, son of SSL team member, Cavon Spencer.

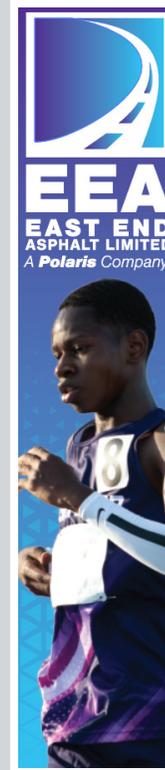
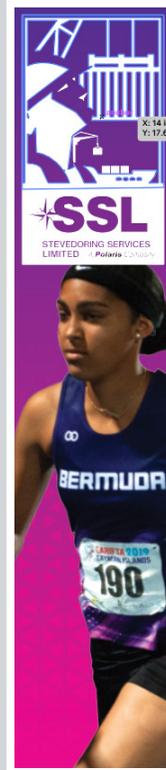


Cricket Sponsorship

In 2019, we renewed our support of the Eastern County Cricket Association (ECCA), and joined thousands of Bermudians in celebrating the historic annual series. Our support included media coverage, broadcast sponsorship and financial support for both the Junior and Senior Series MVP’s. As always our decision to support this iconic series was guided by the affinity of our staff members in conjunction with our assessment of the organising entity and their impact on the community. We learned in spring of 2020 that the 2020 ECCA Series, for both the youth and adult teams, was cancelled due to COVID-19 public health concerns.

CARIFTA GAMES SPONSORSHIP

As part of the reintroduction of EEA to the market, the Group jointly sponsored the 2020 Carifta Games which was to take place in Bermuda in Easter of 2020. The marketing and promotion of the event had begun in earnest by winter of 2019 with significant features of the EEA, SSL and Polaris brands across social and traditional media. We had designed branding for both EEA and SSL to be applied to both sides of the cranes on the docks and were slated to be a major sponsor for an exciting regional track meet. The meet has been postponed until April 2021 and our games sponsorship will be extended until that time.




CARIFTA 2020
 BERMUDA

COMMEMORATIVE
BATON RELAY

CALLING ALL FORMER
 CARIFTA GAMES ATHLETES

JOIN US FOR THIS SPECIAL EVENT
 THAT WILL OPEN THE 2020 GAMES

CONTACT athleticsbda@gmail.com
 BY FEBRUARY 7th FOR MORE INFORMATION




“Trust holds fast, standing firm until deliverance arrives or a solution is found.”
- Elizabeth George

LONG SERVICE AWARDS

The 2020 Long Service Awards at the BUEI, were set for March 21, 2020. Even before the cancellation of large group events was mandated by government, our Management team chose to postpone the much anticipated event for safety reasons. The awards event was restructured to recognise the long-serving employees and retirees on their individual job sites in three separate groups to optimise physical distancing. The awardees were recognised in the media.



EDUCATION AWARDS

The annual Polaris Holding Company Education Awards were disbursed to college-enrolled dependents of SSL and EEA team members. The Education Awards represent an ongoing commitment by the Polaris Board to support the families of our team members through educational bursaries. The 2020 recipients were Jache Butler (Joshua Butler, SSL), Etteleon Burchall (Noelette Burchall, SSL) and Donnalynn Smith (Lyndon Smith, EEA)





FINANCIAL ANALYSIS

Financial Analysis for the Year Ended March 31, 2020

Polaris ended the year as the Country faced a global pandemic. In May 2020, as Shelter in Place requirements were peeled back, residents emerged from homes to enter a new germ soaked world. What the future will look like is not yet known. Will a cocktail of potions and magic pills provide blanket protection? Will herd immunity render everyone safe? Or will bodies remain layered in towels and masks, Bermudians resigned to social distancing with limited gatherings.

Regardless of where Bermuda lands, the economic ravages of fiscal 2021 will have crippling effects in the year ahead. Unemployment has surged; the Country's debt level, which was already unsustainable, has exploded, and the island's fragile travel and tourism pillar has for the time being, been decimated. As an anti-immigration mindset remains an entrenched view, the population base drops lower and lower. Economic prosperity, by every measure, is faltering.

In light of this, cargo volumes for fiscal 2021 are anticipated to fall at least (15%). When or how Bermuda will come out of the spiral is a mad gamble.

Looking wistfully back at fiscal 2020, the Company reported a consolidated gain of \$168K [fiscal 2019 - \$801K].

It was a softer year than hoped, although in the wake of a post COVID-19 world, it is difficult to see fiscal 2021 being better.

POLARIS HOLDING COMPANY LTD. - Financial Summary

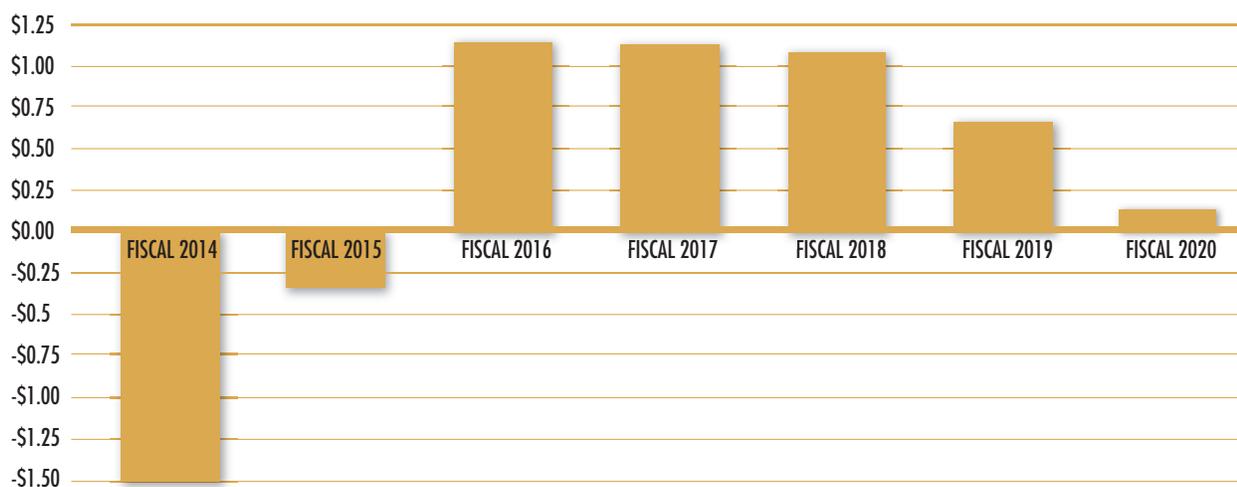
Fiscal Year End (Dollar Amounts in Thousands)	31-Mar-14	31-Mar-15 (restated)	31-Mar-16	31-Mar-17	31-Mar-18 (restated)	31-Mar-19	31-Mar-20
20-foot Equivalent Container Moves	33,955	33,104	34,901	36,806	37,906	37,425	37,504
SSL Revenue	\$9,305	\$9,217	\$10,567	\$10,954	\$11,921	\$11,563	\$11,868
Total Comprehensive Profit (Loss) for the Year*	(1,942)	(443)	1,384	1,361	1,299	801	168
Earnings Per Share	(1.56)	(0.34)	1.16	1.15	1.10	0.68	0.14
Shareholders' Equity	8,881	8,190	9,084	10,089	11,020	11,442	11,250

* March 31, 2014 results include a \$1 million impairment of investment property. March 31, 2019 results include \$250K in EEA acquisition costs.

Earnings Per Share

The Company reported earnings per share of \$0.14 in fiscal 2020 [fiscal 2019 - \$0.68].

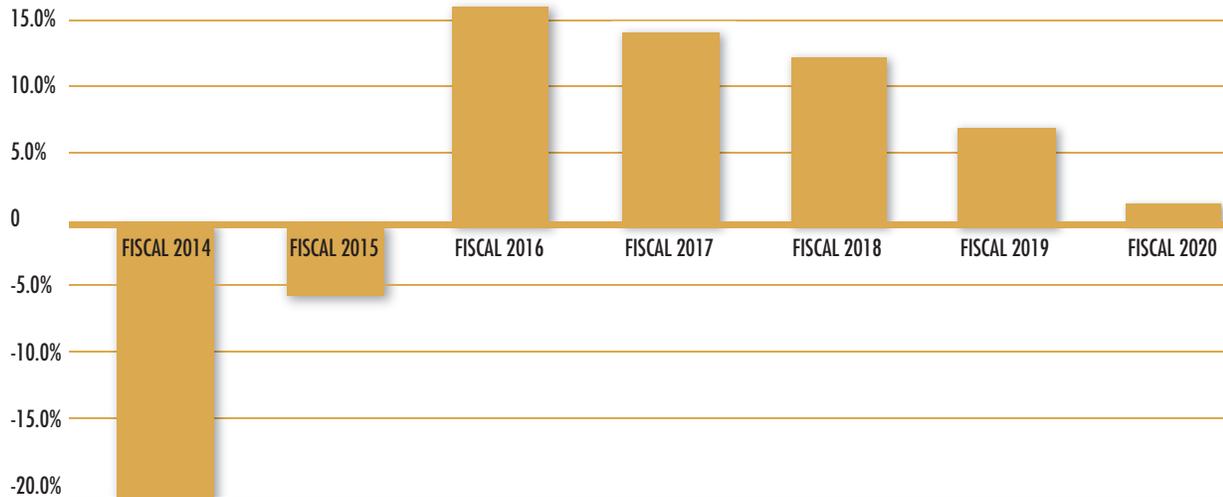
EARNINGS PER SHARE



Return on Equity

Polaris' equity at the end of fiscal 2020 was \$11.25 million [fiscal 2019 - \$11.44 million]. Return on equity reflected lower at 1.5% [fiscal 2019 - 7.1%,], due to the softer profits.

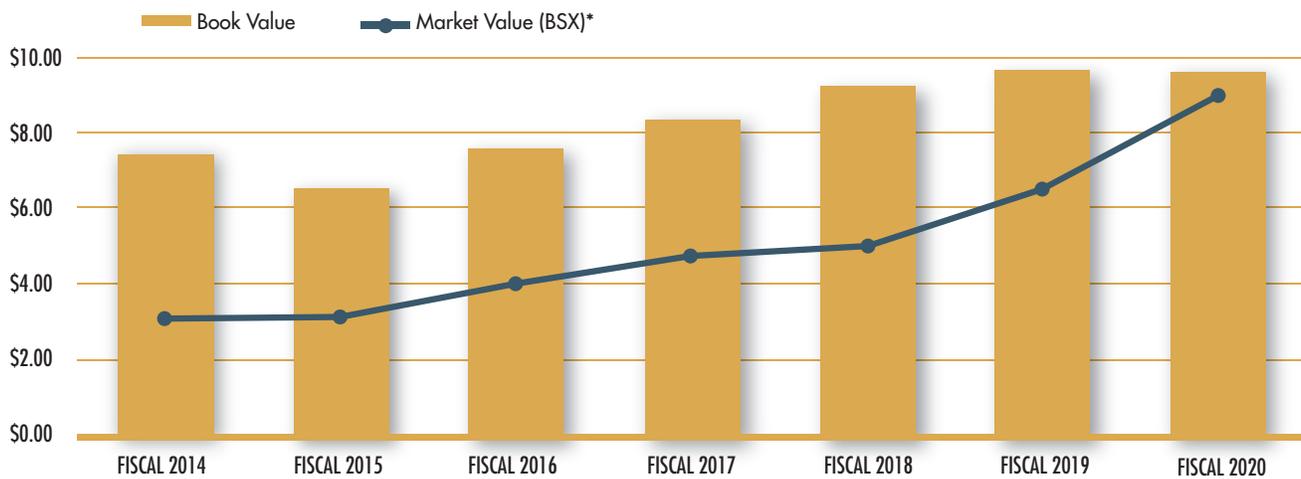
RETURN ON EQUITY



Book Value and Market Value

As at March 31, 2020, book value was \$9.48 per share [fiscal 2019 - \$9.66 per share]. With the last four trades from October 22, 2019 to May 7, 2020, of 200 to 2,000 shares, each being at \$8.95 per share despite the softer current earnings, market value has, for Polaris, steadily moved north since it bottomed out at \$3.05 per share in 2014.

BOOK AND MARKET VALUE PER SHARE

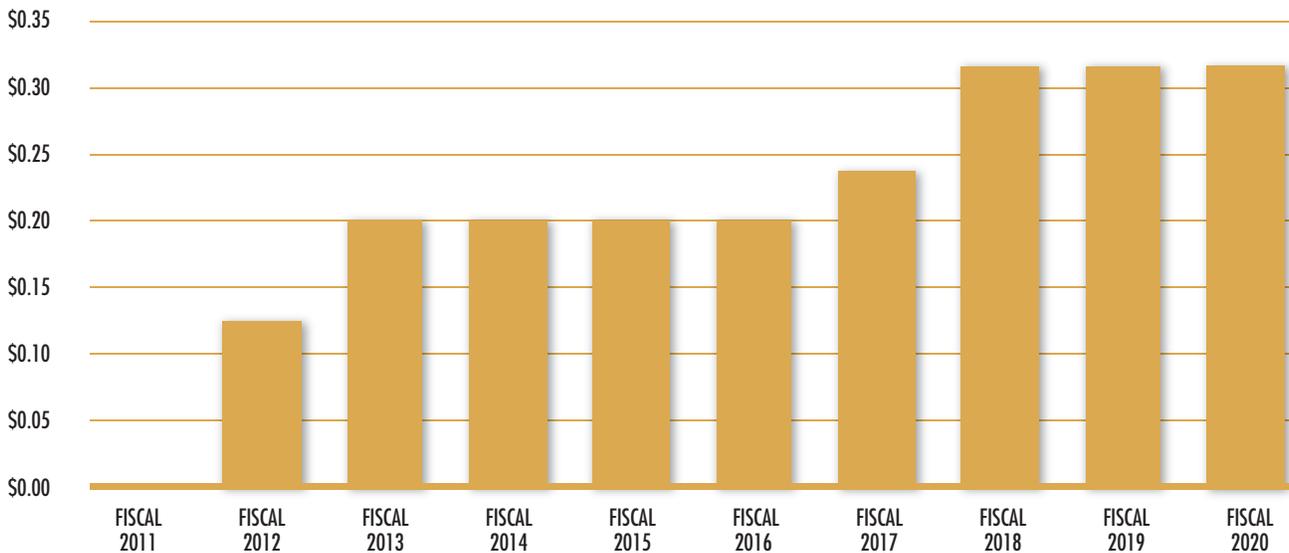


*as at Aug 17, 2020

Dividends

Despite difficult trading conditions, dividends have been held at \$0.08 per quarter, or \$0.32 per annum, since June 2017. However, in June 2020 the Company deferred its quarterly dividend as a result of the impact of COVID-19 on the business.

DIVIDENDS



Stevedoring Services Limited

SSL started fiscal 2020 with two years left on its terminal operating license. In September 2019, the Corporation of Hamilton issued a request for proposal, putting the port of Hamilton's cargo dock contract out to tender. In the end, SSL's submission stood alone in the bidder box, and following fiscal 2020's year-end, SSL was anticipated to be confirmed Hamilton's sole stevedoring operator, a garland to be worn until March 2042. However, the pandemic has sidelined that process, with the terminal operator license, which was to expire on February 28, 2021, extended for a minimum one-year period, extendable at the option of the Corporation of Hamilton for an additional one-year period.

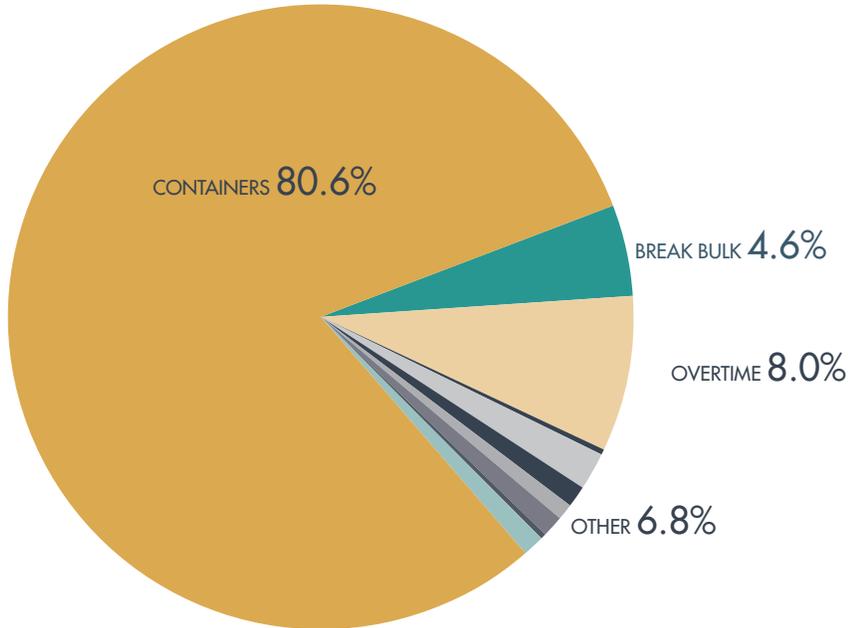
Despite the contract's presumed future settlement, fiscal 2020 proved to be less jubilant. While the Company ended the year on the positive side of the ledger, it marinated in losses from October 1, 2019 to February 29, 2020, with (\$414K) of value wiped from its balance sheet during those five months. Break bulk volumes reflected down (23%), minimum service level credits given to the freight lines when SSL's productivity slips below established levels, topped \$160K due to equipment failures [fiscal 2019 - \$45K], and year over year spending grew.

Revenue of \$11.87 million was up 2.6% from fiscal 2019's \$11.56 million, but as a result of higher costs, net income fell to \$241K [fiscal 2019 - \$784K].

Revenue

Container revenue accounted for \$9.60 million [fiscal 2019 - \$9.43 million] or 80.6% of SSL's fiscal 2020 top line [fiscal 2019 - 81.0%], derived from the discharging and back loading of twenty foot equivalent containers ("TEUs").

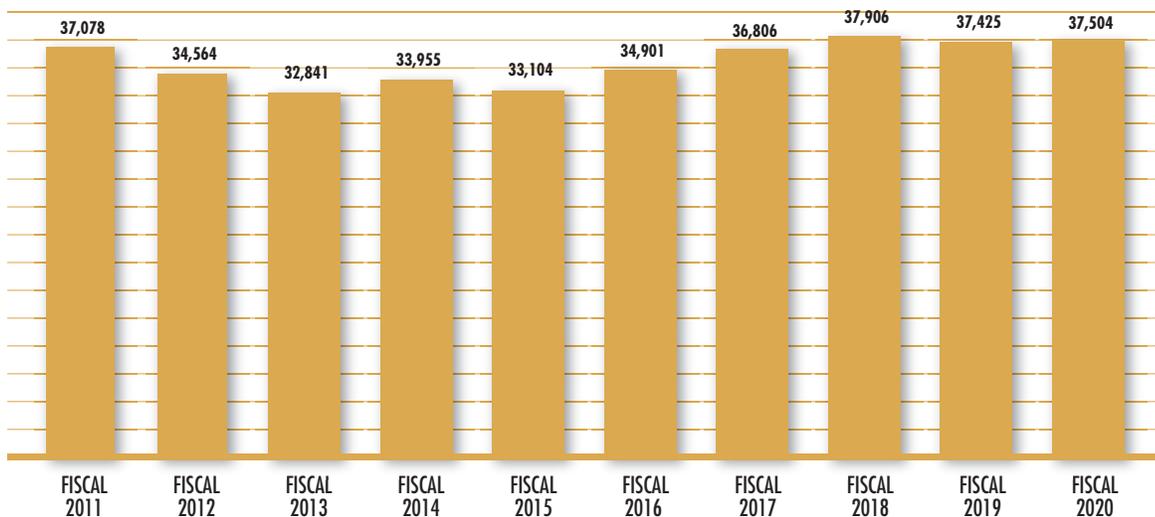
SSL REVENUE BREAKDOWN



Container Moves

Cargo volumes rose by 0.2% during the year, to 37,504 TEUs

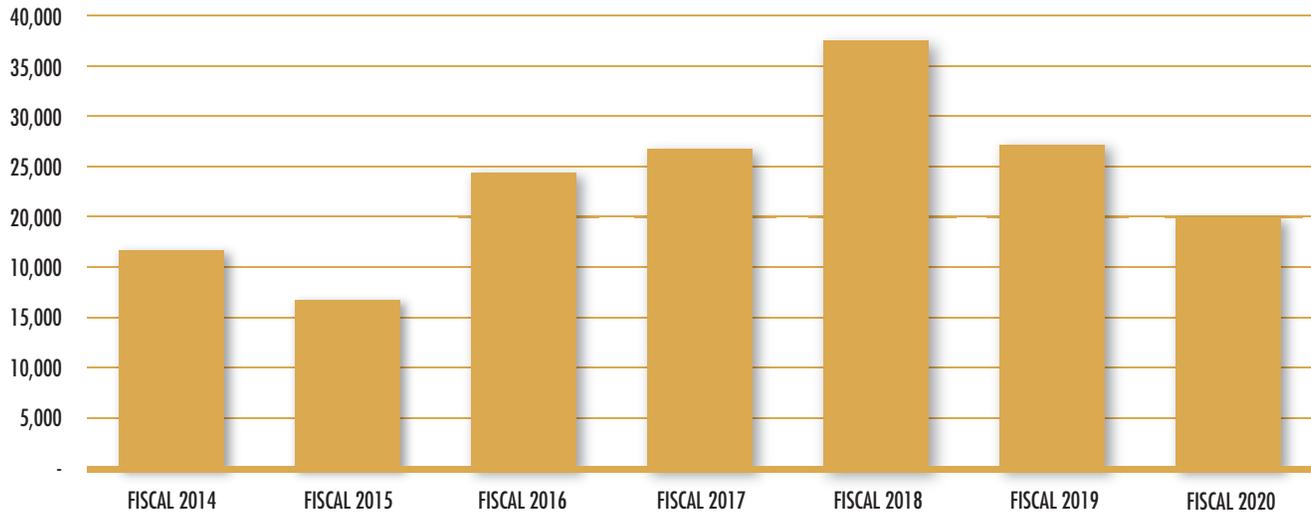
SSL - TEU MOVES



Break Bulk

Break bulk volumes continued to soften in fiscal 2020, falling by (7,843) freight tons or (22.9%) year over year. The year's volume provided SSL \$559K in break bulk revenue [fiscal 2019 - \$705K], and accounted for 4.6% [fiscal 2019 - 6.0%] of SSL's overall top line.

BREAK BULK MOVES (IN FREIGHT TONS)



SSL Overtime Revenue

Charges to the freight lines, for labour worked in overtime, provided SSL \$959K in revenue in fiscal 2020 [fiscal 2019 - \$850K]. In theory, revenue should marginally offset payroll costs, leaving SSL cost neutral as it relates to overtime. In that regard whether or not SSL works in overtime, and generates billings, this should have limited effect on its bottom line.

With that said, overtime revenue was net of \$160K [fiscal 2019 - \$45K] in minimum service level agreement ("MSLA") credits which SSL issued to the freight lines throughout the year as a result of production levels not achieving a committed 32 container moves per gang hour. More specifically, MSLA credits were created as a result of equipment being down, forcing SSL to work only one gang, resulting in overtime labour which otherwise would not have been necessary.

In mid-March, as a result of the pandemic and in an effort to observe social distancing and ensure both gangs did not fall ill at the same time, SSL began working only one gang, with billable overtime increasing and the MSLA agreement on pause.

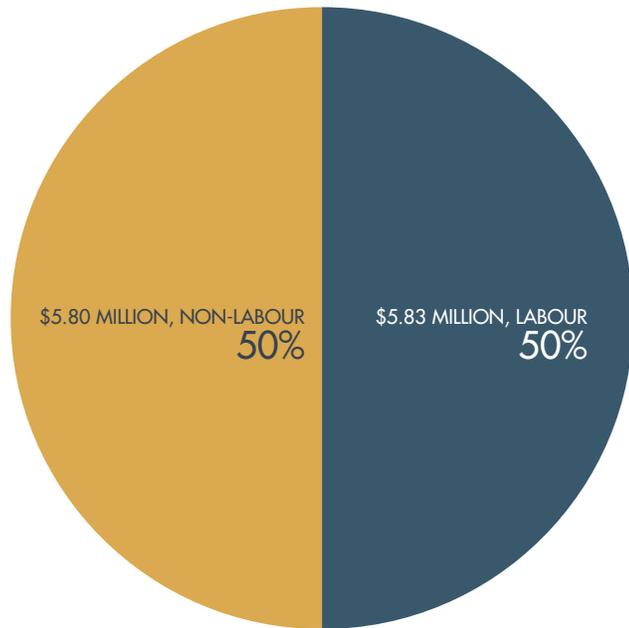
SSL Expenses

SSL's expenses of \$11.63 million [fiscal 2019 - \$10.78 million] were up 7.9% or \$848K from prior year. Labour costs accounted for half of SSL's fiscal 2020 expenditures, as expected.

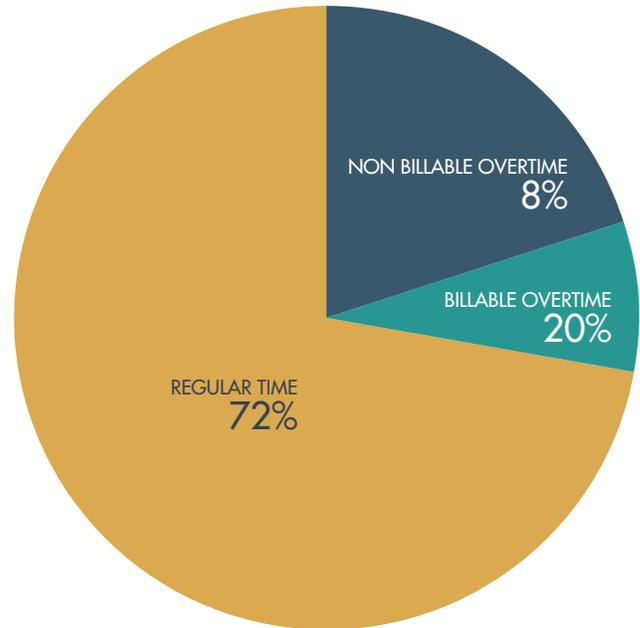
SSL Labour costs during regular time were relatively fixed, with year over year salary rates rising by CPI or 1.0%. Overall payroll grew by 5.2%, primarily the result of high mechanical and other non-chargeable overtime.

Costs included \$1.15 million in billable overtime, as outlined in the revenue discussion above.

SSL - FISCAL 2020 EXPENSES



SSL - FISCAL 2020 LABOUR



SSL Non-Labour Spending

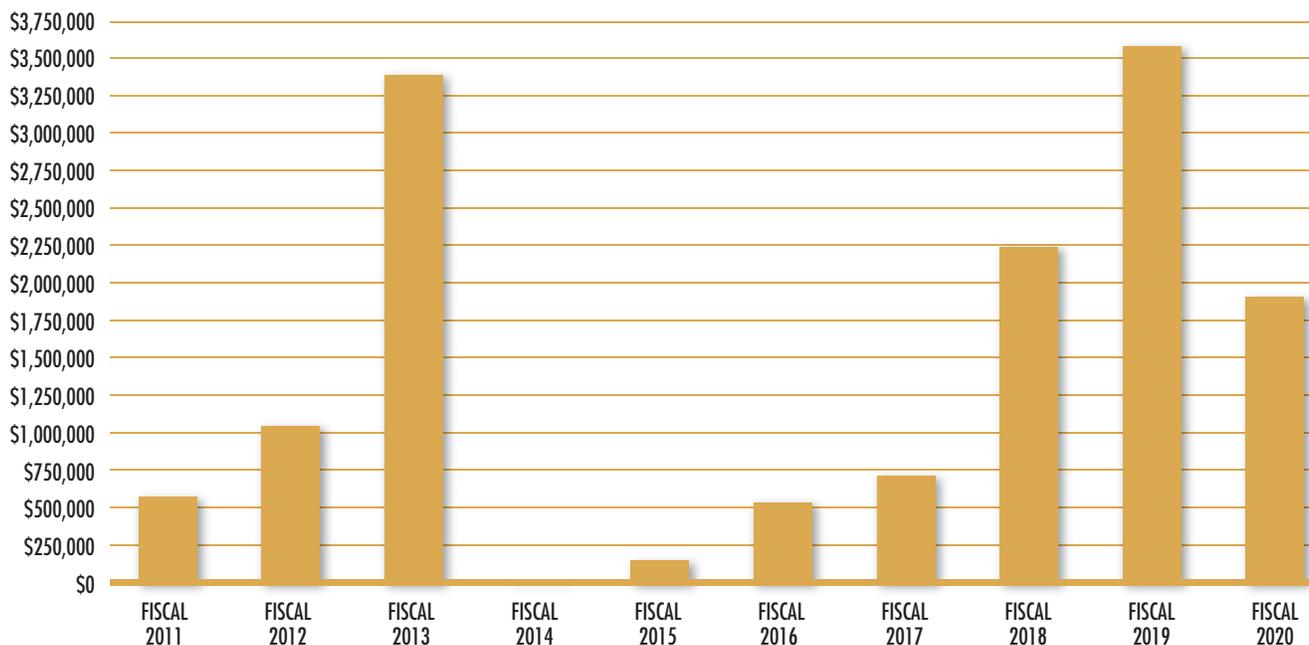
Non-labour spending of \$5.80 million [fiscal 2019 - \$5.23 million], rose 10.7% from prior year. Factors included:

- Higher amortization as a result of equipment purchases, the acquisition of parts, and spending on a new terminal operating system. Heavy equipment purchases included in the prior year a \$2.32 million Manitowoc crane, with fiscal 2020 reflecting the full burden of the crane's amortization.
- Administrative salary costs, which are categorized as non-labour, rose in fiscal 2020 as the division was short a Superintendent for part of the prior year.
- Garage supplies, lubricants and oils, and repairs and maintenance, rose; the uplift was the result of ongoing mechanical issues with the three cranes and with the other heavy equipment.
- Consulting and other third party spending to prepare and submit SSL's terminal operator bid to the Corporation of Hamilton.
- Higher information technology and professional fee costs, including the requirement in fiscal 2020 to begin providing the Corporation of Hamilton an audit report specific to SSL' operations.

Property, Plant and Equipment

Property, plant and equipment spending by Polaris for the year was \$1.85 million [fiscal 2019 - \$3.58 million], with over \$1.00 million on heavy equipment, and \$613K on parts. Spending included \$243K on a Miller for EEA, \$210K on the Terex crane repairs, \$43K on a computer operating system and reinforced door for the Gottwald crane, \$92K in capital spending on two Taylor reachstacker transmission replacements, \$324K on a deposit for a new reachstacker which will go into service in fiscal 2021, and \$75K for a new engine and transmission on a Taylor top loader.

PURCHASE OF PROPERTY, PLANT AND EQUIPMENT



Mill Reach Holding Limited

Mill Reach Holding Limited ("MRH") owns 7 Mill Reach Lane and 11 Mill Reach Lane, in Pembroke Parish.

The property covers 0.9 acres or 39,204 square feet and includes a large building of approximately 3,743 square feet, a facility of approximately 1,850 square feet, and a small carpenter shop.

MRH generated \$148K in rental revenue during the year, and while profits were only \$9K, after adding back \$87K in amortization associated with its building, an asset which is holding its value, and following \$58K in capital spending, MRH delivered a positive cash flow of \$38K. With rental rates stepped up at year-end, and long-term tenants in place, fiscal 2021 is anticipated strong despite the pandemic.

East End Asphalt Company Limited

With EEA acquired in the waning days of the prior year, Polaris used fiscal 2020 as a building year, investing time and money to establish and improve EEA's capital and human resource infrastructure, cultivating customer relationships, and growing the business model. For fiscal 2020, \$504K was incurred acquiring paving equipment, the division hired a General Manager, and pricing was rejigged.

By March the business model was gaining traction, but COVID-19 derailed momentum, turning a March gain which looked to be over \$200K, into a nominal loss.

EEA leases a property in Hamilton Parish which has a 20 year term which commenced March 15, 2019, with an option to extend the lease for 30 additional years. Rent for the year was \$90K, increasing to \$220K per year effective March 2021. The lease is reflected on the Company's balance sheet as a \$3.60 million capital asset, with an associated \$3.60 million lease obligation. Although only \$90K in lease payments were incurred during the year, accounting rules dictated that \$263K be reflected on EEA's income statement as an expense, resulting in a fiscal 2020 paper loss in the paving division.

A woman with short dark hair, wearing a dark polo shirt and a high-visibility safety vest, stands in an industrial environment. The background consists of large, curved metal structures, possibly part of a ship's hull or a large industrial tank. The lighting is bright, and the overall color palette is dominated by the orange and yellow tones of the industrial setting.

SECTION IV

**STANDING
TOGETHER**

"Stand firm and don't be shaken."
- 1 Corinthians 15:58

OUR MANAGEMENT



WARREN JONES
Chief Executive Officer



LINDA AMARAL
Comptroller



ALOMA MUSSON
Administration Manager



ERIC BERKELEY
Operations Manager



KIM WILKINSON
Superintendent



HECTOR LAMBERT
Superintendent



PAUL MONIZ
Superintendent



TRAVIS GILBERT
General Manager



SHAWNETTE MCCLARTY
Financial Controller



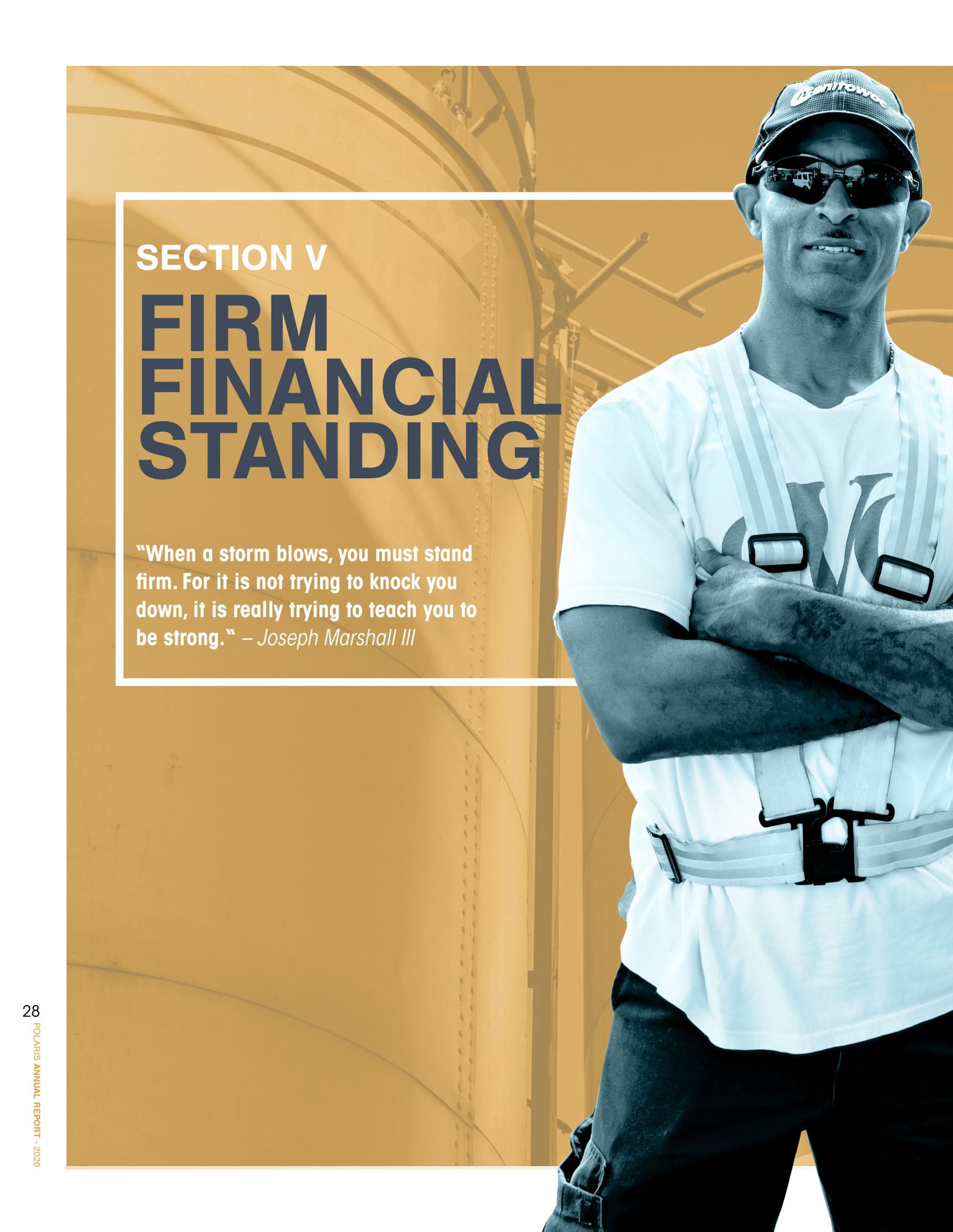
LARRY HODGE
Quality Control Manager



MERVYN VAN PUTTEN
Foreman





A man wearing a white t-shirt, a safety harness, and a cap with the "Winrow" logo stands with his arms crossed in an industrial setting. The background is a large, curved metal structure, possibly part of a ship or a large industrial vessel. The overall color palette is dominated by warm, golden-brown tones.

SECTION V

FIRM FINANCIAL STANDING

“When a storm blows, you must stand firm. For it is not trying to knock you down, it is really trying to teach you to be strong.” – *Joseph Marshall III*

POLARIS HOLDING COMPANY LTD.

Consolidated Financial Statements

(With Independent Auditor's Report Thereon)

March 31, 2020

The accompanying report of KPMG Audit Limited ("KPMG") is for the sole and exclusive use of Polaris Holding Company Ltd. (the "Company").

No person, other than the Company, is authorized to rely upon the report of KPMG unless KPMG expressly so authorizes.

Furthermore, the report of KPMG is as of August 17, 2020, and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.

**KPMG Audit Limited**

Crown House
4 Par-la-Ville Road
Hamilton
HM 08
Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 8280
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT**To the Shareholders of Polaris Holding Company Ltd.**

We have audited the accompanying consolidated financial statements of Polaris Holding Company Ltd. (the "Company") and its subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2020 and 2019, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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 as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as at March 31, 2020 and 2019, and their consolidated financial performance and their consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The report to shareholders is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
August 17, 2020

POLARIS HOLDING COMPANY LTD.

Consolidated Statement of Financial Position

March 31, 2020 and 2019
(Expressed in Bermuda Dollars)

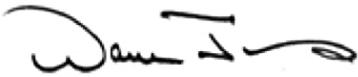
	<u>March 31, 2020</u>	<u>March 31, 2019</u>
Assets		
Non-current assets		
Goodwill (Note 16)	\$ 1,200,000	\$ 1,339,892
Investment property (Note 7)	1,460,731	1,490,000
Property, plant and equipment (Notes 8 and 9)	<u>14,114,283</u>	<u>10,347,706</u>
Total non-current assets	16,775,014	13,177,598
Current assets		
Cash and cash equivalents (Note 10)	1,847,151	1,390,869
Accounts receivable (Notes 19 and 23)	1,130,273	1,664,484
Inventory (Note 11)	704,740	1,172,401
Prepaid expenses	<u>95,166</u>	<u>296,146</u>
Total current assets	3,777,330	4,523,900
Total assets	<u>\$ 20,552,344</u>	<u>\$ 17,701,498</u>
Liabilities		
Non-current liabilities		
Long term debt (Note 14)	\$ 3,310,079	\$ 3,562,040
Accrued expenses (Note 23)	140,120	154,715
Lease liabilities (Note 9)	<u>3,802,170</u>	<u>–</u>
Total non-current liabilities	7,252,369	3,716,755
Current liabilities		
Accounts payable and accrued expenses (Note 23)	1,083,622	2,304,441
Long-term debt – current portion (Note 14)	252,625	237,960
Lease liabilities (Note 9)	73,348	–
Due to director (Note 13)	300,000	–
Unearned revenue	<u>340,571</u>	<u>–</u>
Total current liabilities	2,050,166	2,542,401
Total liabilities	9,302,535	6,259,156
Equity		
Share capital (Note 17)	1,187,132	1,184,132
Share premium (Note 17)	24,750	8,250
General reserve (Note 18)	1,250,000	1,250,000
Retained earnings	<u>8,787,927</u>	<u>8,999,960</u>
Total equity attributable to the Company's shareholders	11,249,809	11,442,342
Total liabilities and equity	<u>\$ 20,552,344</u>	<u>\$ 17,701,498</u>

The accompanying notes are an integral part of these consolidated financial statements

Signed on behalf of the Board



Director



Director

POLARIS HOLDING COMPANY LTD.

Consolidated Statement of Comprehensive Income

For the years ended March 31, 2020 and 2019
(Expressed in Bermuda Dollars)

	<u>2020</u>	<u>2019</u>
Revenue		
Stevedoring revenue (Notes 6 and 19)	\$ 11,867,914	\$ 11,563,394
Stevedoring expenses (Notes 12 and 13)	<u>(7,478,866)</u>	<u>(6,952,548)</u>
Stevedoring gross profit	4,389,048	4,610,847
East End Asphalt revenue	3,262,851	80,183
East End Asphalt expenses	<u>(2,257,177)</u>	<u>(93,679)</u>
East End Asphalt gross profit (loss)	1,005,674	(13,496)
Gain on disposal of property, plant and equipment	–	33,806
Rental income (Note 7)	<u>147,830</u>	<u>143,501</u>
Total income	5,542,552	4,774,658
Expenses		
Administrative salaries, wages and benefits (Notes 12 and 13)	1,971,672	1,479,015
Depreciation (Note 8)	1,244,757	912,786
General and administrative expenses (Note 19)	676,791	758,456
Professional fees	517,534	294,080
Information technology and telecommunication	278,488	226,213
Impairment of goodwill (Note 16)	139,893	–
Depreciation of investment property buildings (Note 7)	87,388	85,000
Acquisition of East End Asphalt (Note 16)	<u>–</u>	<u>209,580</u>
Total expenses	4,916,523	3,965,130
Results from operations	626,029	809,528
Finance income (Note 20)	22	1,135
Finance expense (Notes 9 and 14)	<u>(458,202)</u>	<u>(9,348)</u>
Net finance expense	(458,180)	(8,213)
Profit for the year (attributable to owners of the Company)	\$ 167,849	\$ 801,315
Earnings per share – basic (Note 21)	\$ 0.14	\$ 0.68
Earnings per share – fully diluted (Note 21)	\$ 0.14	\$ 0.67

All items included in the consolidated statement of comprehensive income relate to continuing operations. There are no other components of comprehensive income.

The accompanying notes are an integral part of these consolidated financial statements

POLARIS HOLDING COMPANY LTD.

Consolidated Statement of Changes in Equity

For the years ended March 31, 2020 and 2019
(Expressed in Bermuda Dollars)

	<u>Share capital</u>	<u>Share premium</u>	<u>General reserve</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance at April 1, 2018 as previously reported	\$ 1,184,132	\$ 8,250	\$ 1,250,000	\$ 8,577,567	\$ 11,019,949
Total comprehensive income:					
Profit for the year	–	–	–	801,315	801,315
Transactions with owners of the Company recognized directly in equity:					
Dividends declared and paid (Note 17)	<u>–</u>	<u>–</u>	<u>–</u>	<u>(378,922)</u>	<u>(378,922)</u>
Balance at March 31, 2019	<u>\$ 1,184,132</u>	<u>\$ 8,250</u>	<u>\$ 1,250,000</u>	<u>\$ 8,999,960</u>	<u>\$ 11,442,342</u>
Total comprehensive income:					
Profit for the year	–	–	–	167,849	167,849
Transactions with owners of the Company recognized directly in equity:					
Shares issued (Note 17)	3,000	16,500	–	–	19,500
Dividends declared and paid (Note 17)	<u>–</u>	<u>–</u>	<u>–</u>	<u>(379,882)</u>	<u>(379,882)</u>
Balance at March 31, 2020	<u><u>\$ 1,187,132</u></u>	<u><u>\$ 24,750</u></u>	<u><u>\$ 1,250,000</u></u>	<u><u>\$ 8,787,927</u></u>	<u><u>\$ 11,249,809</u></u>

The accompanying notes are an integral part of these consolidated financial statements

POLARIS HOLDING COMPANY LTD.

Consolidated Statement of Cash Flows

For the years ended March 31, 2020 and 2019
(Expressed in Bermuda Dollars)

	<u>2020</u>	<u>2019</u>
Operating activities		
Profit for the year	\$ 167,849	\$ 801,315
Adjustments for:		
Depreciation	1,394,912	912,786
Depreciation of heavy equipment parts	642,628	517,598
Depreciation of investment property	87,388	85,000
Impairment of goodwill	139,893	–
Net finance expense	458,180	8,213
Expenses on issuance of shares (Note 17)	9,180	–
Gain on disposal of property, plant and equipment	–	(33,806)
Changes in non-cash working capital balances:		
Accounts receivable	534,211	(213,225)
Inventory	467,661	(422,350)
Prepaid expenses	200,980	(39,591)
Accounts payable and accrued expenses	(1,235,414)	996,089
Unearned revenue	<u>340,571</u>	<u>–</u>
Net cash provided by operating activities	<u>3,208,039</u>	<u>2,612,029</u>
Investing activities		
Purchase of property, plant and equipment	(1,848,260)	(3,578,631)
Purchase of investment property	(58,119)	–
Acquisition of EEA, net of cash acquired	–	(3,889,497)
Proceeds on disposal of property, plant and equipment	–	43,000
Interest and dividends received	<u>22</u>	<u>1,135</u>
Net cash used in investing activities	<u>(1,906,357)</u>	<u>(7,423,993)</u>
Financing activities		
Long-term debt (repaid) raised	(237,296)	3,800,000
Loan from director	300,000	–
Dividends declared and paid	(379,882)	(378,922)
Proceeds from shares issued	10,320	–
Payment of lease liabilities	(290,000)	–
Interest paid	<u>(248,542)</u>	<u>(9,348)</u>
Net cash (used in) provided by financing activities	<u>(845,400)</u>	<u>3,411,730</u>
Increase (decrease) in cash and cash equivalents	456,282	(1,400,234)
Cash and cash equivalents at beginning of year	<u>1,390,869</u>	<u>2,791,103</u>
Cash and cash equivalents at end of year	<u>\$ 1,847,151</u>	<u>\$ 1,390,869</u>

The accompanying notes are an integral part of these consolidated financial statements

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

1. **General**

Polaris Holding Company Ltd. (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 Rentals 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 was accounted for as a combination of entities under common control with transfers being recorded at their carrying value.

SSL, a wholly-owned subsidiary of the Company, is incorporated under the laws of Bermuda and carries on business as a stevedoring company. In March 2016, this subsidiary was awarded a 5-year terminal operator’s licence by the Corporation of Hamilton to function on the Hamilton docks from March 1, 2016 to February 28, 2021. On August 4, 2020 the terminal operator’s licence was extended for a minimum one-year period, extendable at the option of the Corporation of Hamilton for an additional one-year period.

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 owns investment property at Mill Reach Lane, Pembroke, Bermuda.

The Company acquired East End Asphalt Company Limited (“EEA”) on March 14, 2019. EEA carries on business as an asphalt manufacturing and paving company (Note 16).

2. **Basis of preparation**

(a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on August 17, 2020.

This is the first set of the Company’s consolidated financial statements in which IFRS 16, *Leases* has been adopted. Changes to significant accounting policies are disclosed in Note 4.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

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

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

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(b) – timing of the transfer of control of goods and services
- Note 3(d) – useful lives of property, plant and equipment
- Note 3(e) – useful life and fair value of investment property
- Note 3(g) – impairment of financial assets
- Note 3(h) – impairment of non-financial assets
- Note 3(p) – assumptions made in the determination of the incremental borrowing rate
- Note 3(p) – lease term; whether the Company is reasonably certain to exercise extension options
- Note 7 – valuation of investment property
- Note 23(b) – allowance for impairment of accounts receivable

In March 2020, the World Health Organization officially declared the outbreak of COVID-19 a global pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect Bermuda's economy, supply chain and general population. COVID-19 has caused significant disruption to businesses and economic activity in Bermuda and has resulted in a number of people being furloughed or laid off. The going concern basis of preparation assumption for the Company's consolidated financial statements is dependent upon the generation of stevedoring and other revenues.

3. **Significant accounting policies**

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

(a) Basis of consolidation

The consolidated financial statements include the balances and results of operations of the Company and its wholly-owned subsidiaries. All significant inter-company transactions and balances 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 which is generally at the point when freight is unloaded from vessels.

Performance obligations and revenue recognition policies

The Company recognizes revenue when it transfers control over a good or service to a customer.

3. **Significant accounting policies** (continued)*Performance obligations and revenue recognition policies* (continued)

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Revenue stream	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Containers	Containers revenue is based upon the completion of the discharging and backloading process. The performance obligation is the completion of this process. Payment is net 30 days.	Revenue is recognized at a point in time when the performance obligation is satisfied being the point when freight is unloaded from the vessels.
Break bulk / Loose Cargo	Break bulk and loose cargo revenue is based upon the completion of the discharging and backloading process. The performance obligation is the completion of this process. Payment is net 30 days.	Revenue is recognized at a point in time when the performance obligation is satisfied.
Labour Surcharges	Labour surcharge revenue, while working overtime, is based upon the completion of labour work process. The performance obligation is the completion of this process. Payment is net 30 days.	Revenue is recognized at a point in time when the performance obligation is satisfied.
Line Handling	Line handling revenue is based upon the completion of the vessel tie up process. The performance obligation is the completion of this process. Payment is net 30 days.	Revenue is recognized at a point in time when the performance obligation is satisfied.
Terminal Handling Charges	Terminal handling charge revenue is based upon the handling and discharging of cargo leaving the docks. The performance obligation is the completion of this process. Payment is net 30 days.	Revenue is recognized at a point in time when the performance obligation is satisfied.
Port Storage Fees	Port storage fee revenue is based upon the storage of cargo at the docks. The performance obligation is the completion of this process. Payment is due on collection.	Revenue is recognized over time as the performance obligation is satisfied.

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

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

(b) *Revenue recognition* (continued)

Performance obligations and revenue recognition policies (continued)

Revenue stream	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Paving	Paving revenue is based on the asphaltting of roads and driveways. The performance obligation is the completion of this process. Payment is net 30 days.	Revenue is recognized on a monthly basis, based on the stage of completion.
Aggregate and asphalt sales	Aggregate and asphalt sales revenue is based on the acquisition of the material by customers. The performance obligation is the transfer of goods to the customer. Payment is net 30 days.	Revenue is recognized at a point in time when the performance obligation is satisfied.

Rental income

Rental income is recognized as revenue on a straight-line basis over the term of the lease.

(c) *Investment income*

Investment income comprises interest on bank deposits. 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, if any. 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. 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 ready for use.

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

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

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

Buildings and building improvements	10 years
Right of use assets (lease term)	5–50 years
Plant	20 years
Furniture and fixtures	3-5 years
Computer equipment	3-10 years
Vehicles	5 years
Cranes and heavy equipment	5-15 years
Light equipment	5 years
Heavy equipment parts	4 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 on a straight line basis over their estimated useful lives of 10 years. Cost includes expenditure that is directly attributable to the acquisition or construction of the investment property. The fair values of investment property is disclosed in Note 7 to these consolidated financial statements. The fair value measurement for investment property has been categorized as a level 3 fair value based on the inputs to the valuation technique used.

(f) Financial instruments

The Company's financial assets comprise of cash and cash equivalents and accounts receivable. The Company's financial liabilities comprise of accounts payable, loan from director and long-term debt.

(i) Recognition and initial measurement

Accounts receivable are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. Accounts receivable are initially measured at the transaction price which reflects fair value. All other financial assets and financial liabilities are initially measured at fair value plus transaction costs that are directly attributable to their acquisition or issue.

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

(f) *Financial instruments* (continued)

(ii) *Classification and subsequent measurement*

Financial assets

On initial recognition, the Company determines the classification of its financial assets. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company classifies its financial assets at amortized cost. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss ("FVTPL"):

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding.

Financial assets – Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the Company is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice; and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset in initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

3. Significant accounting policies (continued)

(f) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets – Subsequent measurement and gains and losses

The Company's financial assets classified as amortized cost are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income and impairment gains and losses are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

The Company classifies its financial liabilities as other financial liabilities. The Company's financial liabilities are subsequently measured at amortized cost using the effective interest method.

(iii) De-recognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flow from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company also de-recognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On de-recognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in the consolidated statement of comprehensive income.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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

(f) *Financial instruments* (continued)

Fair value hierarchy

Accounting standards over fair value measurements (IFRS 13) 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 between financial instruments 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 financial instruments 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 Company does not hold any financial instruments as at March 31, 2020 or 2019 which are required to be disclosed in accordance with the above fair value hierarchy.

(g) *Impairment*

Financial assets

The Company recognizes loss allowances or expected credit losses ("ECLs") on financial assets measured at amortized cost. The Company measures loss allowances at an amount equal to 12 month ECLs for cash and cash equivalents that are determined to have a low credit risk at the reporting date and for which credit risk has not increased significantly since initial recognition.

Loss allowances for trade receivables and other receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when it is more than 240 days past due.

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

(g) *Impairment* (continued)

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

For financial assets measured at amortized cost the Company applies a simplified approach in calculating the ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on the lifetime ECLs at each reporting date. The Company has established a provision matrix based on its historical loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.

Credit impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the issuer;
- a breach of contract such as a default or being more than 90 days past due;
- it is probable that the issuer will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 240 days past due based on historical experience of recoveries of similar assets.

3. Significant accounting policies (continued)

(h) 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. Goodwill is tested annually for impairment. 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"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. 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. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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 or amortization, if no impairment loss had been recognized.

(i) 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.

(j) 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. The Company has committed to providing health insurance costs for certain former officers and employees. The present value of the estimate future obligations payable is recognized in full.

(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 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 comprehensive income.

(l) 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.

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

(m) Inventory

Inventory is measured at the lower of cost and net realizable value. The cost of inventory is based on the first-in, first-out principle.

(n) Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see Note 3(h)). Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(o) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortized.

(p) Leases

Policy applicable from April 1, 2019

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on, or after April 1, 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

3. Significant accounting policies (continued)

(p) Leases (continued)

Policy applicable from April 1, 2019 (continued)

As a lessee (continued)

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lessor transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate of 5.3% as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renew period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the consolidated statement of financial position.

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

(p) *Leases* (continued)

Policy applicable from April 1, 2019 (continued)

As a lessee (continued)

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value and short-term leases, including IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements of IFRS 9 to the net investment in the lease (see Note 3(g)). The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16.

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

(p) *Leases* (continued)

Policy applicable before April 1, 2019

For contracts entered into before April 1, 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfillment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee, the Company had no leases that transferred substantially all of the risk and rewards of ownership and therefore classified as finance leases.

Assets held under operating leases were classified as operating leases and were not recognized in the Company's consolidated statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

As a lessor

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease. Investment property leased to tenants (Note 7) were treated as operating leases.

To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

4. Changes to significant accounting policies

Except for the changes below, the Company has consistently applied its accounting policies to all periods presented in these consolidated financial statements.

The Company has initially applied IFRS 16 (see (i)) from April 1, 2019. A number of other new standards are also effective from April 1, 2019 but they do not have a material effect on the Company's consolidated financial statements (see (ii)).

(i) IFRS 16 Leases

The Company has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Company now assess whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3(p).

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after April 1, 2019.

As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to the ownership of the underlying asset to the Company. Under IFRS 16, the Company will recognize right-of-use assets and lease liabilities for most of these leases - i.e. these leases are recorded on the consolidated statement of financial position.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at April 1, 2019. Right-of-use assets are initially measured to be equal to the corresponding lease liability.

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

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4. Changes to significant accounting policies (continued)

(ii) Other standards

There were a number of amendments to standards that were effective for periods beginning on or after April 1, 2019. These have been listed below:

- *IFRIC 23 Uncertainty over Income Tax Treatments.*
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- *Long-term interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual improvements for IFRSs 2015 – 2017 Cycle – Amendments to IFRSs 3 & 11, IASs 12 & 23*

The adoption of the above amendments does not have a material impact on these consolidated financial statements.

5. New standards and interpretations not yet adopted

A number of new or amended standards are effective for annual periods beginning on or after April 1, 2020 and early adoption is permitted; however, the Company has not early adopted the following new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Company's consolidated financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Definition of a Business (Amendments to IFRS 3)*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*

6. Revenue

	<u>2020</u>	<u>2019</u>
Revenue from contracts with customers	\$ 15,130,765	\$ 11,643,577
Other revenue		
Rental income	<u>147,830</u>	<u>143,501</u>
	<u>\$ 15,278,595</u>	<u>\$ 11,787,078</u>

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7. Investment property

Investment property comprises land and buildings being held in MRH and is depreciated over its estimated useful life. The property, which is leased to three tenants, two on terms expiring December 31, 2024 and one on a term expiring February 28, 2021. Earned rental income was \$147,830 for the year (2019 - \$143,502). At March 31, 2020, the future minimum lease payments under non-cancellable leases were receivable as follows:

Less than one year	\$	160,425
Between one and five years		<u>586,125</u>
	\$	<u>746,550</u>

Deemed cost less impairment losses

	<u>2020</u>	<u>2019</u>
Land	\$ 1,150,000	\$ 1,150,000
Buildings	<u>908,119</u>	<u>850,000</u>
	<u>\$ 2,058,119</u>	<u>\$ 2,000,000</u>

The property was valued by an independent appraiser, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued, on October 6, 2016 at a fair value of \$2,250,000 which was treated as the deemed cost less impairment losses at that date. The property was subsequently valued by an independent appraiser on January 29, 2020 at a market value of \$1,800,000. The independent appraiser used a combination of the contractor's 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, 2020 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 fair value. Impairment losses are recognized in profit or loss.

	<u>2020</u>	<u>2019</u>
Net book value April 1	\$ 1,490,000	\$ 1,575,000
Additions	58,119	-
Depreciation for the year	<u>(87,388)</u>	<u>(85,000)</u>
Net book value at March 31	<u>\$ 1,460,731</u>	<u>\$ 1,490,000</u>

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8. Property, plant and equipment

	Asphalt plant	Heavy equipment parts	Building improvements	Cranes and heavy equipment	Furniture and fixtures	Computer equipment	EEA property	Terminal operator's license	Total
Cost									
At April 1, 2018	\$ –	\$ 1,702,325	\$ 465,756	\$ 9,517,923	\$ 328,033	\$ 580,635	\$ –	\$ –	\$ 12,594,672
Acquisitions through business combinations	1,250,000	–	–	410,000	–	5,000	–	–	1,665,000
Additions	–	831,463	11,966	2,568,236	36,749	130,217	–	–	3,578,631
Disposals	–	–	–	(463,814)	–	–	–	–	(463,814)
At March 31, 2019	\$ 1,250,000	\$ 2,533,788	\$ 477,722	\$ 12,032,345	\$ 364,782	\$ 715,852	\$ –	\$ –	\$ 17,374,489
At April 1, 2019	\$ 1,250,000	\$ 2,533,788	\$ 477,722	\$ 12,032,345	\$ 364,782	\$ 715,852	\$ –	\$ –	\$ 17,374,489
Recognition of right-of-use asset on initial application of IFRS 16 (Note 9)	–	–	–	–	–	–	3,600,581	355,276	3,955,857
Adjusted balance at April 1, 2019	\$ 1,250,000	\$ 2,533,788	\$ 477,722	\$ 12,032,345	\$ 364,782	\$ 715,852	\$ 3,600,581	\$ 355,276	\$ 21,330,346
Additions	89,504	613,456	13,394	1,079,447	–	52,459	–	–	1,848,260
Disposals	–	(451,642)	–	–	–	–	–	–	(451,642)
At March 31, 2020	\$ 1,339,504	\$ 2,695,602	\$ 491,116	\$ 13,111,792	\$ 364,782	\$ 768,311	\$ 3,600,581	\$ 355,276	\$ 22,726,964

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8. Property, plant and equipment (continued)

	Asphalt plant	Heavy equipment parts	Building improvements	Cranes and heavy equipment	Furniture and fixtures	Computer equipment	EEA property	Terminal operator's license	Total
Accumulated depreciation									
At April 1, 2018	\$ –	\$ 515,866	\$ 325,772	\$ 4,768,698	\$ 302,841	\$ 137,842	\$ –	\$ –	\$ 6,051,019
Depreciation for the year	–	517,598	17,633	811,561	9,201	74,391	–	–	1,430,384
Disposals	–	–	–	(454,620)	–	–	–	–	(454,620)
At March 31, 2019	\$ –	\$ 1,033,464	\$ 343,405	\$ 5,125,639	\$ 312,042	\$ 212,233	\$ –	\$ –	\$ 7,026,783
At April 1, 2019	\$ –	\$ 1,033,464	\$ 343,405	\$ 5,125,639	\$ 312,042	\$ 212,233	\$ –	\$ –	\$ 7,026,783
Depreciation for the year	50,846	642,628	17,788	955,640	17,800	95,405	72,072	185,361	2,037,540
Disposals	–	(451,642)	–	–	–	–	–	–	(451,642)
At March 31, 2020	\$ 50,846	\$ 1,224,450	\$ 361,193	\$ 6,081,279	\$ 329,842	\$ 307,638	\$ 72,072	\$ 185,361	\$ 8,612,981
Net book value									
At March 31, 2018	\$ –	\$ 1,186,459	\$ 139,984	\$ 4,749,225	\$ 25,192	\$ 442,793	\$ –	\$ –	\$ 6,543,653
At March 31, 2019	\$ 1,250,000	\$ 1,500,324	\$ 134,317	\$ 6,906,706	\$ 52,470	\$ 503,619	\$ –	\$ –	\$ 10,347,706
At March 31, 2020	\$ 1,288,658	\$ 1,471,152	\$ 129,923	\$ 7,030,513	\$ 34,940	\$ 460,673	\$ 3,528,509	\$ 169,915	\$ 14,114,283

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9. Leases

Leases as lessee

The Company leases a property used by EEA, and SSL holds a Terminal Operator’s Licence, each as outlined in Note 22. Previously these leases were classified as operating leases under IAS 17.

The Company leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Company has elected not to recognize right-of-use assets and lease liabilities for these leases.

Set out below are the carrying amounts of right-to-use assets recognized and the movements during the period:

	<u>Terminal operator’s licence</u>	<u>EEA property</u>	<u>Total</u>
Balance at April 1, 2019	\$ 355,276	\$ 3,600,581	\$ 3,955,857
Depreciation charge for the year	<u>(185,361)</u>	<u>(72,072)</u>	<u>(257,433)</u>
Balance at March 31, 2020	<u>\$ 169,915</u>	<u>\$ 3,528,509</u>	<u>\$ 3,698,424</u>

Set out below are the carrying amounts of lease liabilities:

	<u>Terminal operators licence</u>	<u>EEA property</u>	<u>Total</u>
Balance at April 1, 2019	\$ 355,276	\$ 3,600,581	\$ 3,955,857
Accretion of interest	18,830	190,831	209,661
Payment of lease liabilities	<u>(200,000)</u>	<u>(90,000)</u>	<u>(290,000)</u>
Balance at March 31, 2020	<u>\$ 174,106</u>	<u>\$ 3,701,412</u>	<u>\$ 3,875,518</u>

Set out below are the amounts recognized in the consolidated statement of comprehensive income:

	<u>2020</u>
Depreciation expense on right-of-use assets	\$ 257,433
Interest on lease liabilities	209,661
Expenses relating to short-term leases – IT equipment	<u>6,480</u>
	<u>\$ 473,574</u>

Amounts recognized in the consolidated statement of cash flows:

	<u>2020</u>
Total cash outflow for leases	<u>\$ 290,000</u>

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Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

9. Leases (continued)

Extension options

Some leases contain extension options exercisable by the Company. The extension options held are exercisable only by the Company and not the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

Leases as lessor

The Company leased out its investment property during the years ended March 31, 2019 and 2020. The Company classified this lease as an operating lease, because the lease does not transfer substantially all of the risks and rewards incidental to the ownership of the asset. Rental income recognized by the Company during the year ended March 31, 2020 was \$147,830 (2019 - \$143,502).

10. Cash and cash equivalents

The effective interest rate earned on cash and cash equivalents for the year ended March 31, 2020 was nil% (2019 - nil%).

11. Inventory

Inventory relating to raw materials of \$704,740 (2019 - \$1,172,401) is stated net of an allowance for obsolescence of \$37,092 (2019 - \$nil). Included in EEA expenses in the consolidated statement of comprehensive income are recognized inventory expenses of \$826,312 (2019 - \$26,108). Inventory totaling \$nil (2019 - \$nil) was written down in the year.

12. Employee pension benefits

The total expense incurred for the Company's defined contribution plan was \$236,928 (2019 - \$197,409).

The total pension benefits expense is included in stevedoring expenses, EEA expenses, administrative salaries, wages and employment 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 22.

13. Personnel expenses

	<u>2020</u>	<u>2019</u>
Salaries, wages and employment benefits	\$ 6,186,535	\$ 5,001,257
Key management compensation	624,821	593,719
Compulsory payroll tax, social insurance, life, and health contributions	1,539,373	1,231,861
Payments to defined contribution pension scheme (Note 12)	<u>236,928</u>	<u>197,409</u>
	<u>\$ 8,587,657</u>	<u>\$ 7,024,246</u>

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

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

14. Long-term debt

On March 14, 2019 the Company borrowed \$3,800,000 from a Bermuda Bank, comprised of three separate loans:

A \$1,500,000 loan at 0.55% above a Bermuda Bank's Bermuda dollar corporate base rate. The loan is amortized over 15 years.

A \$1,000,000 loan at 1.20% above a Bermuda Bank's Bermuda dollar corporate base rate. The loan is amortized over 10 years.

A \$400,000 loan at 3.2% above a Bermuda Bank's Bermuda dollar corporate base rate. The loan is amortized over 10 years.

Interest paid during the year was \$218,033 (2019 - \$9,348).

The long-term debt is secured by a fixed and floating debenture over the assets of the Company, cross guaranteed by ESR, MRH and EEA, with a first mortgage over MRH's property in the amount of \$2.0 million.

Principal repayments over the next five years are as follows:

2021	\$	252,625
2022		268,216
2023		284,787
2024		302,405
2025 and thereafter		<u>2,454,671</u>
	\$	<u>3,562,704</u>

15. Due to director

On April 1, 2019 a director loaned the Company \$300,000 bearing quarterly interest payments of 10.0% and repayable in two years. The debt is denominated in United States dollars, is unsecured and can be repaid early without penalty. On June 17, 2020, retroactive to April 1, 2020, the interest was amended to 5.3%. Interest paid during the year was \$30,000 (2019 - \$nil).

16. Goodwill

On March 14, 2019, the Company acquired 100% of the shares and voting interests in East End Asphalt Company Limited ("EEA"). Goodwill of \$1,339,892 represents the excess purchase price of \$4,189,497 over the net assets in EEA at the time of acquisition of \$2,849,605. Goodwill arose through a number of synergies gained from the existing operations.

	2020	2019
Balance at April 1	\$ 1,339,892	\$ -
Acquisitions through business combinations	-	1,339,891
Impairment loss	<u>(139,892)</u>	<u>-</u>
	<u>\$ 1,200,000</u>	<u>\$ 1,339,892</u>

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

16. Goodwill (continued)

Impairment

At year-end, management conducted an impairment review on the goodwill allocated to EEA. The recoverable amount of this CGU was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The cash flow projections included specific estimates for five years based on expectations of future outcomes taking into account past experience. The discount rate of 9% was a pre-tax measure based on the Company's strategic return on investment.

The carrying amount of the CGU was determined to be higher than its recoverable amount and an impairment loss of \$139,892 was recognized in the year (2019 - \$nil). Following the impairment loss recognized, the recoverable amount was equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to further impairment.

17. 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, 2020 1,187,132 (March 31, 2019 - 1,184,132) 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.

In April 2019 as part of its acquisition of EEA (Note 16), the Company issued 46,154 shares for consideration of \$6.50 per share in favor of the seller to be used as security in relation to the final purchase payment of \$300,000 due in March 2020. The shares were repurchased by the Company in March 2020 on settlement of the final purchase payment.

As at March 31, 2020, the direct and indirect shareholding ownership of directors and officers was 328,717 (2019 - 325,717) shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer, except for the share option agreement referred to below.

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>2020</u>	<u>2019</u>
\$0.08 (2019 - \$0.08) per qualifying ordinary share – June	\$ 94,970	\$ 94,730
\$0.08 (2019 - \$0.08) per qualifying ordinary share – September	94,970	94,730
\$0.08 (2019 - \$0.08) per qualifying ordinary share – December	94,971	94,731
\$0.08 (2019 - \$0.08) per qualifying ordinary share – March	<u>94,971</u>	<u>94,731</u>
	<u>\$ 379,882</u>	<u>\$ 378,922</u>

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

17. **Share capital** (continued)

Share option agreement

On April 1, 2017 the Company established a share option plan that entitles its Chief Executive Officer (“CEO”) to purchase shares in the Company at a price equal to 20% below the weighted average of the Bermuda Stock exchange trade price over the 12 months preceding the exercise date.

The options entitle the CEO to acquire up to 5,000 ordinary shares annually for each of the three years ending March 31, 2018, 2019 and 2020, such number of shares being determined for 2019 and 2020 by the Company’s Board of Directors. On April 9, 2019 the CEO exercised 3,000 options. At the time the market value of the shares was \$6.50 per share, giving rise to a benefit to senior management of \$3.06 per share (\$9,180). No options were exercised during the year ended March 31, 2019.

18. **General reserve**

General reserve represents amounts appropriated by the directors.

19. **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.

The Company earned stevedoring revenue of \$5,662,203 (2019 - \$5,787,922) from both BISL and SISL. Included in accounts receivable as at March 31, 2020 is \$203,288 (2019 - \$615,476) due from both companies.

Meyer Technologies Ltd. is related by virtue of common significant influence by a director of the Company. The Company incurred information technology expenses of \$140,349 (2019 - \$87,997) from Meyer Technologies Ltd. which are included in information technology and telecommunication expenses in the consolidated statement of comprehensive income.

20. **Finance income**

Finance income comprises of the following:

	<u>2020</u>	<u>2019</u>
Interest Income	\$ 22	\$ 1,135

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

21. Earnings per share

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

The calculation of basic earnings per share at March 31, 2020 was based on the income attributable to ordinary shareholders of \$167,849 (2019 - \$801,315), and a weighted average number of ordinary shares outstanding of 1,187,058 (2019 - 1,184,132).

	<u>2020</u>	<u>2019</u>
Issued ordinary shares and weighted average number of shares at April 1	1,184,132	1,184,132
Shares issued in the year	<u>3,000</u>	<u>—</u>
Share capital at March 31	<u>1,187,132</u>	<u>1,184,132</u>

Share options with a dilutive effect were issued on April 1, 2017 (Note 17). The calculation of diluted earnings per share at March 31, 2020 was based on the income attributable to ordinary shareholders of \$167,849 (2019 - \$801,315), and a diluted weighted average number of ordinary shares outstanding of 1,189,058 (2019 - 1,194,132).

22. 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 \$154,436 (2019 - \$181,719) and has been included in accrued expenses in the consolidated statement of financial position.

The Company entered into a Terminal Operator's Licence with respect of the City of Hamilton docks. The license has a 5 year term which commenced on March 1, 2016. The licence fee for each year is \$200,000 or 1.8% of the gross revenue of the operator, SSL, whichever shall be the greater.

The Company leases a property in Hamilton Parish where it operates its EEA subsidiary. The lease has a 20 year term which commenced March 15, 2019 and has an option to be extended for 30 additional years. The Company may terminate the lease, with six months' notice, at any point during the lease's first 10 years. Rent is \$90,000 per year in years one and two, increasing to \$220,000 per year in the third year, and rising by the rent section of the Bermuda Consumer Price Index thereafter.

As at March 31, 2020, the Company had contracted capital commitments in respect of plant and equipment of \$324,363 (2019 - \$85,470). These commitments will be met from operations during 2020.

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

23. Financial instruments

Fair value

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, long-term debt and amount due to director approximates their carrying value due to their short-term maturity or because they attract market rates of interest.

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.

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.

(a) Cash and cash equivalents and investments

At March 31, 2020, 87% (2019 - 88%) of the Company's cash and cash equivalents are held with a single Bermuda bank which has a credit rating of BBB+ according to the Standard & Poor's rating agency. Management does not believe that there is any significant credit risk with respect to its cash and cash equivalents.

The following table presents an analysis of the credit quality of cash and cash equivalents at amortized cost by reference to the external credit rating and default rates published by Standard & Poor's:

	<u>2020</u>	<u>2019</u>
BBB+	\$ 1,605,296	\$ 1,140,450
B	<u>241,855</u>	<u>161,288</u>
Impairment loss	<u>—</u>	<u>—</u>
	<u>\$ 1,847,151</u>	<u>\$ 1,301,738</u>

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. 12-month and lifetime probabilities of default are based on historical data supplied by Standard & Poor's for each credit rating and are recalibrated based on current bond yields and credit default swap prices. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

23. Financial instruments (continued)

(b) Accounts receivable

Included in accounts receivable is unbilled work in progress of \$41,676 (2019 - \$nil). At March 31, 2020, 64% (2019 - 97%) of the Company's accounts receivable balance is due from three customers.

The Company's major customers have been transacting with the Company for a number of years and significant 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 in the consolidated statement of financial position.

Expected credit loss assessment for individual customers

The Company uses an allowance matrix to measure the ECLs of trade receivables from individual customers.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the type of product purchased.

The following table provides information about the exposure to credit risk and ECLs for trade receivables from individual customers as at March 31, 2020:

As at March 31, 2020	<u>Weighted average loss rate</u>	<u>Gross carrying amount</u>	<u>Loss allowance</u>	<u>Credit impaired</u>
Current	nil%	\$ 1,079,396	\$ nil	No
Past 30 days	nil%	69	nil	No
Past 60 days	nil%	9,042	nil	No
Past 90 days	32%	—	nil	No
		<u>\$ 1,088,597</u>	<u>\$ nil</u>	

Loss rates are based on the actual credit loss experience over the past three years. These rates are multiplied by scalar factors to reflect the difference between economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables.

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

23. **Financial instruments** (continued)

(b) *Accounts receivable* (continued)

The following table provides information about the exposure to credit risk and ECLs for trade receivables from individual customers as at March 31, 2019:

As at March 31, 2019	<u>Weighted average loss rate</u>	<u>Gross carrying amount</u>	<u>Loss allowance</u>	<u>Credit impaired</u>
Current	nil%	\$ 1,246,309	\$ nil	No
Past 30 days	nil%	348,659	nil	No
Past 60 days	nil%	28,845	nil	No
Past 90 days	32%	<u>59,398</u>	<u>(18,727)</u>	Yes
		<u>\$ 1,683,211</u>	<u>\$ (18,727)</u>	

Movements in the allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade receivables during the year was as follows.

	<u>2020</u>	<u>2019</u>
Balance at April 1	\$ 18,727	\$ –
Impairment provision on acquisition of EEA	–	30,000
Amounts written off	(18,727)	(11,273)
Net re-measurement of loss allowance	<u>–</u>	<u>–</u>
Balance at March 31	<u>\$ –</u>	<u>\$ 18,727</u>

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect interest payable on long-term debt and interest earned on cash and cash equivalents. Management does not believe that the Company is exposed to significant interest rate risk.

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.

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

23. Financial instruments (continued)

Liquidity risk (continued)

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, 2020					
Accounts payable and accrued expenses	\$ 1,223,742	\$ 993,131	\$ 90,491	\$ 30,816	\$ 109,304
Due to Director	300,000	-	300,000	-	-
Long-term debt	<u>4,828,390</u>	<u>227,917</u>	<u>227,917</u>	<u>455,833</u>	<u>3,916,723</u>
	<u>\$ 6,352,132</u>	<u>\$ 1,221,048</u>	<u>\$ 618,408</u>	<u>\$ 486,649</u>	<u>\$ 4,026,027</u>
As at March 31, 2019					
Accounts payable and accrued expenses	\$ 2,459,156	\$ 1,990,939	\$ 313,502	\$ 29,348	\$ 125,367
Long-term debt	<u>5,284,242</u>	<u>227,918</u>	<u>227,918</u>	<u>455,833</u>	<u>4,372,573</u>
	<u>\$ 7,743,398</u>	<u>\$ 2,218,857</u>	<u>\$ 541,420</u>	<u>\$ 485,181</u>	<u>\$ 4,497,940</u>

24. Capital management

The Company's capital comprises shareholders' equity, which consists of share capital, share premium, general reserve and retained earnings. 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.

25. 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 investment property to businesses as office and business space in Bermuda.
5. EEA carries on business as an asphalt manufacturing and paving company.

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

25. Operating segments (continued)

For management purposes, the Group is organized into these five (2019 - five) separate business segments based on their products and services. For financial reporting purposes, these five (2019 - five) 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 \$1,439,984 (2019 - \$1,340,380) was recognized under the PHC group structure.

2020

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

	<u>EEA</u>	<u>PHC</u>	<u>SSL</u>	<u>ESR</u>	<u>MRH</u>	<u>Elimination</u>	<u>Consolidated</u>
Stevedoring revenue	\$ -	\$ -	\$ 11,868	\$ -	\$ -	\$ -	\$ 11,868
EEA revenue	3,263	-	-	-	-	-	3,263
Rental income	-	-	-	-	148	-	148
Inter-segment	<u>-</u>	<u>1,135</u>	<u>-</u>	<u>1,440</u>	<u>-</u>	<u>(2,575)</u>	<u>-</u>
Total revenue	3,263	1,135	11,868	1,440	148	(2,575)	15,279
Stevedoring expenses	-	-	7,468	-	11	-	7,479
EEA expenses	2,257	-	-	-	-	-	2,257
Depreciation	75	-	324	846	-	-	1,245
Depreciation of investment property	-	-	-	-	87	-	87
Finance expenses	439	-	19	-	-	-	458
Impairment of goodwill	-	140	-	-	-	-	140
Other expenses	<u>609</u>	<u>1,135</u>	<u>1,661</u>	<u>5</u>	<u>35</u>	<u>-</u>	<u>3,445</u>
Expenses	1,123	1,275	2,004	851	122	-	5,375
Inter-segment	<u>65</u>	<u>-</u>	<u>2,155</u>	<u>349</u>	<u>6</u>	<u>(2,575)</u>	<u>-</u>
Total expenses	3,445	1,275	11,627	1,200	139	(2,575)	15,111
Profit (loss) for the year	\$ (182)	\$ (140)	\$ 241	\$ 240	\$ 9	\$ -	\$ 168

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

25. **Operating segments** (continued)

2019

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

	<u>EEA</u>	<u>PHC</u>	<u>SSL</u>	<u>ESR</u>	<u>MRH</u>	<u>Elimination</u>	<u>Consolidated</u>
Stevedoring revenue	\$ –	\$ –	\$ 11,563	\$ –	\$ –	\$ –	\$ 11,563
EEA revenue	80	–	–	–	–	–	80
Rental income	–	–	–	–	144	–	144
Gain on disposal	–	–	–	34	–	–	34
Inter-segment	–	1,026	–	1,340	–	(2,366)	–
Finance income	–	<u>1</u>	–	–	–	–	<u>1</u>
Total revenue	80	1,027	11,563	1,374	144	(2,366)	11,822
Stevedoring expenses	–	–	6,943	–	10	–	6,953
EEA expenses	94	–	–	–	–	–	94
Depreciation	–	–	109	804	–	–	913
Depreciation of investment property	–	–	–	–	85	–	85
Other expenses	<u>42</u>	<u>1,237</u>	<u>1,677</u>	<u>3</u>	<u>17</u>	<u>–</u>	<u>3,070</u>
Expenses	42	1,237	1,786	807	102	–	3,974
Inter-segment	–	–	<u>2,050</u>	<u>310</u>	<u>6</u>	<u>(2,366)</u>	<u>–</u>
Total expenses	136	1,237	10,779	1,117	118	(2,366)	11,021
Profit (loss) for the year	\$ (56)	\$ (210)	\$ 784	\$ 257	\$ 26	\$ –	\$ 801

POLARIS HOLDING COMPANY LTD.

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

25. **Operating segments** (continued)

As at March 31, 2020

	<u>EEA</u>	<u>PHC</u>	<u>SSL</u>	<u>ESR</u>	<u>MRH</u>	<u>Total reportable segments</u>	<u>Elimination</u>	<u>Total</u>
Assets	\$ 10,596	\$ 5,795	\$ 3,546	\$ 5,192	\$ 1,828	\$ 26,957	\$ (6,405)	\$ 20,552
Liabilities	7,986	78	1,239	–	–	9,303	–	9,303
Capital expenditure	506	–	641	701	58	1,906	–	1,906

As at March 31, 2019

	<u>EEA</u>	<u>PHC</u>	<u>SSL</u>	<u>ESR</u>	<u>MRH</u>	<u>Total reportable segments</u>	<u>Elimination</u>	<u>Total</u>
Assets	\$ 7,013	\$ 6,719	\$ 3,602	\$ 4,952	\$ 1,819	\$ 24,105	\$ (6,404)	\$ 17,701
Liabilities	4,220	502	1,537	–	–	6,259	–	6,259
Capital expenditure	–	–	1,029	2,550	–	3,579	–	3,579

26. **Subsequent events**

On March 11, 2020, the World Health Organization officially declared the outbreak of COVID-19 a global pandemic, and the Company considers the emergence and subsequent spread of COVID-19 to be a non-adjusting event after the reporting period. The rapid development and fluidity of this situation precludes any prediction as its ultimate impact, which may have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. Management is closely monitoring the evolution of this pandemic, including how it may affect the economy and general population. Given the inherent uncertainties, it is not practicable at this time to determine the impact of COVID-19 on future financial performance of the Company, or to provide a quantitative estimate of this impact which could potentially be significant.

To date, the Company has observed a reduction in volumes in both container and breakbulk cargo as well as reduced demand for paving, aggregate and asphalt sales. The net effect has been a reduction to the operational activity for both primary operating subsidiaries, SSL and EEA, and as a result the Company has taken action to reduce its operating costs where possible to offset against the impact of this reduction in volumes. The Company expects COVID-19 to have a significant negative impact on its operating results for the foreseeable future. However, based on its current operations subsequent to the year-end, and future operating budgets, financial forecasts and cashflow projections, management expects the level of activity will be sufficient to enable the Company to continue to adopt the going concern basis in preparing its consolidated financial statements.



CMBC20



Polaris Holding Company Ltd. Annual Report 2020

Presented by the Board of Directors

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STANDING FIRM

POLARIS
ANNUAL REPORT
2020

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HOLDING COMPANY LTD.

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