

AUDITED FINANCIAL STATEMENTS

Bermuda Industrial Union

September 30, 2002

 ERNST & YOUNG

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AUDITORS' REPORT

TO THE MEMBERS OF THE
BERMUDA INDUSTRIAL UNION

We have audited the consolidated statement of financial position of the Bermuda Industrial Union (the "Union") as at September 30, 2002 and the consolidated statements of revenue, expenses and members' surplus and cash flows for the three year period then ended. These financial statements are the responsibility of the Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraphs, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Because management of the Union was unable to provide us with cash summary sheets supporting store sales for Union Gas Limited in the amount of \$1,030,800 for the months of October 1999, November 1999, and December 1999, we were unable to obtain sufficient and appropriate audit evidence to support the revenues generated by this wholly owned subsidiary. Accordingly, we were unable to determine whether any adjustments might be necessary, if any, to the gas station sales, total revenue, gas station gross margin, total gross margin, gas income before other expenses, excess of revenue over expenses, and members' surplus.

As part of an accounting system conversion which occurred at the end of fiscal 2000, management was unable to provide sufficient and appropriate audit evidence with respect to amounts included in sundry income totaling \$248,673. Accordingly, we were unable to determine whether any reclassification adjustments might be necessary, if any, to sundry income or any other revenue or expense amount recorded within the consolidated statement of revenue, expenses and members' surplus.

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves with respect to gas station sales, sundry income, total revenue, gas station gross margin, total gross margin, gas income before other expenses, other income before other expenses, excess of revenue over expenses, and members' surplus as described in the preceding paragraphs, these financial statements present fairly, in all material respects, the financial position of the Union as at September 30, 2002 and the results of its operations and its cash flows for the three year period then ended in accordance with Canadian generally accepted accounting principles.

Hamilton, Bermuda
August 28, 2006

Ernst & Young
Chartered Accountants

A member firm of Ernst & Young Global Limited

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2002
(expressed in Bermuda dollars)

	<u>2002</u>	<u>1999</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,964,713	\$ 1,447,747
Marketable securities (market value 2002 - \$116,289; 1999 - \$168,857)	63,740	168,073
Dues receivable	182,344	239,523
Other accounts receivable (Note 9)	974,331	142,242
Due from related parties (Note 6)	280,859	68,328
Inventory	49,827	48,772
Prepaid expenses	<u>36,614</u>	<u>36,120</u>
	3,552,428	2,150,805
Notes receivable (Note 8)	1,202,778	-
Capital assets (Notes 3 and 5)	<u>6,137,867</u>	<u>6,738,989</u>
	<u>\$ 10,893,073</u>	<u>\$ 8,889,794</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,027,701	\$ 429,406
Current portion of long-term debt (Note 4)	107,476	87,172
Due to related party (Note 6)	<u>887,972</u>	<u>41,664</u>
	2,023,149	558,242
Deferred revenue (Note 9)	700,000	-
Long-term debt (Notes 4 and 6)	<u>452,383</u>	<u>753,571</u>
	<u>3,175,532</u>	<u>1,311,813</u>

BERMUDA INDUSTRIAL UNION

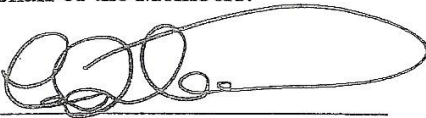
CONSOLIDATED STATEMENT OF FINANCIAL POSITION, Cont'd.

SEPTEMBER 30, 2002
(expressed in Bermuda dollars)


	<u>2002</u>	<u>1999</u>
MEMBERS' EQUITY		
Members' equity (Note 5)		
Excess of appraised value of property over amortized cost	\$ 1,607,328	\$ 1,774,593
Members' surplus	<u>6,110,213</u>	<u>5,803,388</u>
	<u>7,717,541</u>	<u>7,577,981</u>
	\$ <u>10,893,073</u>	\$ <u>8,889,794</u>

See accompanying notes

On behalf of the Members:



Treasurer - Cecil Durham



General Secretary - Helena Burgess

BERMUDA INDUSTRIAL UNION
CONSOLIDATED STATEMENT OF REVENUE, EXPENSES
AND MEMBERS' SURPLUS

THREE YEARS ENDED SEPTEMBER 30, 2002
(expresses in Bermuda dollars)

	<u>2002</u>
Revenue	
Gas station sales	\$ 13,942,053
Dues	6,023,041
Cinema sales	3,324,210
Rents (Note 6)	942,361
Sundry income (Note 13)	556,715
Investment income	282,375
Construction funds' administration fees (Note 6)	<u>262,532</u>
Total revenue	<u>25,333,287</u>
Cost of sales	
Gas station cost of sales	11,461,270
Cinema cost of sales	<u>1,519,062</u>
Total cost of sales	<u>12,980,332</u>
Gross margin	
Gas station gross margin	2,480,783
Cinema gross margin	<u>1,805,148</u>
Total gross margin	<u>4,285,931</u>
Gross margin percentages	
Gas station gross margin	17.8%
Cinema gross margin	54.3%
BIU wages and administration expenses	
Gas station wages and administration expenses	2,037,170
Cinema wages and administration expenses	1,867,703
BIU wages and administration expenses (Notes 4, 7 and 10)	<u>7,205,941</u>
Total wages and administration expenses	<u>11,110,814</u>

BERMUDA INDUSTRIAL UNION
CONSOLIDATED STATEMENT OF REVENUE, EXPENSES
AND MEMBERS' SURPLUS, Cont'd.

THREE YEARS ENDED SEPTEMBER 30, 2002
(expressed in Bermuda dollars)

	<u>2002</u>
BIU income before other expenses	
Gas income before other expenses	\$ 443,613
Cinema loss before other expenses	(62,555)
BIU income before other expenses	<u>861,083</u>
Total income before other expenses	<u>1,242,141</u>
Other expenses	
Amortisation (Note 3)	918,811
Benefits and labour dispute costs	<u>183,770</u>
Total other expenses	<u>1,102,581</u>
Excess of revenue over expenses	139,560
Members' surplus, beginning of period	5,803,388
Transfer of excess of appraised value of property over amortization costs	<u>167,265</u>
Members' surplus, end of period	\$ <u>6,110,213</u>

See accompanying notes

BERMUDA INDUSTRIAL UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
THREE YEARS ENDED SEPTEMBER 30, 2002
(expressed in Bermuda dollars)

	<u>2002</u>
Operating activities:	
Excess of revenue over expenses	\$ 139,560
Adjustments to convert to a cash basis:	
Amortization	918,811
Net gain on the sale of investments	(24,856)
Change in non-cash operating balances:	
Dues receivable	57,179
Other accounts receivable	(832,089)
Due from related parties	(212,531)
Inventory	(1,055)
Prepaid expenses	(494)
Accounts payable and accrued liabilities	598,295
Due to related party	846,308
Deferred revenue	<u>700,000</u>
Cash provided by operating activities	<u>2,189,128</u>
Investing activities:	
Purchase of marketable securities	(131,421)
Proceeds from the sale of marketable securities	260,610
Notes receivable issued (Note 8)	(1,202,778)
Forgiveness of debt (Note 10)	(212,303)
Purchase of capital assets	<u>(105,386)</u>
Cash used in investing activities	<u>(1,391,278)</u>
Financing activity:	
Repayments of long-term debt	<u>(280,884)</u>
Increase in cash and cash equivalents	516,966
Cash and cash equivalents, beginning of period	<u>1,447,747</u>
Cash and cash equivalents, end of period	\$ <u>1,964,713</u>
Components of cash and cash equivalents:	
Cash	\$ 436,951
Term deposits	<u>1,527,762</u>
Total cash and cash equivalents	\$ <u>1,964,713</u>

See accompanying notes

BERMUDA INDUSTRIAL UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2002
(expressed in Bermuda dollars)

1. Operations

The Bermuda Industrial Union (the "Union") was established under the laws of Bermuda to provide its members with the benefits usually associated with trade unions.

The Union is registered under and governed by the regulations of the Trade Union Act 1965.

2. Significant accounting policies

The Union follows Canadian generally accepted accounting principles which have general application in Bermuda. Significant accounting policies are as follows:

(a) Marketable securities

Marketable securities are recorded at the lower of cost and net realizable value. Dividends are recorded on the ex-dividend date and are included in investment income. The cost of the securities sold is determined based on the average cost method. Impairment is based on the portfolio method and write downs are recorded when the total market value of the portfolio declines below the total cost of the portfolio.

(b) Inventory

Inventory is stated at the lower of cost and net realisable value. Cost of goods sold are determined using the first in first out method.

(c) Capital assets

Equipment is stated at cost. Land and certain buildings are stated at their appraised value based on the report of an independent appraiser, Walter M. Lister Insurance Agency, dated December 19, 1984. The corresponding increase in value of \$2,610,918 has been recorded as "excess of appraised value of property over amortized cost" within members' equity on the consolidated statement of financial position. This increase in the value is reduced by an annual transfer to members' surplus by applying the applicable rates of amortization to the excess of appraised values over amortized cost. Additions to land and buildings subsequent to the appraisal date are included at cost.

Buildings and equipment are amortized using the straight-line method at the following rates calculated to amortize the cost of the assets, less estimated salvage value, over their estimated useful lives:

Building	2½% and 10%
Equipment	20%

BERMUDA INDUSTRIAL UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Cont'd.

SEPTEMBER 30, 2002
(expressed in Bermuda dollars)

2. Significant accounting policies, cont'd.

(d) Consolidation

The consolidated financial statements include the accounts of the Union and its wholly owned subsidiaries, Union Gas Limited, Neptune Cinema Ltd., and Union Asset Holdings Limited (the "Subsidiaries"). They also include the operations of the Liberty Theatre, a division of the Union. The Liberty Theatre and the Subsidiaries are owned by the Union in order to generate funds and to provide its members with the benefits usually associated with trade unions. All inter-company balances and transactions have been eliminated on consolidation.

(e) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and term deposits.

(f) Revenue recognition

Investment income, dues, rents, and construction funds' administration fee revenue are recognized on an accruals basis. Cinema and gas station revenues are recognized at the point of sale.

Sundry income includes revenues earned from donations and the sale of banquet and raffle tickets. Sundry income is recognized when received.

(g) Deferred revenue

Deferred revenue represents the fee charged for issuing a construction bond as described in Notes 5 and 9. The fee for issuing the bond is deferred until all of the Union's obligations relating to the bond are extinguished and until collection is reasonably assured.

(h) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

(i) Comparative figures

Comparative figures are not provided for the consolidated statement of revenue, expenses and members' surplus and the consolidated statement of cash flows as management believes the information would not be meaningful as the financial statements include revenues and expenses for the three years ended September 30, 2002.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Cont'd.

SEPTEMBER 30, 2002
(expressed in Bermuda dollars)

3. Capital assets

Capital assets comprise the following:

	<u>2002</u>			<u>1999</u>
	<u>Cost or</u> <u>Appraised</u> <u>Value</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net Book</u> <u>Value</u>	<u>Net Book</u> <u>Value</u>
Land	\$ 765,000	\$ -	\$ 765,000	\$ 765,000
Buildings	8,509,116	3,386,234	5,122,882	5,732,180
Equipment	<u>530,329</u>	<u>280,344</u>	<u>249,985</u>	<u>241,809</u>
	\$ <u>9,804,445</u>	\$ <u>3,666,578</u>	\$ <u>6,137,867</u>	\$ <u>6,738,989</u>

As explained in Note 5, the bond provided by the Union for the construction of a new school is collateralized by the buildings owned by the Union.

4. Long-term debt

Long-term debt consists of a loan due to the Construction Funds, as explained in Note 6, and bears interest at 7% per annum. The debt is to be repaid by equal monthly installments of \$11,934 covering both the principal and interest with the remaining balance to be repaid in full by May 2007.

Interest expense on long-term debt for the year was \$148,730 and is included in BIU wages and administrative expenses.

Principal repayments for the next five years are as follows:

2003	\$ 107,476
2004	113,658
2005	123,579
2006	132,514
2007	<u>82,632</u>
	\$ <u>559,859</u>

5. Contingent losses

A company ("ProActive"), whose employees are members of the Union, entered into a contract (the "Contract") with the Government of Bermuda (the "Government") to build a new educational facility.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Cont'd.

SEPTEMBER 30, 2002
(expressed in Bermuda dollars)

5. Contingent losses, cont'd.

On June 4, 2001, the Union provided a bond (the "Bond") in the amount of \$6,800,000 to the Government as security should ProActive not perform and complete the construction project in accordance with the Contract. The Bond has been collateralized with buildings owned by the Union which are included in capital assets. The conditions of the Bond are such that:

- ProActive shall duly perform and observe all of the terms, provisions and stipulations of the Contract;
- If ProActive defaults on the Contract, Proactive and the Union shall satisfy and discharge the damages sustained by the Government up to an amount of the Bond; and
- If the architect issues a certificate of substantial completion then upon the date issued the Bond shall be null and void.

The Government has since terminated ProActive and engaged another construction company to complete the project. ProActive has since issued the Government of Bermuda a Notice to Arbitrate various claims including breach of contract. Should the arbitration panel rule in favor of the Government, the Union will be adversely affected, however, the amount of the ultimate settlement is not determinable at this time.

Should the arbitration panel rule in favor of the Government, the Union may be unable to recover net subsequent disbursements provided to ProActive after September 30, 2002. The subsequent disbursements totalling \$7,206,903 have been incurred to establish the arbitration case. The Union presently cannot estimate the likelihood that it will recover the net subsequent disbursements provided to Proactive.

6. Related party transactions

Due from related parties

During the period, the Union earned administration fees from the Bermuda Industrial Union Construction Division Lay-Off Fund, Sick, Welfare Fund, and Vacation Fund (the "Construction Funds") in the amounts of \$20,104, \$241,796, and \$632 respectively. The administration fees have been recorded at the exchange amount. Administration fees are earned as the Union administers the Construction Funds, which are owned by the Union members within the construction division. As at September 30, 2002, \$280,859 (1999 - \$68,328) was receivable from the Construction Funds with respect to administration fees. The balances receivable are unsecured, interest-free and payable upon demand. The administration fees have been recorded at the exchange amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Cont'd.

SEPTEMBER 30, 2002
(expressed in Bermuda dollars)

6. Related party transactions, cont'd.

Due to related parties

During the three year period ended September 30, 2002, shares which were held within the Union's investment broker account, but owned by both the Union and the Construction Funds were sold. The proceeds relating to the sale of the Construction Fund's ownership in the investments were distributed to the Union and are included in due to related party in the amount of \$337,972. There are no terms or conditions relating to the repayment of these amounts due to related parties.

The Union borrowed \$550,000 from the Construction Funds to finance a portion of the notes receivable discussed in Note 8. There are no terms or conditions relating to the repayment of the amounts due to related parties.

Long-term debt

The long-term debt discussed in Note 4 is also owing to the Construction Funds.

Other related party transactions

During the three year period ended September 30, 2002, the Union received rental income from the B.I.U. Members' Credit Union Co-op Society (the "Credit Union") in the amount of \$72,000. The Credit Union is a common controlled entity which rents its premises from the Union.

7. Pension plan

The Union has a defined contribution pension plan, administered by an insurance company which covers all employees. Pensions at retirement are based on contributions and accumulated interest during the period of employment. Pension costs during the three years ended September 30, 2002 amounted to \$162,452 and are included in BIU wages and administration expenses.

8. Notes receivable

During 2001, the Union issued a series of promissory notes with an interest rate of 7%. The borrower reserves the right to make principal payments at any time. The promissory notes are secured by the assets to which they relate (primarily land and buildings).

9. Deferred revenue

Deferred revenue represents the fee charged for issuing the Bond as described in Note 5. At September 30, 2002, \$700,000 of the fee was receivable and is included in other accounts receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Cont'd.

SEPTEMBER 30, 2002
(expressed in Bermuda dollars)

10. Acquisition of Neptune Cinema Ltd.

During the year 2000, the Union acquired the share capital of Neptune Cinema Ltd. ("Neptune"). Neptune operates as a movie theatre in Bermuda. The total purchase price paid to acquire Neptune was \$Nil as the Union acquired Neptune Cinema Ltd. in exchange for the forgiveness of debt, which was owing to the Union prior to the acquisition. Prior to the acquisition, Neptune had accumulated debt owing to the Union in the amount of \$348,085 relating to management fees and disbursements associated with joint marketing efforts. The debt had accumulated as the Union paid for disbursements on Neptune Cinema Ltd.'s behalf and charged Neptune a management fee. The fair value of the net assets acquired through the acquisition of the share capital totalled \$135,782. The remaining value of the debt owing to the Union in the amount of \$212,303 was forgiven by the Union and is included in cinema wages and administrative expenses. The acquisition of Neptune has been accounted for using the purchase method and the operating results since the date of acquisition have been included in the consolidated statement of revenue, expenses and members' surplus.

11. Credit risk

Credit risk is the risk that a borrower will fail to fully honour its obligations to the Union. The Union manages its exposure to credit risk associated with its cash and cash equivalents by placing cash and marketable securities in high quality financial institutions. Management also monitors the extension of credit and usually requires sufficient collateral from the lender.

12. Financial instruments

Fair value disclosures with respect to certain financial instruments are included separately where appropriate. For other instruments including dues receivable, other accounts receivable, due from and to related parties, accounts payable and accrued liabilities, the carrying values approximate the fair value due to the short-term nature of the balances.

13. Sundry income

Sundry income includes:

Parking	\$ 67,513
Theatre rental and advertisements	99,910
Donations, banquet tickets, and raffles	77,234
Other	<u>312,058</u>
Total	\$ <u>556,715</u>

BERMUDA INDUSTRIAL UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Cont'd.

SEPTEMBER 30, 2002
(expressed in Bermuda dollars)

14. Members' equity

Members' equity represents the individual union members' ownership of the Union's assets net of the liabilities. Members' equity is not distributable to the members of the Union other than through the benefits provided by the Union.

SUPPLEMENTARY NOTE :

IT IS TO BE NOTED THAT IN RELATION TO THE ANNUAL AUDITED FINANCIAL RETURNS OF THE BERMUDA INDUSTRIAL UNION FOR THE YEARS ENDING 20TH SEPTEMBER, 2000 AND SEPTEMBER 2001 RESPECTIVELY THERE ARE NO BALANCE SHEETS ATTACHED. A CONSOLIDATED BALANCE SHEET IS HOWEVER ATTACHED, IN RESPECT OF THE THREE YEAR PERIOD ENDING 30TH SEPTEMBER, 2002.

THE BERMUDA INDUSTRIAL UNION HAS REQUESTED THE REGISTRAR GENERAL TO ACCEPT THE AUDITED SUBMISSION FOR THE THREE-YEAR PERIOD ENDING SEPTEMBER 30, 2002 AS FILED NOTWITHSTANDING THE REFERRED TO OMISSIONS WHICH IS DUE TO LOSS OF DATA FROM ITS COMPUTER MAKING IT IMPOSSIBLE TO RE-CREATE BALANCES FOR THE YEARS 2000 AND 2001 RESPECTIVELY.