

**BERMUDA LAND DEVELOPMENT
COMPANY LIMITED**

FINANCIAL STATEMENTS

MARCH 31, 2000



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AUDITOR'S REPORT

To the Shareholders of the Bermuda Land Development Company Limited

I have audited the balance sheet of the Bermuda Land Development Company Limited as at March 31, 2000 and the statements of revenue, expense and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Bermuda Land Development Company Limited as at March 31, 2000 and the results of its operations and the changes in its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

A handwritten signature in black ink, appearing to read 'Larry T. Dennis', followed by a horizontal line.

Hamilton, Bermuda
July 19, 2000

Larry T. Dennis, C.A.
Auditor

Bermuda Land Development Company Limited

Balance Sheet

As at March 31, 2000

	2000 \$	1999 \$
Assets		
Current assets		
Cash and deposits (note 4)	5,384,401	5,041,459
Accounts receivable and recoverable expenses	263,199	261,175
Prepaid expenses	221,794	70,171
	<u>5,869,394</u>	<u>5,372,805</u>
Capital assets (note 5)		
Capital assets held for resale	16,029,800	8,048,863
	<u>1,491,241</u>	<u>1,741,365</u>
	<u>23,390,435</u>	<u>15,163,033</u>
Liabilities		
Current liabilities		
Accounts payable and accrued charges	1,493,940	1,062,450
Developer deposits	251,500	1,500
Tenant deposits	205,570	97,862
	<u>1,951,010</u>	<u>1,161,812</u>
Unamortized capital grants (note 6)	<u>17,181,082</u>	<u>12,623,465</u>
Shareholders' equity		
Share capital (note 7)	5,000,000	5,000,000
Deficit	<u>(741,657)</u>	<u>(3,622,244)</u>
	<u>4,258,343</u>	<u>1,377,756</u>
	<u>23,390,435</u>	<u>15,163,033</u>

Approved by the Board of Directors



Director



Director

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

Bermuda Land Development Company Limited

Statement of Revenue, Expense and Deficit

For the year ended March 31, 2000

	2000 \$	1999 \$
Revenue		
Sale of properties (note 8)	5,683,000	-
Rental income	1,648,970	1,059,250
Interest income	217,353	388,200
Tenant recoveries	250,208	308,318
Miscellaneous income	104,660	155,206
	<u>7,904,191</u>	<u>1,910,974</u>
Expenses		
Cost of property sales	1,859,167	-
Salaries and consulting fees	1,370,837	1,262,331
Repairs and facilities maintenance	1,286,625	1,342,675
Insurance and security	1,065,856	1,248,337
Professional services	579,623	464,819
Amortization	358,964	258,408
Travel and promotion	134,432	154,305
Office administration	128,716	109,774
Bad debts	27,744	45,000
Utilities (net of recoveries of \$795,303, 1999 - \$1,118,343)	370,551	3,412
Project costs	25,000	79,996
Miscellaneous	8,472	56,664
	<u>7,215,987</u>	<u>5,025,721</u>
Excess of revenues over expenses (expenses over revenue) before grants	688,204	(3,114,747)
Capital grant amortization (note 6)	<u>2,192,383</u>	<u>258,408</u>
Excess of revenue over expenses (expenses over revenue)	2,880,587	(2,856,339)
Deficit - Beginning of year	<u>(3,622,244)</u>	<u>(765,905)</u>
Deficit - End of year	<u>(741,657)</u>	<u>(3,622,244)</u>

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

Bermuda Land Development Company Limited

Statement of Cash Flows

For the year ended March 31, 2000

	2000 \$	1999 \$
Cash flows from operating activities		
Excess of revenue over expenses (expenses over revenue) before grants	688,204	(3,114,747)
Item not affecting cash		
Amortization	358,964	258,408
Gain on sale of capital assets held for resale	(3,823,778)	-
Changes in non-cash items		
Capital assets held for resale	(1,609,043)	(1,741,365)
Accounts receivable and recoverable expenses	(2,024)	334,402
Prepaid expenses	(151,623)	17,678
Accounts payable and accrued charges	431,490	277,452
Developer deposits	250,000	(245,823)
Tenant deposits	107,708	33,908
	<u>(3,750,102)</u>	<u>(4,180,087)</u>
Cash flow from financing activity		
Capital contribution from the Government of Bermuda (note 6)	<u>6,750,000</u>	<u>7,000,000</u>
Cash flows from investment activities		
Purchase of capital assets	(8,339,901)	(5,049,044)
Proceeds from sale of capital assets held for resale	<u>5,682,945</u>	<u>-</u>
Cash flows from investing activities	<u>(2,656,956)</u>	<u>(5,049,044)</u>
Increase (decrease) in cash during the year	342,942	(2,229,131)
Cash and deposits - Beginning of year	<u>5,041,459</u>	<u>7,270,590</u>
Cash and deposits - End of year	<u>5,384,401</u>	<u>5,041,459</u>

Bermuda Land Development Company Limited

Notes to Financial Statements

March 31, 2000

1. *Nature of business*

The Bermuda Land Development Company Limited (the "Company") was incorporated under the authority of The Base Lands Development Act 1996 (the "Act") on November 12, 1996. The shares of the Company are held by the Minister of Development and Opportunity and the Minister of Finance in trust for the benefit of the country.

The general purpose of the Company is to manage and develop the land entrusted to it. In particular to integrate the land into the economic and social fabric of Bermuda and to create opportunities for increased employment now and in the future.

2. *Economic dependence*

Significant initial investment will be required to prepare the former base properties for development, develop appropriate infrastructure services, demolish unsafe and uneconomic structures and upgrade other structures to be functionally efficient. It is recognized that in order to position the Company to achieve its development goals and become commercially viable, the Company will be dependent on Government funding in the first few years.

3. *Summary of significant accounting policies*

These financial statements have been prepared in accordance with generally accepted accounting principles. Those policies considered particularly significant are set out below:

(a) **Grants from the Government of Bermuda**

Capital grants received from the Government for the purpose of capital developments are shown as capital grants and are deferred and taken into income on the same basis as the amortization of the related capital asset.

(b) **Capital assets held for resale**

Capital assets held for resale represents houses held for future sale. The inventory is valued at cost which includes direct costs associated with the renovation of the properties.

(c) **Capital assets**

Capital assets are valued at cost. Costs incurred by the Company for improvements to buildings and infrastructure, purchase of equipment and site preparation and demolition have been capitalized.

Amortization is calculated using the straight-line basis over the following estimated remaining useful lives:

Building	5 to 10 years
Infrastructure	5 to 10 years
Equipment	3 to 5 years

Bermuda Land Development Company Limited

Notes to Financial Statements

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Amortization has not yet been charged against site preparation costs, which include costs to clear land and demolish obsolete structures as these costs were necessary to bring the property into condition for future development. It is the intention of the Company to amortize these costs over the estimated useful life of each of the properties once development is completed.

No carrying value has been assigned to land, buildings and assets assumed by the Company as these assets are included as part of the lease (note 9(a)) and are not capitalized.

(d) Financial assets and liabilities

The estimated fair value of the Company's financial instruments which include cash and deposits, accounts receivable and recoverable expenses, accounts payable and accrued charges, developer deposits and tenant deposits approximate their carrying value.

(e) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reported period. Actual results could differ from these estimates.

(f) Revenue from the sale of houses and properties

The Company renovates houses and properties and leases them for a period of 125 years. All proceeds from the lease are received at the time the lease agreement is executed. These long-term leases are treated as sales.

(g) Tenant recoveries

Common area expenses recovered from tenants are shown as revenue. Other recoveries such as building maintenance, electricity and telephone are netted with the corresponding expense.

4. Restricted cash

At March 31, 2000, the Company had \$116,367 of restricted cash deposits. Of this, \$8,117 relates to deposits on cottage sales not yet completed.

The remaining \$108,250 is in respect of cottages sold. The cash is held on deposit with various mortgage lenders to guarantee up to 15% of purchasers mortgage value. Interest is received on these deposits on a quarterly basis in arrears to the Company at the highest rate offered by the mortgage lender for one year Bermuda dollar fixed deposits.

Within one month of the end of each calendar year the mortgage lender will release to the Company from each of the deposits a sum equal to the amount paid by the mortgage lender by each purchaser in reduction of the principal sum of the mortgage. It is expected that all deposits will be released within five years.

Bermuda Land Development Company Limited

Notes to Financial Statements

March 31, 2000

5. Capital Assets

Capital assets comprise:

	Cost \$	Amortization \$	2000 \$	1999 \$
Site preparation	13,076,821	-	13,076,821	7,038,657
Infrastructure	1,814,623	349,803	1,464,820	323,222
Equipment	558,844	310,527	248,317	350,006
Buildings	1,414,552	174,710	1,239,842	336,978
	<u>16,864,840</u>	<u>835,040</u>	<u>16,029,800</u>	<u>8,048,863</u>

During the year \$5,297,000 (1999 - \$1,742,000) of costs included in site preparation were transferred to capital assets held for resale. Capital assets held for resale were reduced as these assets were sold.

6. Capital grants from the government of Bermuda

Capital grants represent the aggregate amount of capital grants received from the Government of Bermuda less amounts amortized to income and comprise:

	2000 \$	1999 \$
Balance - Beginning of year	12,623,465	5,881,873
Capital grant received	6,750,000	7,000,000
Housing sales amortization	(1,833,419)	-
Capital grant amortized	<u>(358,964)</u>	<u>(258,408)</u>
Balance - End of year	<u>17,181,082</u>	<u>12,623,465</u>

7. Share capital

	2000 \$	1999 \$
Authorized and issued - 10,000,000 common shares of the par value \$1 each	<u>10,000,000</u>	<u>10,000,000</u>
50% called and fully paid in cash	<u>5,000,000</u>	<u>5,000,000</u>

Upon incorporation the Company issued 10,000,000 common shares, of which 50% were called and paid.

Bermuda Land Development Company Limited

Notes to Financial Statements

March 31, 2000

8. *Sale of properties*

During the year the Company received the following proceeds from:

	\$
(a) Revenue from the sale of houses	2,683,000
(b) Revenue from the sale of property to Bermuda Housing Corporation	3,000,000
	<u>5,683,000</u>

9. *Contingencies and commitments*

- (a) On May 13, 1997, the Company entered into a lease for a period of 131 years. The lease is effective from the Company's date of incorporation on November 12, 1996 and includes the four properties known as the Southside, St. David's (formerly the US Naval Air Station, excluding the airport), the Naval Annex in Southampton, Daniel's Head in Sandys and the Operating Base at Tudor Hill in Southampton including all buildings as described in detail in the schedule which forms part of the lease. The rent for the whole period is \$131 and has been paid.
- (b) The Base Lands Development Act 1996 (the "Act") provides certain assurances with respect to the scheduled lands including that the Government owns the land in fee simple, absolute in possession and provides for indemnification of the Company for any losses relating to pollution or contamination of the land which existed prior to the commencement of the Act on September 20, 1996.
- (c) At March 31, 2000, the Company was committed to capital projects at Southside, St. David's with a value outstanding on the contracts of \$1,798,000.

The Company is also committed to service contracts for security and facilities maintenance for the various properties totalling approximately \$246,000. These contracts expire during the year ending March 31, 2000.

- (d) The Legislature has approved \$6,500,000 in capital grants (2000 - \$6,750,000; 1999 - \$7,000,000) for the fiscal year ending March 31, 2001.
- (e) On March 1, 2000, the Company gave an investment group an exclusive period to prepare a proposal for the development of a significant parcel of its land holdings.

10. *Related party transactions*

The Company is related in terms of common ownership to all Government of Bermuda departments and agencies. The Company enters into transactions with these entities in the normal course of business. During the year ended March 31, 2000, the Company received \$837,689 (1999 - \$365,000) of rental income from various Government departments. At March 31, 2000, amounts outstanding from various Government departments totalled \$64,162 (1999 - \$53,000) and have been included in accounts receivable and recoverable expenses.