WATLINGTON WATERWORKS LIMITED

Consolidated Financial Statements
(With Independent Auditors' Report Thereon)

For the Year Ended December 31, 2011

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

Telephone 441 295-5063
Fax 441 295-9132
Internet www.kpmg.bm

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Watlington Waterworks Limited

We have audited the accompanying consolidated financial statements of Watlington Waterworks Limited which comprise the consolidated statement of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Watlington Waterworks Limited as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG

Chartered Accountants
Hamilton, Bermuda
May 4, 2012

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Financial Position

December 31, 2011
(Expressed in Bermuda Dollars)

	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Property, plant and equipment (Note 8)	$ 14,448,689	$ 13,352,942	$ 10,795,417
Intangible assets (Note 9)	11,908	29,049	64,366
Investment property (Note 10)	117,300	144,497	172,008
Total non-current assets	14,577,897	13,526,488	11,031,791
Inventories (Note 11)	1,333,069	1,165,734	1,127,269
Investments	2,090,986	1,570,359	1,500,000
Trade and other receivables (Note 15)	841,417	1,120,904	849,045
Prepayments	192,321	164,714	133,317
Cash and cash equivalents (Note 12)	3,534,834	3,907,387	4,264,937
Total current assets	7,992,627	7,929,098	7,874,568
Total assets	$ 22,570,524	$ 21,455,586	$ 18,906,359
Liabilities and equity			
Share capital (Note 13)	$ 1,058,089	$ 1,055,359	$ 1,054,919
Share premium (Note 13)	1,398,289	1,373,938	1,369,896
Reserves (Note 13)	8,000,000	8,000,000	8,000,000
Retained earnings	10,846,726	9,386,889	7,722,362
Total equity	21,303,104	19,816,186	18,147,177
Liabilities			
Equipment deposits	5,293	4,852	5,912
Trade payables (Note 15)	1,262,127	1,634,548	753,270
Total current liabilities	1,267,420	1,639,400	759,182
Total liabilities and shareholders' equity	$ 22,570,524	$ 21,455,586	$ 18,906,359

See accompanying notes to the consolidated financial statements

Signed on behalf of the Board

DAKance Director

Director

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2011
(Expressed in Bermuda Dollars)

	2011	2010
Revenue (Note 5)	$ 10,742,929	$ 10,343,827
Production costs	(3,971,828)	(3,776,868)
Gross profit	6,771,101	6,566,959
Distribution expenses	(2,049,153)	(1,943,728)
Administrative expenses	(2,734,856)	(2,549,525)
Total profit before finance income	1,987,092	2,073,706
Finance income	22,077	33,995
Profit and total comprehensive income for the year	$ 2,009,169	$ 2,107,701
Profit attributable to:		
Owners of the Company	$ 2,009,169	$ 2,107,701
Earnings per share		
Basic earnings per share (Note 14)	$ 1.90	$ 2.00

See accompanying notes to the consolidated financial statements

All amounts reported above are related to continuing operations. There are no other components of comprehensive income.

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Changes in Equity

For the year ended December 31, 2011
(Expressed in Bermuda dollars)

	Share capital	Share premium	Capital reserve	General reserve	Retained earnings	Total
Balance at January 1, 2010	$ 1,054,919	$ 1,369,896	$ 7,000,000	$ 1,000,000	$ 7,722,362	$ 18,147,177
Total comprehensive income for the year						
Profit for the year	–	–	–	–	2,107,701	2,107,701
Transactions with owners of the Company recognized directly in equity						
Issuance of shares	440	4,042	–	–	–	4,482
Dividends (Note 13)	–	–	–	–	(443,174)	(443,174)
Balance at December 31, 2010	$ 1,055,359	$ 1,373,938	$ 7,000,000	$ 1,000,000	$ 9,386,889	$ 19,816,186
Balance at January 1, 2011	$ 1,055,359	$ 1,373,938	$ 7,000,000	$ 1,000,000	$ 9,386,889	$ 19,816,186
Total comprehensive income for the year						
Profit for the year	–	–	–	–	2,009,169	2,009,169
Transactions with owners of the Company recognized directly in equity						
Issuance of shares	2,730	24,351	–	–	–	27,081
Dividends (Note 13)	–	–	–	–	(549,332)	(549,332)
Balance at December 31, 2011	$ 1,058,089	$ 1,398,289	$ 7,000,000	$ 1,000,000	$ 10,846,726	$ 21,303,104

See accompanying notes to the consolidated financial statements

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Cash Flows

For the year ended December 31, 2011
(Expressed in Bermuda Dollars)

	2011	2010
Operating activities		
Profit for the year	$ 2,009,169	$ 2,107,701
Adjustments for:		
Depreciation of property, plant and equipment	1,049,499	991,998
Amoritization of intangible assets	17,141	54,723
Depreciation of investment property	27,197	27,511
Finance income	(22,077)	(33,995)
	3,080,929	3,147,938
Changes in:		
Inventories	(167,335)	(38,465)
Trade and other receivables	279,488	(271,859)
Prepayments	(27,607)	(31,397)
Trade and other payables	(372,421)	881,278
Equipment deposits	440	(1,060)
Net cash from operating activities	2,793,494	3,686,435
Investing activities		
Interest received	22,077	33,995
Acquisition of property, plant and equipment	(2,145,246)	(3,549,523)
Acquisition of intangible assets	–	(19,406)
Acquisition of investments	(520,627)	(70,359)
Net cash used in investing activities	(2,643,796)	(3,605,293)
Financing activities		
Proceeds from shares issued	27,081	4,482
Dividends paid	(549,332)	(443,174)
Net cash used in financing activities	(522,251)	(438,692)
Net decrease in cash and cash equivalents	(372,553)	(357,550)
Cash and cash equivalents at beginning of year	3,907,387	4,264,937
Cash and cash equivalents at end of year	$ 3,534,834	$ 3,907,387

See accompanying notes to the consolidated financial statements

1. General

Watlington Waterworks Limited (the "Company") is a company domiciled in Bermuda. The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its subsidiary Bermuda Waterworks Ltd. (together referred to as the 'Group' and individually as 'Group entities'). The Group primarily is involved in the production and distribution of water and purification of drinking water at the retail and wholesale level. The Group is also engaged in the provision of water service, plumbing supplies and the supply of coolers for sale and rental. There is no parent or ultimate controlling party to the Company.

2. Basis of preparation

a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on May 4, 2012.

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.

d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and the associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in the following notes:

- Note 3(h) – impairment of financial assets
- Note 3(h) – impairment of non-financial assets
- Note 15 – allowance for impairment of receivables

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Bermuda Waterworks Ltd. All significant intercompany transactions and balances are eliminated on consolidation.

b) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

c) Property, plant and equipment

Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- Cost of materials and direct labour; and
- Any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

Depreciation
Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

• Buildings	40 years
• Plant and equipment including pipelines	3 – 40 years
• Fixtures and fittings	3 – 10 years

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

d) Intangible assets

Application software is valued at cost less accumulated amortization and is amortized on a straight-line basis over a useful life of 3 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 and depreciated over the estimated useful life of 40 years.

f) Inventories

Inventories which comprise essential utility parts, plumbing supplies and bottled water supplies are carried at the lower of cost and net realizable value. Cost is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories production and conversion costs, and other costs incurred in bringing them to their present condition and location.

g) Investments

Investments consist of term deposits having a maturity of more than three months from the date of purchase.

Investments are classified as available-for-sale, and are initially measured at fair value plus any attributable transaction costs. Subsequent to initial recognition they are measured at amortized cost which approximate fair value, less any impairment losses.

h) Impairment

Financial assets

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables or investments. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The allowance for impairment of receivables reflects estimates of losses arising from the failure or inability of the Group's customers to make required payments. The allowance is based on the ageing of customer accounts, customer creditworthiness and the Group's historical write-off experience. Changes to the allowance may be required if the financial condition of customers improves or deteriorates. An improvement in the financial condition may result in lower actual write-offs. Historically changes to the estimates of losses have not been material to the Group's financial position and results.

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

h) *Impairment* (continued)

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. Factors that are considered important and which could trigger an impairment review include the following:

- Obsolescence or physical damage;
- Significant changes in technology and regulatory environment;
- Significant under-performance relative to expected historical or projected future operating results;
- Significant changes in the use of the assets or the strategy for business; and
- Significant negative industry or economic trends.

The identification of impairment indicators, estimation of timing and amount of expected future cash flows, determination of application of discount rates and computation of recovered amounts for assets involves significant judgment. If any such indication exists, then the asset's recoverable amount is estimated. For assets that have indefinite useful lives, or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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 current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the 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 or amortisation, if no impairment loss had been recognised.

i) *Trade and other receivables*

Trade receivables are classified as loans and receivables and are carried at amortized cost based on the original invoice amount to customers less provision made for impairment based on a periodic review of all outstanding amounts.

j) *Cash and cash equivalents*

Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried in the statement of financial position at cost and comprise cash and short-term deposits.

k) *Trade and other payables*

Trade and other payables are classified as other financial liabilities and are stated at amortized cost using the effective interest method.

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

l) Finance income

Finance income represents interest on cash and cash equivalents and instruments, and is recorded on the accruals basis using the effective interest method.

m) Employee benefits

The Company sponsors a defined contribution pension plan (the "Plan") covering all eligible employees. The cost of the Plan is expensed as related benefits are earned by the employees. The Company makes monthly contributions in accordance with the Plan Agreement to the employees' individual accounts, which are administered by an insurance company pursuant to and in accordance with the National Pension Scheme (Occupational Pensions) Act.

n) Revenue

Water sales
Water sales comprise wholesale water and bottled water sales. Revenue for water sales is recognized as the water is sold and collection is reasonably assured. Wholesale water sales are based on consumption recorded by meter readings taken monthly during the year. Metered sales are recognized as billed at the end of each month.

Other operating revenues
Other operating revenues comprise income from sales of plumbing supplies, sales and rental of water coolers and related equipment and utility connection fees.

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

o) New standards and interpretations not yet adopted

The following standard is not yet effective for the year ended December 31, 2011 and has not been applied in preparing these consolidated financial statements:

IFRS 9, Financial Instruments

IFRS 9 simplifies the classification, recognition and measurement requirements for financial assets, liabilities and some contracts to buy or sell non-financial items. Management is currently assessing the impact of the adoption of this standard. The Group will adopt IFRS 9 in 2015.

A number of other new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant impact on the consolidated financial statements.

4. **Operating segments**

The principal activity of the Group is the production and distribution of water. There are two primary revenue earning divisions, the Utility Division and the Bottled Water Division. The Utility Division distributes drinking water through a network of underground pipelines to the central and western parishes of Bermuda. The Bottled Water Division manufactures the Pure Water product which is distributed throughout Bermuda and is sold in supermarkets and grocery stores and from the Company's premises and is also delivered directly to customers' premises. Other operations include the retail store for plumbing supplies and miscellaneous income and expenditures.

4. **Operating segments** (continued)

Income and expenditure by segment

	2011			
	Utility	Bottled water	Other	Total
Income				
External revenues	$ 6,564,152	$ 3,697,741	$ 418,786	$ 10,680,679
Intersegment revenues	64,723	–	–	64,723
Rentals	–	–	62,250	62,250
Interest	–	–	22,077	22,077
Total revenue	6,628,875	3,697,741	503,113	10,829,729
Expenditure				
External costs	4,118,533	2,817,037	726,431	7,662,001
Depreciation	947,500	37,976	108,360	1,093,836
Intersegment expenditure	–	64,723	–	64,723
Total expenditure	5,066,033	2,919,736	834,791	8,820,560
Net profit (loss) by segment	$ 1,562,842	$ 778,005	$ (331,678)	$ 2,009,169

	2010			
	Utility	Bottled water	Other	Total
Income				
External revenues	$ 6,205,352	$ 3,659,325	$ 410,071	$ 10,274,748
Intersegment revenues	58,162	–	–	58,162
Rentals	–	–	69,079	69,079
Interest	–	–	33,995	33,995
Total revenue	6,263,514	3,659,325	513,145	10,435,984
Expenditure				
External costs	3,700,978	2,818,048	676,863	7,195,889
Depreciation	882,293	56,847	135,092	1,074,232
Intersegment expenditure	–	58,162	–	58,162
Total expenditure	4,583,271	2,933,057	811,955	8,328,283
Net profit (loss) by segment	$ 1,680,243	$ 726,268	$ (298,810)	$ 2,107,701

4. **Operating segments** (continued)

External revenues for the Utility Division include connection fees and for the Bottled Water Division sales and rentals of coolers and related equipment are included. Intersegment revenues and expenditure refer to water supplied by the Utility Division to the Bottled Water Division and further processed to make the Pure Water product. This supply is billed at normal commercial rates.

Administrative costs have been charged to reporting segments on an actual basis wherever possible. The residue of non- allocable administrative expenditure is allocated to segments on an estimated usage basis.

Reconciliation of revenue

	2011	2010
Total revenue for reportable segments	$ 10,326,616	$ 9,922,839
Other revenue	503,113	513,145
Finance income	(22,077)	(33,995)
Elimination of intersegment revenues	(64,723)	(58,162)
Total revenues	$ 10,742,929	$ 10,343,827

Non-reportable segments

Revenue includes sales from the Company's plumbing supplies retail outlet, external rentals from the Company's properties and interest on invested funds. Expenditure includes the operating costs of the Plumbing Store, depreciation on equipment used jointly by all divisions of the Company, e.g. computer hardware and software, and unallocated administrative costs.

Reconciliation of assets, liabilities and expenditure on capital assets by segment

	Utility	Bottled water	Total reportable segments	Other	Total
As at December 31, 2011					
Assets	$ 14,965,380	$ 775,800	$ 15,741,180	$ 6,829,344	$ 22,570,524
Liabilities	(598,822)	(54,764)	(653,586)	(613,834)	(1,267,420)
Capital expenditure	1,436,440	30,184	1,466,624	678,622	2,145,246
As at December 31, 2010					
Assets	$ 14,446,472	$ 638,334	$ 15,084,806	$ 6,370,780	$ 21,455,586
Liabilities	(943,739)	(50,704)	(994,443)	(644,957)	(1,639,400)
Capital expenditure	2,639,169	5,906	2,645,075	923,854	3,568,929

5. Revenue

	2011	2010
Water sales	$ 9,768,779	$ 9,347,532
Other operating revenues	911,900	927,216
Rental income	62,250	69,079
Total revenues	$ 10,742,929	$ 10,343,827

6. Expenses by nature

Expenses by nature primarily comprise of:

	2011	2010
Employee benefit expense	$ 3,295,133	$ 3,304,699
Electricity expense	1,625,010	1,462,124
Depreciation expense	1,093,837	1,074,232
Royalties expense	379,133	384,256
Maintenance of assets expense	325,741	238,667
Vehicle expense	246,247	223,163

7. Personnel expenses

	2011	2010
Short term employment benefits	$ 2,643,350	$ 2,651,429
Compulsory payroll tax, social insurance and health scheme contributions	532,110	539,591
Payments to defined contributions pension scheme	113,473	108,123
Other employee benefit expense	6,200	5,556
	$ 3,295,133	$ 3,304,699

8. Property, plant and equipment

	Land & buildings	Plant & equipment	Fixtures & fittings	Under construction	Total
Cost					
At January 1, 2010	$ 1,292,900	$ 20,574,389	$ 314,339	$ 20,358	$ 22,201,986
Additions	–	1,979,233	12,384	1,557,906	3,549,523
Disposals	–	(819,813)	–	–	(819,813)
At December 31, 2010	$ 1,292,900	$ 21,733,809	$ 326,723	$ 1,578,264	$ 24,931,696
At January 1, 2011	$ 1,292,900	$ 21,733,809	$ 326,723	$ 1,578,264	$ 24,931,696
Additions	44,142	1,568,022	10,830	522,252	2,145,246
Transfers	1,186	1,475,760	–	(1,476,946)	–
Disposals	–	(144,344)	(279)	–	(144,623)
At December 31, 2011	$ 1,338,228	$ 24,633,247	$ 337,274	$ 623,570	$ 26,932,319
Depreciation and impairment losses					
At January 1, 2010	$ 774,961	$ 10,368,955	$ 262,653	$ –	$ 11,406,569
Depreciation for the year	21,340	951,307	19,351	–	991,998
Disposals	–	(819,813)	–	–	(819,813)
At December 31, 2010	$ 796,301	$ 10,500,449	$ 282,004	$ –	$ 11,578,754
At January 1, 2011	$ 796,301	$ 10,500,449	$ 282,004	$ –	$ 11,578,754
Depreciation for the year	24,632	1,004,399	20,468	–	1,049,499
Disposals	–	(144,344)	(279)	–	(144,623)
At December 31, 2011	$ 820,933	$ 11,360,504	$ 302,193	$ –	$ 12,483,630
Carrying amounts					
At January 1, 2010	$ 517,939	$ 10,205,434	$ 51,686	$ 20,358	$ 10,795,417
At December 31, 2010	$ 496,599	$ 11,233,360	$ 44,719	$ 1,578,264	$ 13,352,942
At December 31, 2011	$ 517,295	$ 13,272,743	$ 35,081	$ 623,570	$ 14,448,689

9. Intangible assets

	Application software	Total
Cost		
At January 1, 2010	$ 361,643	$ 361,643
Additions	19,406	19,406
At December 31, 2010	381,049	381,049
At January 1, 2011 and December 31, 2011	$ 381,049	$ 381,049
Amortization and impairment losses		
At January 1, 2010	$ 297,277	$ 297,277
Amortization for the year	54,723	54,723
At December 31, 2010	352,000	352,000
At January 1, 2011	352,000	352,000
Amortization for the year	17,141	17,141
At December 31, 2011	$ 369,141	$ 369,141
Carrying amounts		
At January 1, 2010	$ 64,366	$ 64,366
At December 31, 2010	$ 29,049	$ 29,049
At December 31, 2011	$ 11,908	$ 11,908

10. Investment property

Investment property comprises a residential property which is leased to a tenant on a month-by-month basis.

	2011	2010
Balance at January 1,	$ 144,497	$ 172,008
Depreciation	(27,197)	(27,511)
Balance at December 31	$ 117,300	$ 144,497

The estimated fair value of the investment property is as follows:

January 1, 2010	$ 1,525,000
December 31, 2010	1,525,000
December 31, 2011	1,375,000

The property was valued by an independent appraiser on January 1, 2010 for a value of $1,525,000. This value was not considered to be significantly different as at December 31, 2010 based on market conditions. The property was appraised again as at December 31, 2011 at a value of $1,375,000.

11. Inventories

	December 31, 2011	December 31, 2010	January 1, 2010
Spares and production parts	$ 890,861	$ 776,342	$ 783,449
Goods for resale	351,599	341,082	333,952
Water bottling supplies	144,905	102,606	72,766
Inventory provision	(54,296)	(54,296)	(62,898)
	$ 1,333,069	$ 1,165,734	$ 1,127,269

12. Cash and cash equivalents

	December 31, 2011	December 31, 2010	January 1, 2010
Bank balances	$ 1,210,354	$ 1,885,628	$ 1,249,202
Call deposits	2,324,480	2,021,759	3,015,735
	$ 3,534,834	$ 3,907,387	$ 4,264,937

13. Capital and reserves

Share capital

	Ordinary shares	
	2011	2010
Issued as at January 1	1,055,359	1,054,919
Issued for cash during the year	2,730	440
Issued at December 31 – fully paid	1,058,089	1,055,359
Authorized – par value $1	2,000,000	2,000,000

All shares rank equally with regard to the Company's residual assets.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

Share premium

The share premium balance relates to the excess of the purchase price over par value of shares of the Company.

Employee share purchase plan

In June 1999, the Company introduced an employee share purchase plan whereby an employee with a minimum of one year's continuous service may subscribe to purchase a maximum of 1,000 common shares in any one calendar year. The purchase price of the common shares is 85% of the market price on the plan's subscription date. The shares purchased are issued from authorized, unissued share capital. Employees are restricted from selling the shares for a period of one year from the issuance date.

During the year ended December 31, 2011, employees subscribed for and were issued 2,730 common shares for proceeds of $27,081(2010 - 440 shares for proceeds of $4,482). The excess of the purchase price over the par value of the shares is recorded as share premium.

13. **Capital and reserve** (continued)

Capital reserve

The amount transferred from retained earnings to capital reserve represents the Company's investment in infrastructure renovations and improvements, including pipelines and reservoirs, in order to maintain the permanent capital of the Company and has been approved by the Board of Directors.

General reserve

General reserve is an appropriation from retained earnings as a contingency for unexpected future expenditures and has been approved by the Board of Directors.

Dividends

The following dividends were declared and paid by the Company for the year ended December 31:

	2011	2010
0.11 cents per qualifying ordinary share (2010 – 0.10 cents) March	$ 116,089	$ 105,492
0.19 cents per qualifying ordinary share (2010 – 0.10 cents) June	200,518	105,526
0.11 cents per qualifying ordinary share (2010 – 0.11 cents) October	116,357	116,078
0.11 cents per qualifying ordinary share (2010 – 0.11 cents) December	116,368	116,078
	$ 549,332	$ 443,174

14. **Earnings per share**

The calculation of basic earnings per share at December 31, 2011 was based on the profit attributable to ordinary shareholders of $2,009,169 (2010 - $2,107,701), and a weighted average number of ordinary shares outstanding of 1,056,600 (2010 - 1,055,125), calculated as follows:

Weighted average number of ordinary shares

	2011	2010
Issued ordinary shares at January 1	1,055,359	1,054,919
Effect of shares issued	1,241	206
Weighted average number of ordinary shares at December 31	1,056,600	1,055,125

There were no dilutive potential ordinary shares.

15. **Financial instruments**

Fair value

The Group's financial instruments consist of cash and cash equivalents, trade and other receivables, investments, and trade payables.

The carrying values of financial instruments approximate fair value due to their short term nature or the fact that they attract interest at market rates.

Fair value hierarchy

Financial instruments are carried at fair value, as classified by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company holds only Level 1 investments and there have been no changes to this classification during the year.

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations to the Group, and arises principally from cash and cash equivalents and trade and other receivables.

The Group is exposed to credit related losses to the extent of non-performance by counterparties to the financial instruments, predominately trade and other receivable balances. There are no significant concentrations of credit risk, and the Group mitigates its exposure by ensuring adequate client credit procedures are conducted prior to accepting new accounts.

Cash and cash equivalents

The Group maintains the majority of its cash in chequing accounts with Bermuda-based banks. The risk of default is not considered significant by management.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's receivable balances are predominately with multiple Bermuda-based residential and commercial customers, and are subject to normal credit risks.

The maximum exposure to credit risk for receivable balances at the reporting date is represented by the carrying value on the statement of financial position.

The credit exposure is mitigated through the use of credit policies under which each new customer is analyzed individually for creditworthiness before the Group's standard payment terms and conditions are offered. The credit exposure is further mitigated through on-going monitoring and assessment of customer payment history.

15. **Financial instruments** (continued)

Trade and other receivables (continued)

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. An allowance for impairment has been recorded for those past due balances for which collectability is uncertain. The aging of trade and other receivables, and impairment provision as at the reporting date were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Current	$ 531,389	$ 893,617	$ 654,173
Past 30 days	193,393	161,322	147,370
Past 60 days	78,831	74,371	71,622
Past 90 days	221,987	139,394	148,116
	1,025,600	1,268,704	1,021,281
Less: allowance for impairment	(184,183)	(147,800)	(172,236)
	$ 841,417	$ 1,120,904	$ 849,045

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

	Total
Balance at January 1, 2010	$ 172,236
Impairment recovery	(9,914)
Amounts written off	(14,522)
Balance at 31 December 2010	147,800
Impairment loss recognized	39,831
Amounts written off	(3,448)
Balance at December 31, 2011	$ 184,183

15. **Financial instruments** (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty meeting its financial liability obligations. The Group maintains sufficient cash together with cash generated from sales, to meet its liabilities as they fall due.

The table below categorizes the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are contractual undiscounted cash flows. Balances due within 12 months approximate their carrying values, as the impact of discounting is not significant.

	Carrying amount	Contractual cash flows	0 - 3 months	4 - 12 months	Greater than 1 year
As at December 31, 2011					
Trade payables	$ 1,262,127	$ 1,262,127	$ 1,262,127	$ –	$ –
Total financial liabilities	$ 1,262,127	$ 1,262,127	$ 1,262,127	$ –	$ –

	Carrying amount	Contractual cash flows	0 - 3 months	4 - 12 months	Greater than 1 year
As at December 31, 2010					
Trade payables	$ 1,634,548	$ 1,634,548	$ 1,634,548	$ –	$ –
Total financial liabilities	$ 1,634,548	$ 1,634,548	$ 1,634,548	$ –	$ –

	Carrying amount	Contractual cash flows	0 - 3 months	4 - 12 months	Greater than 1 year
As at January 1, 2010					
Trade payables	$ 753,270	$ 753,270	$ 753,270	$ –	$ –
Total financial liabilities	$ 753,270	$ 753,270	$ 753,270	$ –	$ –

Currency risk

Currency risk arises from changes in prevailing foreign currency rates. Assets and liabilities are predominately held in the functional currency of the Group, which is the Bermuda dollar. The Group is not exposed to significant foreign currency risk.

15. **Financial instruments** (continued)

Capital management

The Group's objectives in managing capital are to ensure sufficient liquidity to enable the internal financing of capital projects and working capital needs, thereby facilitating its expansion, to maintain a strong capital base so as to maintain investor, creditor and market confidence and to provide an adequate return to shareholders.

The Group's capital is comprised of shareholders' equity. The Group's primary uses of capital are to fund increases in non-cash working capital, along with capital expenditure for new production processes and distribution networks. The Group currently funds these requirements out of its internally generated cash flow. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable profitable growth. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders. The Group is not subject to any externally imposed capital requirements.

16. **Commitments**

At December 31, 2011 the Group had capital commitments in respect of plant and equipment of $116,000 (2010: $1,425,000). These commitments will be met from operations during 2012.

During 2010 the Group entered into a Memorandum of Understanding with the Bermuda Government to extend its pipeline from Lighthouse Road in Southampton westwards to the Government's water treatment plant and reservoir at Tudor Hill, Southampton and onwards towards Somerset Village. At December 31, 2011 expenditure totaling $2,694,928 had been incurred on this project together with a further $19,516 in construction in progress. These amounts are both included in property, plant and equipment as at December 31, 2011.

At December 31, 2011 construction in progress also includes $496,065 incurred in professional costs relating to the development of the Group's Parsons Lane, Devonshire property for which a Government building permit has been received.

Watlington Waterworks Limited entered into an agreement with Ionics Bermuda Limited and Ionics Incorporated now owned by General Electric, as amended on December 29, 1989, for the supply and treatment of brackish water. The agreement commits Watlington Waterworks Limited to guarantee an annual minimum purchase of 100 million gallons of system product water from the electrodialysis reversal demineralization system owned by Ionics Bermuda Limited that is located at Watlington Waterworks' premises at 32 Parsons Lane.

The agreement is for a period of 25 years, and commenced operationally on April 13, 1989. The agreement has two years left to run.

The current process fee is US$2.43 per thousand imperial gallons. The minimum annual commitment expressed in US dollars is currently $243,000. This rate is subject to adjustment on the anniversary of the operational commencement date by 50% of the annual percentage change of the United States Consumer Price Index (all items) published by the United States Department of Labor – Bureau of Labor and Statistics.

17. Related parties

Director's fees

Directors' fees in 2011 amounted to $32,318 (2010 - $24,946).

Key management personnel compensation

Key management compensation comprised the following:

	2011	2010
Short term employment benefits	$ 626,447	$ 643,443
Post-employment pension benefits	25,226	25,944
Dividends	6,450	4,794
	$ 658,123	$ 674,181

Directors share interest and service contracts

Pursuant to Regulation 6.8(3) of Section 11B of the Bermuda Stock Exchange Listing Regulations, the total interest of all directors and officers of the Company as at December 31, 2011 was 250,655 (2010 – 249,655) shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer, except for the managing director who qualifies under the employee share purchase plan (Note 13).

There are no contracts with the Company in which a director has a material interest, either directly or indirectly.

18. **Explanation of transition to IFRSs**

These are the Group's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position as at January 1, 2010 (the Company's date of transition).

An explanation of how the transition from previous accounting principles generally accepted in Bermuda and Canada ("Bermuda/Canadian GAAP") to IFRS has affected the Company's financial position, as at January 1, 2010 and December 31, 2010 is set out in the following tables:

Reconciliation of equity

		December 31, 2010		
	Note	Previous Bermuda/ Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Property, plant and equipment	(a)	$ 13,526,488	$ (173,546)	$ 13,352,942
Intangible assets	(a)	–	29,049	29,049
Investment property	(a)	–	144,497	144,497
Inventories		1,165,734	–	1,165,734
Investments		1,570,359	–	1,570,359
Trade and other receivables		1,120,904	–	1,120,904
Prepayments		164,714	–	164,714
Cash and cash equivalents		3,907,387	–	3,907,387
Total assets		$ 21,455,586	$ –	$ 21,455,586
Liabilities and equity				
Equipment deposits		$ 4,852	$ –	$ 4,852
Trade payables		1,634,548	–	1,634,548
Share capital		1,055,359	–	1,055,359
Share premium		1,373,938	–	1,373,938
Reserves		8,000,000	–	8,000,000
Retained earnings		9,386,889	–	9,386,889
Total liabilities and equity		$ 21,455,586	$ –	$ 21,455,586

18. **Explanation of transition to IFRSs** (continued)

Reconciliation of equity (continued)

	Note	January 1, 2010 Previous Bermuda/ Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Property, plant and equipment		$ 11,031,791	$ (236,374)	$ 10,795,417
Intangible assets		–	64,366	64,366
Investment property		–	172,008	172,008
Inventories		1,127,269	–	1,127,269
Investments		1,500,000	–	1,500,000
Trade and other receivables		849,045	–	849,045
Prepayments		133,317	–	133,317
Cash and cash equivalents		4,264,937	–	4,264,937
Total assets		$ 18,906,359	$ –	$ 18,906,359
Liabilities and equity				
Equipment deposits		$ 5,912	$ –	$ 5,912
Trade payables		753,270	–	753,270
Share capital		1,054,919	–	1,054,919
Share premium		1,369,896	–	1,369,896
Reserves		8,000,000	–	8,000,000
Retained earnings		7,722,362	–	7,722,362
Total liabilities and equity		$ 18,906,359	$ –	$ 18,906,359

Notes to the recalculation

(a) As a result of the transition to IFRS, investment property and application software (intangible asset) previously recorded as property, plant and equipment were reclassified to their respective captions.

There was no impact on the statement of comprehensive income as a result of this change.