WATLINGTON WATERWORKS LIMITED

Consolidated Financial Statements
(With Independent Auditor's Report Thereon)

For the Year Ended December 31, 2015

KPMG Audit Limited
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Watlington Waterworks Limited

We have audited the accompanying consolidated financial statements of Watlington Waterworks Limited (the "Company") which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
March 24, 2016

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Financial Position

December 31, 2015
(Expressed in Bermuda Dollars)

	2015	2014
Assets		
Non-current assets		
Property, plant and equipment (Note 8)	$ 18,893,403	$ 18,830,572
Intangible assets (Note 9)	65,464	64,612
Investment property (Note 10)	16,473	34,443
Total non-current assets	18,975,340	18,929,627
Current assets		
Other assets (Note 15)	49,450	164,932
Inventories (Note 11)	1,124,688	1,116,472
Trade and other receivables (Note 16)	718,930	709,260
Prepayments	162,090	188,844
Investments (Notes 3k, 12 and 16)	3,145,611	2,129,781
Cash and cash equivalents (Notes 12 and 16)	4,108,698	3,582,330
Total current assets	9,309,467	7,891,619
Total assets	$ 28,284,807	$ 26,821,246
Equity		
Share capital (Note 13)	$ 1,061,440	$ 1,061,365
Share premium (Note 13)	1,435,456	1,434,031
Reserves (Note 13)	8,000,000	8,000,000
Retained earnings	16,995,253	15,448,031
Total equity	27,492,149	25,943,427
Liabilities		
Current liabilities		
Equipment deposits	2,020	2,020
Trade payables (Note 16)	790,638	875,799
Total current liabilities	792,658	877,819
Total liabilities and equity	$ 28,284,807	$ 26,821,246

The notes on pages 5 to 21 are an integral part of these consolidated financial statements

Signed on behalf of the Board

M. B. Gill Director

Director

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2015
(Expressed in Bermuda Dollars)

	2015	2014
Revenue (Note 5)	$ 10,215,353	$ 10,033,168
Production costs	(2,623,195)	(2,613,972)
Gross profit	7,592,158	7,419,196
Administrative expenses	(2,886,904)	(2,845,399)
Distribution expenses	(2,532,028)	(2,502,697)
Total profit before finance income	2,173,226	2,071,100
Finance income	16,137	8,806
Profit and total comprehensive income for the year	$ 2,189,363	$ 2,079,906
Profit attributable to:		
Owners of the Company	$ 2,189,363	$ 2,079,906
Earnings per share		
Basic earnings per share (Note 14)	$ 2.06	$ 1.96

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

The notes on pages 5 to 21 are an integral part of these consolidated financial statements

WATLINGTON WATERWORKS LIMITED
Consolidated Statement of Changes in Equity

For the year ended December 31, 2015
(Expressed in Bermuda dollars)

	Attributable to owners of the Company					
	Share capital	Share premium	Capital reserve	General reserve	Retained earnings	Total
Balance at January 1, 2014	$ 1,061,139	$ 1,430,528	$ 7,000,000	$ 1,000,000	$ 13,835,067	$ 24,326,734
Total comprehensive income for the year						
Profit for the year	–	–	–	–	2,079,906	2,079,906
Transactions with owners of the Company recognized directly in equity						
Issuance of shares (Note 13)	226	3,503	–	–	–	3,729
Dividends (Note 13)	–	–	–	–	(466,942)	(466,942)
Balance at December 31, 2014	1,061,365	1,434,031	7,000,000	1,000,000	15,448,031	25,943,427
Total comprehensive income for the year						
Profit for the year	–	–	–	–	2,189,363	2,189,363
Transactions with owners of the Company recognized directly in equity						
Issuance of shares (Note 13)	75	1,425	–	–	–	1,500
Dividends (Note 13)	–	–	–	–	(642,141)	(642,141)
Balance at December 31, 2015	$ 1,061,440	$ 1,435,456	$ 7,000,000	$ 1,000,000	$ 16,995,253	$ 27,492,149

The notes on pages 5 to 21 are an integral part of these consolidated financial statements

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Cash Flows

For the year ended December 31, 2015
(Expressed in Bermuda Dollars)

	2015	2014
Operating activities		
Profit for the year	$ 2,189,363	$ 2,079,906
Adjustments for:		
Depreciation of property, plant and equipment (Note 8)	1,333,755	1,159,115
Amortization of intangible assets (Note 9)	61,198	51,309
Depreciation of investment property (Note 10)	17,970	26,978
Finance income	(16,137)	(8,806)
	3,586,149	3,308,502
Changes in non-cash working capital balances:		
Inventories	(8,216)	306,928
Trade and other receivables	(9,670)	(60,216)
Prepayments	26,754	(42,204)
Trade payables	(85,161)	(248,158)
Equipment deposits	–	(857)
Other assets	115,482	106,104
Net cash provided by operating activities	3,625,338	3,370,099
Investing activities		
Interest received	16,137	8,806
Increase in investments	(1,015,830)	(2,129,781)
Acquisition of property, plant and equipment (Note 8)	(1,396,586)	(3,570,671)
Acquisition of intangible assets (Note 9)	(62,050)	(16,698)
Net cash used in investing activities	(2,458,329)	(5,708,344)
Financing activities		
Proceeds from shares issued	1,500	3,729
Dividends paid (Note 13)	(642,141)	(466,942)
Net cash used in financing activities	(640,641)	(463,213)
Net increase (decrease) in cash and cash equivalents	526,368	(2,801,458)
Cash and cash equivalents at beginning of year	3,582,330	6,383,788
Cash and cash equivalents at end of year	$ 4,108,698	$ 3,582,330

The notes on pages 5 to 21 are an integral part of these 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 H.P. House, 21 Laffan Street, Hamilton HM09, Bermuda. The consolidated financial statements of the Company as at and for the year ended December 31, 2015 comprise the Company and its wholly-owned subsidiary Bermuda Waterworks Ltd. The Company primarily is involved in the production and distribution of water and purification of drinking water at the retail and wholesale level. The Company is also engaged in the provision of water services, 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 ("IFRS").

The consolidated financial statements were authorised for issue by the Board of Directors on March 24, 2016.

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, and 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(c) – useful lives of property, plant and equipment
- Note 3(d) – useful life of intangible assets
- Note 3(e) – useful life of investment property
- Note 3(g) – impairment of financial assets and non-financial assets
- Note 11 – inventory provision
- Note 16 – 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, 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 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 asset or 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. Land and assets under construction have not been depreciated.

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 measured 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. Investment property improvements are measured at cost and depreciated over an estimated useful life of 10 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) 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 Company's customers to make required payments. The allowance is based on the ageing of customer accounts, customer creditworthiness and the Company'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 consolidated financial position and results.

Impairment of non-financial assets

The carrying amounts of the Company'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.

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

g) Impairment (continued)

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

Impairment losses recognized 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 amortization, if no impairment loss had been recognized.

h) Trade and other receivables

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

i) 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 on the consolidated statement of financial position at cost and comprise cash and short-term deposits with maturities of three months or less from the acquisition date.

j) Trade and other payables

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

k) Investments

Investments comprise of time deposits which earn a fixed interest rate of 0.6%. Investments have been entered into for a term of six months from acquisition date.

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

l) Finance income

Finance income represents interest on cash and cash equivalents and financial 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 of the associated receivable 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

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2015, however, the Company has not applied the following new or amended standards in preparing these consolidated financial statements.

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

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

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

o) *New standards and interpretations not yet adopted* (continued)

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2017, with early adoption permitted. The Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

IFRS 16 Leases
IFRS 16 establishes a new framework for lessee accounting which requires that all leased assets be recognized on the statement of financial position if the lease definition is met. It replaces existing lease accounting guidance contained in IAS 17 *Leases*. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 *Revenue from Contracts with Customers* is also early adopted.

The Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

4. **Operating segments**

The principal activity of the Company 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, is sold in 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.

Income and expenditure by segment

	2015			
	Utility	Bottled Water	Other	Total
Income				
External revenues	$ 5,871,525	$ 3,966,839	$ 328,989	$ 10,167,353
Intersegment revenues	47,034	–	–	47,034
Rentals	–	–	48,000	48,000
Interest	–	–	16,137	16,137
Total revenue	5,918,559	3,966,839	393,126	10,278,524
Expenditure				
External costs	3,182,791	2,794,800	651,613	6,629,204
Depreciation and amortization	1,116,156	44,349	252,418	1,412,923
Intersegment expenditure	–	47,034	–	47,034
Total expenditure	4,298,947	2,886,183	904,031	8,089,161
Net profit (loss) by segment	$ 1,619,612	$ 1,080,656	$ (510,905)	$ 2,189,363

4. **Operating segments** (continued)

Income and expenditure by segment (continued)

	2014			
	Utility	Bottled Water	Other	Total
Income				
External revenues	$ 5,836,982	$ 3,826,938	$ 329,248	$ 9,993,168
Intersegment revenues	43,918	–	–	43,918
Rentals	–	–	40,000	40,000
Interest	–	–	8,806	8,806
Total revenue	5,880,900	3,826,938	378,054	10,085,892
Expenditure				
External costs	3,417,148	2,656,138	651,381	6,724,667
Depreciation and amortization	961,103	34,340	241,958	1,237,401
Intersegment expenditure	–	43,918	–	43,918
Total expenditure	4,378,252	2,734,396	893,339	8,005,986
Net profit (loss) by segment	$ 1,502,649	$ 1,092,542	$ (515,285)	$ 2,079,906

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 residual of non-allocable administrative expenditure is allocated to segments on an estimated usage basis.

Reconciliation of revenue

	2015	2014
Total revenue for reportable segments	$ 9,885,398	$ 9,707,838
Other revenue	393,126	378,054
Finance income	(16,137)	(8,806)
Elimination of intersegment revenues	(47,034)	(43,918)
Total revenue	$ 10,215,353	$ 10,033,168

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 retail outlet, depreciation on equipment used jointly by all divisions of the Company, (e.g. computer hardware and software) and unallocated administrative costs.

4. **Operating segments** (continued)

Reconciliation of assets, liabilities and capital expenditure by segment

	Utility	Bottled Water	Total reportable segments	Other	Total
As at December 31, 2015					
Assets	$ 16,947,919	$ 2,311,791	$ 19,259,710	$ 9,025,097	$ 28,284,807
Liabilities	(77,893)	(14,722)	(92,615)	(700,043)	(792,658)
Capital expenditure	473,621	608,802	1,082,423	376,213	1,458,636
As at December 31, 2014					
Assets	$ 17,196,987	$ 2,097,544	$ 19,294,531	$ 7,526,715	$ 26,821,246
Liabilities	(172,827)	(39,295)	(212,122)	(665,697)	(877,819)
Capital expenditure	2,852,670	21,034	2,873,704	713,665	3,587,369

5. **Revenue**

	2015	2014
Water sales	$ 9,553,873	$ 9,329,024
Other operating revenues	613,480	664,144
Rental income	48,000	40,000
	$ 10,215,353	$ 10,033,168

6. **Expenses by nature**

Expenses by nature primarily comprise of:

	2015	2014
Employee benefits (Note 7)	$ 3,429,622	$ 3,218,380
Electricity	1,099,152	1,275,248
Depreciation	1,351,725	1,186,093
Royalties	42,166	115,928
Repairs and maintenance	308,489	313,537
Vehicle	216,151	205,426
Amortization of intangible assets	61,198	51,309

7. **Employee benefit expenses**

	2015	2014
Short term employment benefits	$ 2,779,433	$ 2,591,168
Compulsory payroll tax, social insurance and health scheme contributions	524,406	507,665
Payments to defined contribution pension scheme	120,004	113,888
Other employee benefit expense	5,779	6,311
	$ 3,429,622	$ 3,219,032

8. Property, plant and equipment

	Land & buildings	Plant & equipment	Fixtures & fittings	Under construction	Total
Cost					
At January 1, 2014	$ 3,325,677	$ 26,373,827	$ 354,361	$ 552,141	$ 30,606,006
Additions	613,204	2,951,790	5,676	–	3,570,671
Transfers	–	329,928	–	(329,928)	–
Disposals	–	(80,404)	–	–	(80,404)
At December 31, 2014	$ 3,938,881	$ 29,575,141	$ 360,037	$ 222,213	$ 34,096,272
At January 1, 2015	$ 3,938,881	$ 29,575,141	$ 360,037	$ 222,213	$ 34,096,272
Additions	248,413	1,137,802	10,371	–	1,396,586
Transfers	24,592	122,371	–	(146,963)	–
At December 31, 2015	$ 4,211,886	$ 30,835,314	$ 370,408	$ 75,250	$ 35,492,858
Accumulated depreciation					
At January 1, 2014	$ 911,706	$ 12,959,572	$ 315,711	$ –	$ 14,186,989
Depreciation	122,944	1,021,943	14,228	–	1,159,115
Disposals	–	(80,404)	–	–	(80,404)
At December 31, 2014	$ 1,034,650	$ 13,901,111	$ 329,939	$ –	$ 15,265,700
At January 1, 2015	$ 1,034,650	$ 13,901,111	$ 329,939	$ –	$ 15,265,700
Depreciation	136,343	1,185,496	11,916	–	1,333,755
At December 31, 2015	$ 1,170,993	$ 15,086,607	$ 341,855	$ –	$ 16,599,455
Carrying amounts					
At December 31, 2014	$ 2,904,231	$ 15,674,030	$ 30,098	$ 222,213	$ 18,830,572
At December 31, 2015	$ 3,040,893	$ 15,748,707	$ 28,553	$ 75,250	$ 18,893,403

9. Intangible assets

		Application software
Cost		
At January 1, 2014	$	447,565
Additions		16,698
December 31, 2014	$	464,263
At January 1, 2015	$	464,263
Additions		62,050
December 31, 2015	$	526,313
Accumulated amortization		
At January 1, 2014	$	348,342
Amortization		51,309
At December 31, 2014	$	399,651
At January 1, 2015	$	399,651
Amortization		61,198
At December 31, 2015	$	460,849
Carrying amounts		
At December 31, 2014	$	64,612
At December 31, 2015	$	65,464

10. Investment property

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

		Investment property
Cost		
At December 31, 2014 and 2015	$	330,153
Accumulated depreciation		
At January 1, 2014	$	268,732
Depreciation		26,978
At December 31, 2014	$	295,710
At January 1, 2015	$	295,710
Depreciation		17,970
At December 31, 2015	$	313,680
Carrying amounts		
At December 31, 2014	$	34,443
At December 31, 2015	$	16,473

The property was valued by an independent appraiser on November 27, 2013 at a value of $1,175,000. The property was vacant for the period from August 2013 to February 2014 and was leased at a monthly rental of $4,000 as of March 2014. Management believe that this appraised valuation approximates the fair value of the investment property.

11. Inventories

	2015	2014
Spares and production parts	$ 877,959	$ 900,037
Goods for resale	331,495	298,569
Water bottling supplies	26,434	39,698
Inventory provision	(111,202)	(121,832)
	1,124,686	$ 1,116,472

12. Cash and cash equivalents

	2015	2014
Bank balances	$ 4,108,698	$ 3,582,330
Investments	3,145,611	2,129,781
	$ 7,254,309	$ 5,712,111

13. Capital and reserves

Share capital

	Ordinary shares of $1 par value	
	2015	2014
Issued as at January 1	$ 1,061,365	$ 1,061,139
Issued for cash during the year	75	226
Issued at December 31 – fully paid	$ 1,061,440	$ 1,061,365
Authorized	$ 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 consideration received 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.

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

Employee share purchase plan (continued)

During the year ended December 31, 2015, employees subscribed for and were issued 75 (2014 - 226) common shares for consideration of $1,275 (2014 - $3,077). The difference between the discounted price at which the shares were issued and the market price at the plan's subscription date was $1,500 (2014 - $3,729) and is included in employee benefit expenses for the year ended December 31, 2015 (Note 7). The excess of the market price over the par value of the shares of $1,425 (2014 - $3,503) is recorded as share premium.

Capital reserve

The amount of the capital reserve of $7,000,000 was transferred from retained earnings and 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 of $1,000,000 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:

	2015	2014
11 cents per qualifying ordinary share (2014 – 11 cents) March	$ 116,750	$ 116,725
25.5 cents per qualifying ordinary share (2014 – 11 cents) June	270,648	116,734
12 cents per qualifying ordinary share (2014 – 11 cents) October	127,370	116,733
12 cents per qualifying ordinary share (2014 – 11 cents) December	127,373	116,750
	$ 642,141	$ 466,942

The Company declared a dividend of 12c per share on March 15, 2016 (2015 - 11c per share) payable on March 31, 2016.

14. **Earnings per share**

The calculation of basic earnings per share at December 31, 2015 is based on the profit attributable to ordinary shareholders of $2,189,363 (2014 - $2,079,906), and a weighted average number of ordinary shares outstanding of 1,061,388 (2014 - 1,061,227), calculated as follows:

Weighted average number of ordinary shares

	2015	2014
Issued ordinary shares at January 1	1,061,365	1,061,139
Effect of shares issued during the year	23	88
Weighted average number of ordinary shares at December 31	1,061,388	1,061,227

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

15. Other assets

The Company participates in a defined contribution plan on behalf of its employees with a third party insurer. As at December 31, 2015 the Company has a pension surplus of $49,450 (2014 - $164,932) which is included in other assets on the consolidated statement of financial position. The pension surplus arises from contributions made by the Company for former employees who left the pension plan prior to the vesting date, and can be offset against the Company's future pension contributions payable.

16. Financial instruments

Fair value

The Company's financial instruments consist of cash and cash equivalents, investments, trade and other receivables 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 of the fair value hierarchy 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 does not hold any investments which are required to be disclosed in accordance with the above fair value hierarchy.

Credit risk

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

The Company 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 Company mitigates its exposure by ensuring adequate client credit procedures are conducted prior to accepting new accounts.

a) Cash and cash equivalents

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

16. **Financial instruments** (continued)

b) Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company'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 consolidated 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 Company's standard payment terms and conditions are offered. The credit exposure is further mitigated through on-going monitoring and assessment of customer payment history.

The Company 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 the impairment provision as at the reporting date are as follows:

	2015	2014
Current	$ 721,526	$ 727,866
Past 30 days	52,681	65,841
Past 60 days	29,366	21,331
Past 90 days	55,328	61,793
	858,901	876,831
Less: allowance for impairment	(139,971)	(167,571)
	$ 718,930	$ 709,260

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

	Total
Balance at December 31, 2013	$ 160,983
Increase in allowance for impairment	36,801
Amounts written off	(30,213)
Balance at January 1, 2014	167,571
Decrease in allowance for impairment	(495)
Amounts written off	(27,105)
Balance at December 31, 2015	$ 139,971

16. **Financial instruments** (continued)

Liquidity risk

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

The table below categorizes the Company's financial liabilities into relevant maturity groupings based on the remaining period at the 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, 2015					
Trade payables	$ 790,638	$ 790,638	$ 790,638	$ –	$ –
Total financial liabilities	$ 790,638	$ 790,638	$ 790,638	$ –	$ –

	Carrying amount	Contractual cash flows	0 - 3 months	4 - 12 months	Greater than 1 year
As at December 31, 2014					
Trade payables	$ 875,799	$ 875,799	$ 875,799	$ –	$ –
Total financial liabilities	$ 875,799	$ 875,799	$ 875,799	$ –	$ –

Interest rate risk

The Company does not have any significant exposure to interest rate risk.

Currency risk

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

Capital management

The Company'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 Company's capital is comprised of shareholders' equity. The Company'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 Company 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 Company may adjust the amount of dividends paid to shareholders. The Company is not subject to any externally imposed capital requirements.

17. Commitments

At December 31, 2015 the Company had contracted capital commitments in respect of plant and equipment of $121,931 (2014 - $115,446). These commitments will be met from operations during 2016.

During 2010 the Company 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, 2015 expenditure totaling $4,514,115 (2014 - $4,200,071) had been incurred on this project. There was no expenditure in construction in progress (2014 - $15,311). These amounts are included in property, plant and equipment as at December 31, 2015.

Watlington Waterworks Limited entered into an agreement with a third party, as amended on December 29, 1989, for the supply and treatment of brackish water. The agreement was for a period of 25 years, and commenced operationally on April 13, 1989. The agreement ended on April 13, 2014. The agreement committed Watlington Waterworks Limited to guarantee an annual minimum purchase of 100 million gallons of system-produced water from the electrodialysis reversal demineralization system owned by the third party located at Watlington Waterworks' premises at 32 Parsons Lane. The process fee was $2.43 per thousand imperial gallons. There was no payment for 2015 as the contract ended on April 13, 2014 (2014 - $69,569).

During 2014 the Company installed a new brackish water treatment facility which is owned and operated by the Company with no third party process fee.

18. Related parties

Directors' fees
Directors' fees in 2015 amounted to $37,500 (2014 - $30,200).

Key management personnel compensation
Key management compensation comprised the following:

	2015	2014
Short term employment benefits	$ 785,552	$ 750,322
Post-employment pension benefits	39,295	34,905
Dividends	9,636	6,983
	$ 834,483	$ 792,210

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, 2015 was 266,146 (2014 - 254,889) 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.