WATLINGTON WATERWORKS LIMITED

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

For the years ended December 31, 2019 and 2018

The accompanying report of KPMG Audit Limited ("KPMG") is for the sole and exclusive use of Watlington Waterworks Limited (the "Company").

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

Furthermore, the report of KPMG is as of April 23, 2020, and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.

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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") and its subsidiary, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Watlington Waterworks Limited and its subsidiary as of December 31, 2019 and 2018 and the results of their operations and their cash flows for the years then ended in accordance with IFRS.

Other matter

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

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 23, 2020

WATLINGTON WATERWORKS LIMITED

Consolidated Statements of Financial Position

December 31, 2019 and 2018
(Expressed in Bermuda Dollars)

	2019	2018
Assets		
Non-current assets		
Property, plant and equipment (Notes 10 and 11)	$ 19,100,392	$ 19,333,000
Intangible assets (Note 12)	67,067	71,333
Total non-current assets	19,167,459	19,404,333
Current assets		
Other assets (Note 18)	13,666	5,392
Inventories (Note 14)	1,272,331	1,245,959
Trade and other receivables (Note 19)	900,209	757,960
Prepayments	151,110	185,840
Investments (Notes 3(g) and 19)	6,838,174	5,160,262
Cash and cash equivalents (Notes 5 and 19)	7,785,674	7,226,823
Total current assets	16,961,164	14,582,236
Total assets	$ 36,128,623	$ 33,986,569
Equity		
Share capital (Note 16)	$ 1,067,280	$ 1,064,870
Share premium (Note 16)	1,565,569	1,516,460
Reserves (Note 16)	8,000,000	8,000,000
Retained earnings	24,475,054	22,383,485
Total equity (attributable to owners of the Company)	35,107,903	32,964,815
Liabilities		
Current liabilities		
Equipment deposits (Note 19)	1,971	2,080
Trade payables (Note 19)	1,018,749	1,019,674
Total current liabilities	1,020,720	1,021,754
Total liabilities and equity	$ 36,128,623	$ 33,986,569

The notes on pages 7 to 38 are an integral part of these consolidated financial statements

Signed on behalf of the Board

Nathan Ap_____________ Director

DKance._____________ Director

WATLINGTON WATERWORKS LIMITED

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018
(Expressed in Bermuda Dollars)

	2019	2018
Revenue (Notes 6 and 7)	$ 12,376,868	$ 12,154,420
Production costs	(2,851,193)	(3,098,784)
Gross profit	9,525,675	9,055,636
Administrative expenses	(3,594,086)	(3,421,182)
Distribution expenses	(2,844,936)	(2,898,279)
Impairment recovery (loss) on cash and cash equivalents and investments (Note 19)	31,357	(9,792)
Impairment (loss) recovery on trade receivables (Note 19)	(59,417)	8,385
Total profit before finance income	3,058,593	2,734,768
Finance income (Note 6)	131,126	38,649
Net finance income	131,126	38,649
Profit and total comprehensive income for the year (attributable to owners of the Company)	$ 3,189,719	$ 2,773,417
Earnings per share		
Basic earnings per share (Note 17)	$ 2.99	$ 2.61
Diluted earnings per share (Note 17)	$ 2.91	$ 2.53

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

The notes on pages 7 to 38 are an integral part of these consolidated financial statements

WATLINGTON WATERWORKS LIMITED

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018
(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, 2018	$ 1,062,478	$ 1,462,757	$ 7,000,000	$ 1,000,000	$ 20,822,807	$ 31,348,042
Total comprehensive income for the year						
Profit for the year	–	–	–	–	2,773,417	2,773,417
Transactions with owners of the Company recognized directly in equity						
Issuance of shares (Note 16)	2,392	53,703	–	–	–	56,095
Dividends (Note 16)	–	–	–	–	(1,212,739)	(1,212,739)
Balance at December 31, 2018	1,064,870	1,516,460	7,000,000	1,000,000	22,383,485	32,964,815
Total comprehensive income for the year						
Profit for the year	–	–	–	–	3,189,719	3,189,719
Transactions with owners of the Company recognized directly in equity						
Issuance of shares (Note 16)	2,410	49,109	–	–	–	51,519
Dividends (Note 16)	–	–	–	–	(1,098,150)	(1,098,150)
Balance at December 31, 2019	$ 1,067,280	$ 1,565,569	$ 7,000,000	$ 1,000,000	$ 24,475,054	$ 35,107,903

The notes on pages 7 to 38 are an integral part of these consolidated financial statements

WATLINGTON WATERWORKS LIMITED

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018
(Expressed in Bermuda Dollars)

	2019	2018
Operating activities		
Profit for the year	$ 3,189,719	$ 2,773,417
Adjustments for:		
Depreciation of property, plant and equipment (Note 10)	1,647,600	1,695,488
Amortization of intangible assets (Note 12)	40,588	51,624
Finance income	(131,126)	(38,649)
Adjustment on initial application of IFRS 9	–	(21,617)
	4,746,781	4,460,263
Changes in non-cash working capital balances:		
Inventories	(26,372)	(46,509)
Trade and other receivables	(142,249)	60,136
Prepayments	34,730	12,595
Trade payables	(925)	(304,117)
Equipment deposits	(109)	170
Other assets	(8,274)	(375)
Net cash provided by operating activities	4,603,582	4,182,163
Investing activities		
Interest received	131,126	38,649
Increase in investments	(1,677,912)	(1,976,486)
Acquisition of property, plant and equipment (Note 10)	(1,414,992)	(2,060,368)
Acquisition of intangible assets (Note 12)	(36,322)	(9,091)
Net cash used in investing activities	(2,998,100)	(4,007,296)
Financing activities		
Proceeds from shares issued (Note 16)	51,519	56,095
Dividends paid (Note 16)	(1,098,150)	(1,212,739
Net cash used in financing activities	(1,046,631)	(1,156,644)
Net increase (decrease) in cash and cash equivalents	558,851	(981,777)
Cash and cash equivalents at beginning of year	7,226,823	8,208,600
Cash and cash equivalents at end of year	$ 7,785,674	$ 7,226,823

The notes on pages 7 to 38 are an integral part of these consolidated financial statements

1. General

Watlington Waterworks Limited (the "Company") is a company domiciled in Bermuda. The Company is listed on the Bermuda Stock Exchange ("BSX"). The address of the Company's registered office is H.P. House, 21 Laffan Street, Hamilton HM09, Bermuda. These consolidated financial statements of the Company as at and for the years ended December 31, 2019 and 2018 comprise the Company and its wholly-owned subsidiary Bermuda Waterworks Ltd. The Company is primarily 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 water coolers for sale and rental. There is no parent or ultimate controlling party to the Company.

2. Basis of preparation

a) Statement of compliance

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

These consolidated financial statements were authorized for issue by the Board of Directors on April 23, 2020.

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

b) Basis of measurement

These 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 these 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.

2. Basis of preparation (continued)

d) Use of estimates and judgements (continued)

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 and fair value of investment property
- Note 3(h) – impairment of financial assets and non-financial assets
- Note 3(l) – timing of the transfer of control of goods and services
- Note 3(m) – assumptions made in the determination of the incremental borrowing rate
- Note 3(m) – lease term; whether the Company is reasonably certain to exercise extension options
- Note 14 – inventory provision
- Note 19 – allowance for impairment of trade 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

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Bermuda Waterworks Ltd. All 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.

3. Significant accounting policies (continued)

c) Property, plant and equipment (continued)

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 are not 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
- building Improvements 10 years
- plant and equipment including pipelines 3 – 40 years
- fixtures and fittings 3 – 10 years

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.

Any gain or loss on disposal of an item of intangible assets is recognized in profit or loss.

Intangible assets are tested annually for impairment or more frequently if certain indicators of impairment are identified.

e) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of the investment property including capitalized borrowing costs. The fair values of investment properties are disclosed in the notes to these consolidated financial statements. These are assessed using internationally accepted valuation methods, such as taking comparable properties as a guide to current market prices or by applying the discounted cash flow method. The fair value measurement for investment property has been categorized as a level 3 fair value based on the inputs to the valuation technique used.

Depreciation is calculated on the depreciable amount, which is the cost of an asset less its residual value, using the straight-line method over the following estimated useful lives. Land is not depreciated.

- buildings 40 years
- improvements 10 years

3. Significant accounting policies (continued)

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 weighted average, 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. Provision is made for obsolete or slow-moving inventories.

g) Financial instruments

The Company's financial assets comprise of trade and other receivables, investments and cash and cash equivalents. The Company's financial liabilities include trade payables and equipment deposits.

(i) Recognition and initial measurement

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

(ii) Classification and subsequent measurement

Financial assets

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

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

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

Financial assets – Business model assessment

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

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

3. Significant accounting policies (continued)

g) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

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

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

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

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

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

Financial assets – Subsequent measurement and gains and losses

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

Financial liabilities – Classification, subsequent measurement and gains and losses

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

(iii) Derecognition

Financial assets

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

3. Significant accounting policies (continued)

g) Financial instruments (continued)

(iii) Derecognition (continued)

Financial liabilities

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

Offsetting

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

h) Impairment

Financial assets

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

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

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

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when it is more than 90 days past due.

The Company considers an investment to have low credit risk when its credit risk rating is equivalent to B or higher per Standard and Poor's.

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

3. Significant accounting policies (continued)

h) Impairment (continued)

Measurement of ECLs

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

Credit impaired financial assets

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

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

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

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

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 150 days past due based on historical experience of recoveries of similar assets.

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.

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.

3. Significant accounting policies (continued)

h) Impairment (continued)

Impairment of non-financial assets (continued)

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.

i) Finance income

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

j) 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.

(k) Earnings per share

The Company presents basic earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is calculated dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding after adjustment of the effects of dilutive potential ordinary shares which would arise from shares purchased through the employee purchase plan.

3. Significant accounting policies (continued)

l) Revenue

The Company generates revenue primarily from the sale of metered water, bottled water and plumbing supplies. Other sources of revenue include the sale and rental of water coolers and related equipment, utility connection fees and rental income from investment property.

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a good or service to a customer.

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

Revenue stream	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Utility water sales	Utility water sales are based on consumption recorded by meter readings taken monthly during the year. The performance obligation is the provision of metered water. Payment is net 30 days.	Revenue is recognized as billed at the end of each month.
Bottled water	Bottled water sales are based on customer purchases at point of sale or upon delivery of goods and services. The performance obligation is the transfer of bottled water to the customer. Payment is net 30 days.	Revenue is recognized at a point in time when the performance obligation is satisfied.
Plumbing supplies	Plumbing sales are based on customer purchases at point of sale. The performance obligation is the transfer of supplies to the customer. Payment is net 30 days.	Revenue is recognized at the point in time when the performance obligation is satisfied.
Utility connection fees	Connection fees are invoiced once the installation is complete. Payment is net 30 days.	Revenue is recognized as billed once the installation has been completed.

Rental income

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

3. Significant accounting policies (continued)

m) Leases

Policy applicable from January 1, 2019

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

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

As a lessee

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

m) Leases (continued)

Policy applicable from January 1, 2019 (continued)

As a lessee (continued)

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

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

Short-term leases and leases of low-value assets

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

As a lessor

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

m) *Leases* (continued)

Policy applicable before January 1, 2019

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

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

As a lessee

In the comparative period, as a lessee, the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases.

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

As a lessor

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

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

4. Changes to significant accounting policies

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

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

4. Changes to significant accounting policies (continued)

(i) IFRS 16 Leases

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported under IAS 17 and related interpretations. The details of the changes in account policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

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

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

As a lessee

As a lessee, the Company historically leases wells, well rights and right of ways on various landowners' properties. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to the ownership of the underlying asset to the Company. Under IFRS 16, the Company will recognize right-of-use assets and lease liabilities for most of these leases - i.e. these leases are recorded on the consolidated statement of financial position. As at December 31, 2019 the Company had no enforceable contracts with respect to its use of wells, well rights and right of ways.

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

Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On adoption of IFRS 16, for these leases, lease liabilities will be measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at that date. Right-of-use assets will be measured at their carrying amount at the commencement date, discounted using the Company's incremental borrowing rate at that date. There was no impact to the Company's consolidated financial statements on transition to IFRS 16.

4. Changes to significant accounting policies (continued)

(i) IFRS 16 Leases (continued)

Leases classified as operating leases under IAS 17 (continued)

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

did not recognize right-of-use assets and liabilities for leases for which the lease terms ends within 12 months of the date of initial application;

- did not recognize right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-to-use asset at the date of initial application; and
- used hindsight when determining the lease term.

The Company did not have leases classified as finance leases prior to the date of initial application.

As a lessor

The Company leases out investment property. The Company has classified these leases as operating leases.

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

Impact on transition

There was no impact to the Company's consolidated financial statements on transition to IFRS 16.

(ii) Other standards

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

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

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

5. New Standards and Interpretations not yet adopted

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

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

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

6. 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

	2019			
	Utility	Bottled Water	Other	Total
Income				
External revenues	$ 7,323,707	$ 4,368,705	$ 624,456	$ 12,316,868
Intersegment revenues	54,247	–	–	54,247
Rentals	–	–	60,000	60,000
Finance income	–	–	131,126	131,126
Total revenue	7,377,954	4,368,705	815,582	12,562,241
Expenditure				
External costs	3,600,691	3,087,201	942,195	7,630,087
Depreciation and amortization	1,066,106	143,238	478,844	1,688,188
Intersegment expenditure	–	54,247	–	54,247
Total expenditure	4,666,797	3,284,686	1,421,039	9,372,522
Net profit (loss) by segment	$ 2,711,157	$ 1,084,019	$ (605,457)	$ 3,189,719

6. Operating segments (continued)

Income and expenditure by segment (continued)

	2018			
	Utility	Bottled Water	Other	Total
Income				
External revenues	$ 7,346,971	$ 4,252,510	$ 494,939	$ 12,094,420
Intersegment revenues	44,233	–	–	44,233
Rentals	–	–	60,000	60,000
Finance income	–	–	38,649	38,649
Total revenue	7,391,204	4,252,510	593,588	12,237,302
Expenditure				
External costs	3,549,859	3,252,619	870,062	7,672,540
Depreciation and amortization	1,221,205	166,282	359,625	1,747,112
Intersegment expenditure	–	44,233	–	44,233
Total expenditure	4,771,064	3,463,134	1,229,687	9,463,885
Net profit (loss) by segment	$ 2,620,140	$ 789,376	$ (636,099)	$ 2,773,417

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

	2019	2018
Total revenue for reportable segments	$ 11,746,659	$ 11,643,714
Other revenue	815,582	593,588
Finance income	(131,126)	(38,649)
Elimination of intersegment revenues	(54,247)	(44,233)
Total revenue (Note 7)	$ 12,376,868	$ 12,154,420

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.

6. Operating segments (continued)

Reconciliation of assets, liabilities and capital expenditure by segment

	Utility	Bottled Water	Total reportable segments	Other	Total
As at December 31, 2019					
Assets	$ 16,574,971	$ 2,034,364	$ 18,609,335	$ 17,519,288	$ 36,128,623
Liabilities	(87,708)	(93,214)	(180,922)	(839,798)	(1,020,720)
Capital expenditure	1,365,459	32,054	1,397,513	53,801	1,451,314
As at December 31, 2018					
Assets	$ 15,173,549	$ 2,228,379	$ 17,401,928	$ 16,584,641	$ 33,986,569
Liabilities	(112,704)	(86,842)	(199,546)	(822,208)	(1,021,754)
Capital expenditure	112,802	34,991	147,793	1,921,666	2,069,459

7. Revenue

	2019	2018
Revenue from contracts with customers	$ 10,687,065	$ 10,660,831
Other revenue		
Revenue from bottled water cash sales	1,456,408	1,272,035
Pure Water equipment sales	165,095	161,474
Rental income	60,000	60,000
Pension forfeiture	8,280	–
Book sales	20	80
	$ 12,376,868	$ 12,154,420

7. Revenue (continued)

Disaggregation of revenue from contracts with customers

In the following tables, revenue from contracts with customers is disaggregated by major product and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Company's reportable segments.

	2019			
	Utility	Bottled Water	Other	Total
Major products and service lines				
Utility water sales	$ 7,245,528	$ –	$ –	$ 7,245,528
Bottled water sales	–	2,747,203	–	2,747,203
Plumbing supplies	–	–	616,155	616,155
Utility connection fees	78,179	–	–	78,179
	7,323,707	2,747,203	616,155	10,687,065
Timing of revenue recognition				
Products and services transferred overtime	7,323,707	–	–	7,323,707
Products and services transferred at a point in time	–	2,747,203	616,155	3,363,358
Revenue from contracts with customers	7,323,707	2,747,203	616,155	10,687,065
Other revenue	–	1,621,503	68,300	1,689,803
External revenue as reported in Note 6	$ 7,323,707	$ 4,368,706	$ 684,455	$ 12,376,868

7. Revenue (continued)

Disaggregation of revenue from contracts with customers (continued)

	2018			
	Utility	Bottled Water	Other	Total
Major products and service lines				
Utility water sales	$ 7,241,233	$ –	$ –	$ 7,241,233
Bottled water sales	–	2,819,001	–	2,819,001
Plumbing supplies	–	–	494,859	494,859
Utility connection fees	105,738	–	–	105,738
	7,346,971	2,819,001	494,859	10,660,831
Timing of revenue recognition				
Products and services transferred over time	7,346,971	–	–	7,346,971
Products and services transferred at a point in time	–	2,819,001	494,859	3,313,860
Revenue from contracts with customers	7,346,971	2,819,001	494,859	10,660,831
Other revenue	–	1,433,509	60,080	1,493,589
External revenue as reported in Note 6	$ 7,346,971	$ 4,252,510	$ 554,939	$ 12,154,420

8. Expenses by nature

Expenses by nature primarily comprise of:

	2019	2018
Employee benefits (Note 9)	$ 3,871,556	$ 3,760,717
Depreciation (Note 10)	1,647,600	1,695,488
Electricity	1,291,956	1,357,467
Repairs and maintenance	281,821	303,879
Vehicle	199,704	211,679
Royalties	44,552	44,157
Amortization of intangible assets (Note 12)	40,588	51,624

9. Employee benefit expenses

	2019	2018
Short term employment benefits	$ 3,096,345	$ 2,984,747
Compulsory payroll tax, social insurance and health scheme contributions	620,557	620,412
Payments to defined contribution pension scheme	140,839	141,176
Other employee benefit expense	13,815	14,382
	$ 3,871,556	$ 3,760,717

10. Property, plant and equipment

	Land & buildings	Plant & equipment	Fixtures & fittings	Under construction	Total
Cost					
At January 1, 2018	$ 4,424,223	$ 32,247,809	$ 392,652	$ 1,476,019	$ 38,540,703
Additions	–	247,989	10,498	1,801,881	2,060,368
Disposals	–	(85,490)	–	–	(85,490)
Transfers	1,580,561	534,841	124,178	(2,239,580)	–
At December 31, 2018	6,004,784	32,945,149	527,328	1,038,320	40,515,581
Additions	–	113,974	7,673	1,293,345	1,414,992
Disposals	–	–	–	–	–
Removal of fully depreciated assets	(589,799)	(2,283,883)	(246,416)	–	(3,120,098)
Transfers	1,298,300	218,652	19,042	(1,535,994)	–
At December 31, 2019	$ 6,713,285	$ 30,993,892	$ 307,627	$ 795,671	$ 38,810,475
Accumulated depreciation					
At January 1, 2018	$ 1,535,055	$ 17,675,364	$ 362,164	$ –	$ 19,572,583
Disposals	–	(85,490)	–	–	(85,490)
Depreciation	267,844	1,408,263	19,381	–	1,695,488
At December 31, 2018	1,802,899	18,998,137	381,545	–	21,182,581
Disposals	–	–	–	–	–
Removal of fully depreciated assets	(589,799)	(2,283,883)	(246,416)	–	(3,120,098)
Depreciation	374,306	1,239,577	33,717	–	1,647,600
At December 31, 2019	$ 1,587,406	$ 17,953,831	$ 168,846	$ –	$ 19,710,083

10. Property, plant and equipment (continued)

Carrying amounts					
At January 1, 2018	$ 2,889,168	$ 14,572,445	$ 30,488	$ 1,476,019	$ 18,968,120
At December 31, 2018	$ 4,201,885	$ 13,947,012	$ 145,783	$ 1,038,320	$ 19,333,000
At December 31, 2019	$ 5,125,879	$ 13,040,061	$ 138,781	$ 795,671	$ 19,100,392

The removal of fully depreciated assets relates to items with $nil carrying amounts as at December 31, 2019 that are no longer in use by the Company.

11. Leases

Leases as lessee

As a lessee, the Company historically leases wells, well rights and right of ways on various landowners' properties. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to the ownership of the underlying asset to the Company. Under IFRS 16, the Company will recognize right-of-use assets and lease liabilities for most of these leases - i.e. these leases are recorded on the consolidated statement of financial position. As at December 31, 2019 the Company had no enforceable contracts with respect to its use of wells, well rights and right of ways.

Leases as lessor

The Company leased out its investment property during the year ended December 31, 2019. The Company classified this lease as an operating lease, because it did not transfer substantially all of the risks and rewards incidental to the ownership of the asset. Rental income recognized by the Company during 2019 was $60,000 (2018 - $60,000). The agreement was terminated as at December 31, 2019.

12. Intangible assets

	Application software
Cost	
January 1, 2018	$ 636,432
Additions	9,091
December 31, 2018	645,523
Additions	36,322
Removal of fully depreciated assets	(530,722)
December 31, 2019	$ 151,123
Accumulated amortization	
At January 1, 2018	$ 522,566
Amortization	51,624
At December 31, 2018	574,190
Amortization	40,588
Removal of fully depreciated assets	(530,722)
At December 31, 2019	$ 84,056
Carrying amounts	
At January 1, 2018	$ 113,866
At December 31, 2018	$ 71,333
At December 31, 2019	$ 67,067

The removal of fully depreciated assets relates to items with $nil carrying amounts as at December 31, 2019 that are no longer in use by the Company.

13. 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, 2017, 2018 and 2019	$ 330,153
Accumulated depreciation	
At December 31, 2017, 2018 and 2019	$ 330,153
Carrying amounts	
At December 31, 2017, 2018 and 2019	$ –

The property was valued by an independent appraiser, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued, in November 2016 at a value of $1,275,000. The property is leased at a monthly rental of $5,000. Management believe that this appraised valuation approximates the fair value of the investment property. Earned rental income for the year ended December 31, 2019 was $60,000 (2018 - $60,000).

14. Inventories

	2019	2018
Spares and production parts	$ 906,668	$ 892,243
Goods for resale	414,169	393,110
Water bottling supplies	45,677	61,196
Inventory provision	(94,183)	(100,590)
	$ 1,272,331	$ 1,245,959

Included in the consolidated statement of comprehensive income are recognized inventory expenses of $987,447 (2018 - $1,117,128).

15. Cash and cash equivalents

	2019	2018
Bank balances	$ 968,140	$ 2,174,308
Call deposits	6,817,534	5,052,515
	$ 7,785,674	$ 7,226,823

16. Capital and reserves

Share capital

	Ordinary shares of $1 par value	
	2019	2018
Issued as at January 1	$ 1,064,870	$ 1,062,478
Issued for cash during the year	2,410	2,392
Issued at December 31 – fully paid	$ 1,067,280	$ 1,064,870
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.

During the year ended December 31, 2019, employees subscribed for and were issued 2,410 (2018 - 2,392) common shares for consideration of $43,790 (2018 - $47,681). The difference between the discounted price at which the shares were issued and the market price at the plan's subscription date was $7,729 (2018 - $8,414) and is included in employee benefit expenses for the year ended December 31, 2019 (Note 9). The excess of the market price over the par value of the shares of $49,109 (2018 - $53,703) 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.

16. Capital and reserves (continued)

Dividends

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

	2019	2018
38 cents per qualifying ordinary share (2018 – 15 cents) March	$ 404,651	$ 159,372
18 cents per qualifying ordinary share (2018 – 63 cents) June	191,945	670,013
27 cents per qualifying ordinary share (2018 – 18 cents) October	288,098	191,677
20 cents per qualifying ordinary share (2018 – 18 cents) December	213,456	191,677
	$ 1,098,150	$ 1,212,739

Subsequent to the year-end, the Company declared a dividend of 20c per share on February 6, 2020 payable on March 27, 2020. On the same date, the Company declared an additional special dividend of 20c per share payable on March 27, 2020.

17. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended December 31, 2019 is based on the profit attributable to ordinary shareholders of $3,189,719 (2018 - $2,773,417), and a weighted average number of ordinary shares outstanding of 1,065,855 (2018 - 1,063,534), calculated as follows:

Weighted average number of ordinary shares

	2019	2018
Issued ordinary shares at January 1	1,064,870	1,062,478
Effect of shares issued during the year	985	1,056
Weighted average number of ordinary shares at December 31	1,065,855	1,063,534

Diluted earnings per share

Share options with a dilutive effect were issued in June 1999 (Note 16). The calculation of diluted earnings per share for the year ended December 31, 2019 is based on the profit attributable to ordinary shareholders of $3,189,719 (2018 - $2,773,417), and a weighted average number of ordinary shares outstanding after adjustment of the effects of dilutive potential ordinary shares of 1,094,445 (2018 - 1,094,142), calculated as follows:

	2019	2018
Weighted average number of ordinary shares at December 31	1,065,855	1,063,534
Effect of dilutive ordinary shares	28,590	30,608
Weighted average number of ordinary shares at December 31 (diluted)	1,094,445	1,094,142

18. Other assets

The Company participates in a defined contribution pension plan on behalf of its employees with a third-party insurer. As at December 31, 2019 the Company has a pension surplus of $13,666 (2018 - $5,392) 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.

19. Financial instruments

Fair value

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

All investments consist of call deposits and are carried at amortized cost.

The carrying value of the Company's financial assets and liabilities approximate their 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.

19. Financial instruments (continued)

Credit risk (continued)

a) Cash and cash equivalents and investments

The Company maintains the majority of its cash and cash equivalents in accounts with Bermuda-based banks, HSBC Bank Bermuda Limited, Bank of N.T. Butterfield and Son Ltd., and Bermuda Commercial Bank. The risk of default is not considered significant by management.

Investments comprise of time deposits carried at cost and which earn fixed interest rates between 1.22% and 2.4% per annum. Investments have been entered into for a term of six months from acquisition date. The Company maintains its investments in term deposits with three Bermuda-based banks, HSBC Bank Bermuda Limited, Bank of N.T. Butterfield and Son Ltd., and Bermuda Commercial Bank.

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

	2019	2018
Cash and cash equivalents		
A-	$ 30	$ –
BBB+	7,753,073	6,170,717
B+	39,420	–
B	2,500	1,076,098
	7,795,023	7,246,815
Impairment loss	(9,349)	(19,992)
	$ 7,785,674	$ 7,226,823
Investments		
A-	$ 3,691,133	$ 1,000,000
BB+	3,160,370	2,000,000
B	–	2,194,305
	6,851,503	5,194,305
Impairment loss	(13,329)	(34,043)
	$ 6,838,174	$ 5,160,262

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

19. Financial instruments (continued)

Credit risk (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 credit risks in the normal course of business.

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.

Expected credit loss assessment for individual customers

The Company uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a large number of small balances.

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

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

As at December 31, 2019	Weighted - average loss rate	Gross carrying amount	Loss allowance	Credit - impaired
Current	1%	$ 839,851	$ (8,399)	No
Past 30 days	12%	41,396	(4,968)	No
Past 60 days	47%	51,754	(24,324)	No
Past 90 days	96%	121,895	(116,996)	Yes
		$ 1,054,896	$ (154,687)	

Loss rates are based on the actual credit loss experience over the past 3 years. These rates are multiplied by scalar factors to reflect the difference between economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables.

19. Financial instruments (continued)

Credit risk (continued)

b) Trade and other receivables (continued)

The following table provides information about the exposure to credit risk and ECLs for trade receivables from individual customers as at December 31, 2018:

As at December 31, 2018	Weighted - average loss rate	Gross carrying amount	Loss allowance	Credit - impaired
Current	1%	$ 719,282	$ (7,193)	No
Past 30 days	9%	45,137	(4,062)	No
Past 60 days	90%	7,091	(6,381)	No
Past 90 days	95%	81,720	(77,634)	Yes
		$ 853,230	$ (95,270)	

Movements in the allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	2019	2018
Balance at January 1 under IAS 39	$ 95,270	$ 126,281
Adjustment on initial application of IFRS 9	–	(22,626)
Balance at January 1 under IFRS 9	95,270	103,655
Amounts written off	(1,000)	(2,600)
Net re-measurement of loss allowance	60,417	(5,785)
Balance at December 31	$ 154,687	$ 95,270

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.

19. Financial instruments (continued)

Liquidity risk (continued)

The table below categorizes the Company's financial liabilities into relevant maturity groupings based on the remaining period at the 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, 2019					
Trade payables	$ 1,018,749	$ 1,018,749	$ 1,018,749	$ –	$ –
Equipment deposits	1,971	1,971	1,971	–	–
Total financial liabilities	$ 1,020,720	$ 1,020,720	$ 1,020,720	$ –	$ –

	Carrying amount	Contractual cash flows	0 - 3 months	4 - 12 months	Greater than 1 year
As at December 31, 2018					
Trade payables	$ 1,019,674	$ 1,019,674	$ 1,019,674	$ –	$ –
Equipment deposits	2,080	2,080	2,080	–	–
Total financial liabilities	$ 1,021,754	$ 1,021,754	$ 1,021,754	$ –	$ –

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.

20. Commitments

As at December 31, 2019, the Company had contracted capital commitments in respect of plant and equipment of $82,456 (2018 - $99,904). These commitments will be met from operations during 2019.

21. Related parties

Directors' fees
Directors' fees in 2019 amounted to $35,300 (2018 - $37,450).

Key management personnel compensation
Key management compensation comprised the following:

	2019	2018
Short term employment benefits	$ 914,202	$ 910,038
Post-employment pension benefits	45,685	46,416
Dividends	20,241	20,508
	$ 980,128	$ 976,962

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, 2019 was 121,961 (2018 - 120,616) 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 16).

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

22. Subsequent events

The Company entered into a sales and purchase agreement (”SPA”) in 2016 to purchase Lot 6B, Luke's Pond Drive, Southampton. The SPA was conditional upon the Company being granted permission to develop the property to build water reservoirs and a water treatment building.

Permission in principle to develop the property was granted in 2018. Due to conditions attached to the in-principle permission, the SPA was amended to bring forward the sales execution to be completed after a building permit was granted to excavate the property and subject to vacant possession and the vendor removing all construction equipment, structures and metallic debris.

The Planning Department issued a building permit for excavation to the Company during March 2019 and the purchase of Lot 6B was completed in April 2019. Excavation commenced in April 2019, immediately upon completion of sale. The excavation was completed in early January 2020 and the completion and occupancy certificate for completion of that phase of the project was issued by Planning in March 2020. Following further geotechnical investigations required for the design of the reservoir and building foundation, it is anticipated the application for the building permit for reservoir and treatment plant building will be submitted in May 2020 and the Company is aiming to commence construction in the fourth quarter of 2020.

22. Subsequent events (continued)

Subsequent to the year end in March 2020, the World Health Organization officially declared the outbreak of COVID-19 a pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect the economy and general population. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. Therefore, the Company expects this matter to negatively impact its operating results. The Company considers the emergence and spread of COVID-19 to be a non-adjusting event after the reporting period. Given the inherent uncertainties, it is not practicable at this time to determine the impact of COVID-19 on the future operating and financial performance of Company or to provide a quantitative estimate of this impact.

To date the Company has observed reduced demand for piped water, and while bottle water demand remains strong, distribution has become a challenge for Bottled Water due to the State of Emergency Regulations. The net effect for different reasons has been to reduce operational activity for both primary revenue streams. However, operations to date have continued at a sufficiently strong level to enable the Company to continue to adopt the going concern basis in preparing its consolidated financial statements.