WATLINGTON WATERWORKS LIMITED

Consolidated Financial Statements
(With Independent Auditors' Report Thereon)

For the Year Ended December 31, 2012

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INDEPENDENT AUDITORS' 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, 2012, 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.

Auditors' 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, 2012, 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 Accountants
Hamilton, Bermuda
April 23, 2013

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WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Financial Position

December 31, 2012
(Expressed in Bermuda Dollars)

	December 31, 2012	December 31, 2011 (As restated – Note 15)	January 1, 2011 (As restated – Note 15)
Assets			
Property, plant and equipment (Note 8)	$ 15,009,065	$ 14,448,689	$ 13,352,942
Intangible assets (Note 9)	116,711	11,908	29,049
Investment property (Note 10)	93,556	117,300	144,497
Total non-current assets	15,219,332	14,577,897	13,526,488
Other assets (Note 15)	322,858	315,518	315,518
Inventories (Note 11)	1,298,107	1,333,069	1,165,734
Investments	–	2,090,986	1,570,359
Trade and other receivables (Note 16)	611,162	841,417	1,120,904
Prepayments	147,123	192,321	164,714
Cash and cash equivalents (Note 12)	6,518,140	3,534,834	3,907,387
Total current assets	8,897,390	8,308,145	8,244,616
Total assets	$ 24,116,722	$ 22,886,042	$ 21,771,104
Equity			
Share capital (Note 13)	$ 1,061,139	$ 1,058,089	$ 1,055,359
Share premium (Note 13)	1,430,528	1,398,289	1,373,938
Reserves (Note 13)	8,000,000	8,000,000	8,000,000
Retained earnings (Note 15)	12,546,008	11,162,244	9,702,407
Total equity	23,037,675	21,618,622	20,131,704
Liabilities			
Equipment deposits	3,555	5,293	4,852
Trade payables (Note 16)	1,075,492	1,262,127	1,634,548
Total current liabilities	1,079,047	1,267,420	1,639,400
Total liabilities and equity	$ 24,116,722	$ 22,886,042	$ 21,771,104

The notes on pages 5 to 22 are an integral part of these consolidated financial statements

Signed on behalf of the Board

______________ Director

______________ Director

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2012
(Expressed in Bermuda Dollars)

	2012	2011
Revenue (Note 5)	$ 10,469,220	$ 10,742,929
Production costs	(3,194,311)	(3,362,729)
Gross profit	7,274,909	7,380,200
Administrative expenses (Note 15)	(2,721,023)	(2,723,583)
Distribution expenses	(2,681,339)	(2,669,525)
Total profit before finance income	1,872,547	1,987,092
Finance income	20,145	22,077
Profit and total comprehensive income for the year	$ 1,892,692	$ 2,009,169
Profit attributable to:		
Owners of the Company	$ 1,892,692	$ 2,009,169
Earnings per share		
Basic earnings per share (Note 14)	$ 1.79	$ 1.90

The notes on pages 5 to 22 are an integral part of these consolidated financial statements

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

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Changes in Equity

For the year ended December 31, 2012
(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, 2011 (as restated – Note 15))	$ 1,055,359	$ 1,373,938	$ 7,000,000	$ 1,000,000	$ 9,702,407	$ 20,131,704
Total comprehensive income for the year						
Profit for the year (as restated – Note 15)	–	–	–	–	2,009,169	2,009,169
Transactions with owners of the Company recognized directly in equity						
Issuance of shares (Note 13)	2,730	24,351	–	–	–	27,081
Dividends (Note 13)	–	–	–	–	(549,332)	(549,332)
Balance at December 31, 2011 (as restated – Note 15)	1,058,089	1,398,289	7,000,000	1,000,000	11,162,244	21,618,622
Total comprehensive income for the year						
Profit for the year	–	–	–	–	1,892,692	1,892,692
Transactions with owners of the Company recognized directly in equity						
Issuance of shares (Note 13)	3,050	32,239	–	–	–	35,289
Dividends (Note 13)	–	–	–	–	(508,928)	(508,928)
Balance at December 31, 2012	$ 1,061,139	$ 1,430,528	$ 7,000,000	$ 1,000,000	$ 12,546,008	$ 23,037,675

The notes on pages 5 to 22 are an integral part of these consolidated financial statements

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Cash Flows

For the year ended December 31, 2012
(Expressed in Bermuda Dollars)

	2012	2011
Operating activities		
Profit for the year	$ 1,892,692	$ 2,009,169
Adjustments for:		
Depreciation of property, plant and equipment	1,051,125	1,049,499
Amortization of intangible assets	10,052	17,141
Depreciation of investment property	23,744	27,197
Finance income	(20,145)	(22,077)
	2,957,468	3,080,929
Changes in:		
Inventories	34,962	(167,335)
Trade and other receivables	230,255	279,488
Prepayments	45,198	(27,607)
Trade payables	(186,635)	(372,421)
Equipment deposits	(1,738)	440
Other assets	(7,340)	–
Net cash provided by operating activities	3,072,170	2,793,494
Investing activities		
Interest received	20,145	22,077
Acquisition of property, plant and equipment	(1,611,501)	(2,145,246)
Acquisition of intangible assets	(114,855)	–
Disposal (acquisition) of investments	2,090,986	(520,627)
Net cash provided by (used in) investing activities	384,775	(2,643,796)
Financing activities		
Proceeds from shares issued	35,289	27,081
Dividends paid	(508,928)	(549,332)
Net cash used in financing activities	(473,639)	(522,251)
Net increase (decrease) in cash and cash equivalents	2,983,306	(372,553)
Cash and cash equivalents at beginning of year	3,534,834	3,907,387
Cash and cash equivalents at end of year	$ 6,518,140	$ 3,534,834

The notes on pages 5 to 22 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 The Penthouse, Washington Mall 1, Church Street, Hamilton HM11, Bermuda. The consolidated financial statements of the Company as at and for the year ended December 31, 2012 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 (IFRSs).

The consolidated financial statements were authorised for issue by the Board of Directors on April 23, 2013.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

c) Functional and presentation currency

These consolidated financial statements are presented in Bermuda Dollars, which is the Company's functional currency.

d) Use of estimates and judgements

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

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

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

- Note 3(h) – impairment of financial assets
- Note 3(h) – impairment of non-financial assets
- Note 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.

Certain administration and distribution expenses in the consolidated statement of comprehensive income have been classified to conform with the current year's presentation.

a) Basis of consolidation

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

b) Share capital

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

c) Property, plant and equipment

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

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

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

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

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

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

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Land has 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 valued at cost less accumulated amortization and is amortized on a straight-line basis over a useful life of 3 years.

e) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost and depreciated over the estimated useful life of 40 years. 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) Investments

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

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

h) Impairment

Financial assets

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

The allowance for impairment of receivables reflects estimates of losses arising from the failure or inability of the 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.

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

h) *Impairment* (continued)

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.

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) *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.

j) *Cash and cash equivalents*

Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried in the 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.

k) *Trade and other payables*

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

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

l) Finance income

Finance income represents interest on cash and cash equivalents and 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, amendments to standards, and interpretations are effective for annual periods beginning on or after January 1, 2012 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company are set out below.

IFRS 9, Financial Instruments

IFRS 9 simplifies the classification, recognition and measurement requirements for financial assets, liabilities and some contracts to buy or sell non-financial items. Management is currently assessing the impact of the adoption of this standard on the Company's financial assets but does not anticipate any impact on its financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company is currently assessing the disclosure requirements for interests in subsidiaries, in comparison with the existing disclosures. IFRS 12 requires the disclosure of information about the nature, risks and financial effects of these interests. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.

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

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

IFRS 13 Fair Value Measurement

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Company is currently reviewing its methodologies in determining fair values (Note 16). IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

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 and is sold in supermarkets and grocery stores and from the Company's premises and is also delivered directly to customers' premises. Other operations include the retail store for plumbing supplies and miscellaneous income and expenditures.

Income and expenditure by segment

	2012			
	Utility	Bottled Water	Other	Total
Income				
External revenues	$ 6,252,212	$ 3,721,774	$ 439,734	$ 10,413,720
Intersegment revenues	60,493	–	–	60,493
Rentals	–	–	55,500	55,500
Interest	–	–	20,145	20,145
Total revenue	6,312,705	3,721,774	515,379	10,549,858
Expenditure				
External costs	4,029,507	2,762,351	719,894	7,511,752
Depreciation and amortization	940,784	46,353	97,784	1,084,921
Intersegment expenditure	–	60,493	–	60,493
Total expenditure	4,970,291	2,869,197	817,678	8,657,166
Net profit (loss) by segment	$ 1,342,414	$ 852,577	$ (302,299)	$ 1,892,692

4. **Operating segments** (continued)

Income and expenditure by segment (continued)

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

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

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

Reconciliation of revenue

	2012	2011
Total revenue for reportable segments	$ 10,034,479	$ 10,326,616
Other revenue	515,379	503,113
Finance income	(20,145)	(22,077)
Elimination of intersegment revenues	(60,493)	(64,723)
Total revenues	$ 10,469,220	$ 10,742,929

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, 2012					
Assets	$ 15,173,727	$ 549,201	$ 15,722,928	$ 8,393,794	$ 24,116,722
Liabilities	(400,656)	(46,760)	(447,416)	(631,631)	(1,079,047)
Capital expenditure	1,241,368	96,650	1,338,018	388,338	1,726,356
As at December 31, 2011 (as restated)					
Assets	$ 14,965,380	$ 775,800	$ 15,741,180	$ 7,144,862	$ 22,886,042
Liabilities	(598,822)	(54,764)	(653,586)	(613,834)	(1,267,420)
Capital expenditure	1,436,440	30,184	1,466,624	678,622	2,145,246

5. **Revenue**

	2012	2011
Water sales	$ 9,331,287	$ 9,768,779
Other operating revenues	1,082,433	911,900
Rental income	55,500	62,250
	$ 10,469,220	$ 10,742,929

6. **Expenses by nature**

Expenses by nature primarily comprise of:

	2012	2011
Employee benefits	$ 3,324,708	$ 3,295,133
Electricity	1,628,760	1,625,010
Depreciation	1,074,869	1,076,696
Royalties	358,969	379,133
Vehicle	224,920	246,247
Repairs and maintenance	200,396	325,741
Amortization of intangible assets	10,052	17,141

7. **Employee benefit expenses**

	2012	2011
Short term employment benefits	$ 2,650,282	$ 2,643,350
Compulsory payroll tax, social insurance and health scheme contributions	547,328	532,110
Payments to defined contribution pension scheme	115,509	113,473
Other employee benefit expense	11,589	6,200
	$ 3,324,708	$ 3,295,133

8. Property, plant and equipment

	Land & buildings	Plant & equipment	Fixtures & fittings	Under construction	Total
Cost					
At January 1, 2011	$ 1,292,900	$ 21,733,809	$ 326,723	$ 1,578,264	$ 24,931,696
Additions	44,142	1,568,022	10,830	522,252	2,145,246
Transfers	1,186	1,475,760	–	(1,476,946)	–
Disposals	–	(144,344)	(279)	–	(144,623)
At December 31, 2011	$ 1,338,228	$ 24,633,247	$ 337,274	$ 623,570	$ 26,932,319
At January 1, 2012	$ 1,338,228	$ 24,633,247	$ 337,274	$ 623,570	$ 26,932,319
Additions	62,558	1,176,804	26,680	345,459	1,611,501
Disposals	–	(3,940)	–	–	(3,940)
At December 31, 2012	$ 1,400,786	$ 25,806,111	$ 363,954	$ 969,029	$ 28,539,880
Depreciation					
At January 1, 2011	$ 796,301	$ 10,500,449	$ 282,004	$ –	$ 11,578,754
Depreciation	24,632	1,004,399	20,468	–	1,049,499
Disposals	–	(144,344)	(279)	–	(144,623)
At December 31, 2011	$ 820,933	$ 11,360,504	$ 302,193	$ –	$ 12,483,630
At January 1, 2012	$ 820,933	$ 11,360,504	$ 302,193	$ –	$ 12,483,630
Depreciation	29,258	1,002,505	19,362	–	1,051,125
Disposals	–	(3,940)	–	–	(3,940)
At December 31, 2012	$ 850,191	$ 12,359,069	$ 321,555	$ –	$ 13,530,815
Carrying amounts					
At December 31, 2011	$ 517,295	$ 13,272,743	$ 35,081	$ 623,570	$ 14,448,689
At December 31, 2012	$ 550,595	$ 13,447,042	$ 42,399	$ 969,029	$ 15,009,065

9. Intangible assets

	Application software
Cost	
At January 1, 2011	$ 381,049
Additions	–
At December 31, 2011	$ 381,049
At January 1, 2012	$ 381,049
Additions	114,855
December 31, 2012	$ 495,904
Amortization	
At January 1, 2011	$ 352,000
Amortization	17,141
At December 31, 2011	$ 369,141
At January 1, 2012	$ 369,141
Amortization	10,052
At December 31, 2012	$ 379,193
Carrying amounts	
At December 31, 2011	$ 11,908
At December 31, 2012	$ 116,711

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 January 1, 2011	$	330,153
Additions		–
At December 31, 2011	$	330,153
At January 1, 2012	$	330,153
Additions		–
December 31, 2012	$	330,153
Depreciation		
At January 1, 2011	$	185,656
Depreciation		27,197
At December 31, 2011	$	212,853
At January 1, 2012	$	212,853
Depreciation		23,744
At December 31, 2012	$	236,597
Carrying amounts		
At December 31, 2011	$	117,300
At December 31, 2012	$	93,556

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

December 31, 2011	$	1,375,000
December 31, 2012		1,375,000

The property was valued by an independent appraiser on December 31, 2011 for a value of $1,375,000. The property continues to be leased at the same monthly rental as 2011 and the directors are of the opinion that there has been no significant variation in value since the last appraisal based on market conditions.

11. Inventories

	2012	2011
Spares and production parts	$ 858,239	$ 890,861
Goods for resale	366,455	351,599
Water bottling supplies	155,017	144,905
Inventory provision	(81,604)	(54,296)
	$ 1,298,107	$ 1,333,069

12. Cash and cash equivalents

	2012	2011
Bank balances	$ 4,794,607	$ 1,210,354
Call deposits	1,723,533	2,324,480
	$ 6,518,140	$ 3,534,834

13. Capital and reserves

Share capital

	Ordinary shares of $1 par value	
	2012	2011
Issued as at January 1	$ 1,058,089	$ 1,055,359
Issued for cash during the year	3,050	2,730
Issued at December 31 – fully paid	$ 1,061,139	$ 1,058,089
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 purchase price over par value of shares of the Company.

Employee share purchase plan

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

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

Employee share purchase plan (continued)

During the year ended December 31, 2012, employees subscribed for and were issued 3,050 common shares for proceeds of $35,289 (2011 - 2,730 shares for proceeds of $27,081). The difference between the discounted price at which the shares were issued and the market price at the plan's subscription date has resulted in a benefit to the purchasers of $5,277 (2011 - $4,777) which is included in employee benefit expenses in Note 7. The excess of the market price over the par value of the shares is recorded as share premium.

Capital reserve

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

General reserve

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

Dividends

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

	2012	2011
0.11 cents per qualifying ordinary share (2011 – 0.11 cents) March	$ 116,390	$ 116,089
0.15 cents per qualifying ordinary share (2011 – 0.19 cents) June	159,088	200,518
0.11 cents per qualifying ordinary share (2011 – 0.11 cents) October	116,725	116,357
0.11 cents per qualifying ordinary share (2011 – 0.11 cents) December	116,725	116,368
	$ 508,928	$ 549,332

14. **Earnings per share**

The calculation of basic earnings per share at December 31, 2012 was based on the profit attributable to ordinary shareholders of $1,892,692 (2011 - $2,017,288), and a weighted average number of ordinary shares outstanding of 1,059,706 (2011 - 1,056,600), calculated as follows:

Weighted average number of ordinary shares

	2012	2011
Issued ordinary shares at January 1	1,058,089	1,055,359
Effect of shares issued	1,617	1,241
Weighted average number of ordinary shares at December 31	1,059,706	1,056,600

There were no dilutive potential ordinary shares as at December 31, 2012 or December 31, 2011.

15. Prior period adjustment

The Company participates in a defined contribution plan on behalf of its employees with a third party insurer. As at December 31, 2012 the Company has a pension surplus of $322,858 (December 31, 2011 - $315,518, January 1, 2010 - $315,518) 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.

The Company had previously recognized the pension surplus which accordingly has been reflected as a prior period adjustment in these consolidated financial statements. The comparative figures for the year ended December 31, 2011 and opening retained earnings at January 1, 2011 have been restated to recognize the pension surplus at these dates. The effect of this prior period adjustment is as follows:

	Effect of revision December 31, 2011	Effect of revision as at January 1, 2011
Increase in other assets	$ 315,518	$ 315,518
Increase in shareholders' equity	$ 315,518	$ 315,518

16. Financial instruments

Fair value

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

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

Fair value hierarchy

Financial instruments are carried at fair value, as classified by valuation method. The different levels 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 holds only Level 1 investments and there have been no changes to this classification during the year.

16. **Financial instruments** (continued)

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.

Cash and cash equivalents

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

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 impairment provision as at the reporting date were as follows:

	2012	2011
Current	$ 501,118	$ 531,389
Past 30 days	143,649	193,393
Past 60 days	30,893	78,831
Past 90 days	138,018	221,987
	813,678	1,025,600
Less: allowance for impairment	(202,516)	(184,183)
	$ 611,162	$ 841,417

16. **Financial instruments** (continued)

Trade and other receivables (continued)

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

	Total
Balance at January 1, 2011	$ 147,800
Impairment loss recognized	39,831
Amounts written off	(3,448)
Balance at December 31, 2011	184,183
Impairment loss recognized	18,496
Amounts written off	(163)
Balance at December 31, 2012	$ 202,516

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, 2012					
Trade payables	$ 1,075,492	$ 1,075,492	$ 1,075,492	$ –	$ –
Total financial liabilities	$ 1,075,492	$ 1,075,492	$ 1,075,492	$ –	$ –

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

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.

16. **Financial instruments** (continued)

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, 2012 the Company had capital commitments in respect of plant and equipment of $73,962 (2011 - $116,000). These commitments will be met from operations during 2013.

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, 2012 expenditure totaling $2,934,912 had been incurred on this project together with a further $58,113 in construction in progress. These amounts are both included in property, plant and equipment as at December 31, 2012.

At December 31, 2012 construction in progress also includes $607,707 (2011 - $496,065) incurred in professional costs relating to the development of the Group's Parsons Lane, Devonshire property for which a Government building permit has been received.

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

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

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

18. Related parties

Directors' fees
Directors' fees in 2012 amounted to $32,900 (2011 - $32,318).

Key management personnel compensation
Key management compensation comprised the following:

	2012	2011
Short term employment benefits	$ 634,429	$ 626,447
Post-employment pension benefits	25,629	25,226
Dividends	7,269	6,450
	$ 667,327	$ 658,123

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, 2012 was 254,889 (2011 - 250,655) shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer, except for the managing director who qualifies under the employee share purchase plan (Note 13).

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