

MONTERRAT UTILITIES LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

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INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF MONTSERRAT UTILITIES LIMITED

We have audited the accompanying financial statements of Montserrat Utilities Limited, which comprise the Statement of Financial Position as at 31st December 2011, Statement of Comprehensive Income, Statement changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


Qualification

We were appointed auditors subsequent to the Statement of Financial Position date, hence were unable to physically verify the existence of Inventory quantities reflected in the company records at the statement of Financial Position date for the year under review.

Opinion

Except for the matter highlighted in paragraph (5) five above; in our opinion, the financial statements present fairly, in all material respects, the financial statements of Montserrat Utilities Limited, as at 31st December 2011 in accordance with International Financial Reporting Standards.

Antigua & Barbuda:
27st November 2014



Allen, Thomas & Associates
Chartered Accountants

MONTERRAT UTILITIES LIMITED
STATEMENT OF FINANCIAL POSITION
AT 31ST DECEMBER 2011
(Expressed in Eastern Caribbean Dollars)

Assets	Notes	2011	2010
Cash in hand and at bank	4	897,318	1,210,801
Short-Term Investments	5	1,478,985	1,520,155
Accounts Receivable & Prepayments	6	2,416,331	2,470,846
Inventory	7	1,116,847	1,933,426
Goods in Transit	8	38,119	129,981
Mortgages and Loan Receivable	9	46,347	54,774
Total Current Assets		5,993,947	7,319,983
Non-Current Assets			
Mortgages and Loan Receivable	9	164,728	267,699
Available-For-Sale Investment	10	250,000	250,000
Accounts Receivable - Infrastructure	11	765,129	670,195
Property, Plant and Equipment	12	30,896,116	31,998,107
Total Non-Current Assets		32,075,973	33,186,001
Total Assets		\$38,069,920	\$40,505,984
Liabilities and Shareholder's Equity			
Current Liabilities			
Accounts payable and accruals	13	2,578,952	2,975,680
Total Current Liabilities		2,578,952	2,975,680
Non -Current Liabilities			
Provision for Pension	14	3,659,724	3,326,943
Consumers' Refundable Deposits	15	1,263,810	1,194,165
Total Non-Current Liabilities		4,923,534	4,521,108
Total Liabilities		7,502,486	7,496,788
Shareholder's Equity			
Deferred Income	16	3,877,927	3,748,598
Share Capital	17	2	2
Contributed Capital	18	30,532,847	30,532,847
Retained Earnings (Page 4)		(3,843,342)	(1,272,251)
Total Shareholder's Equity		26,689,507	29,260,598
Total Liabilities and Shareholder's Equity		\$38,069,920	\$40,505,984

Approved on behalf of the Board:

: Director

: Director

The attached notes on pages 7 to 26 form part of these Financial Statements.

MONTSERRAT UTILITIES LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER 2011
(Expressed in Eastern Caribbean Dollars)

	<u>2011</u>	<u>2010</u>
Revenue		
Water Division	2,850,121	3,163,998
Electricity Division	5,388,027	5,597,428
	-----	-----
	8,238,148	8,761,426
Fuel Surcharge	8,839,239	6,886,025
Reimbursed Sewage Costs	369,734	379,853
Grant	4,957	11,906
	-----	-----
	17,452,078	16,039,210
	-----	-----
Less: Production Costs		
Generation Costs	3,409,572	3,071,361
Fuel Cost Covered by Surcharge	8,916,812	7,239,668
Transmission and Distribution	3,624,823	3,250,476
Sewage	388,298	368,016
Vehicles	385,614	381,599
	-----	-----
Total Production Costs	16,725,119	14,311,120
	-----	-----
Gross Profit	726,959	1,728,090
Other Income(Page 27)	426,068	802,425
	-----	-----
Total Income	1,153,027	2,530,515
	-----	-----
Less: Expenses		
Administration(Page 28)	3,600,850	3,628,663
Other(Page 29)	123,268	102,904
	-----	-----
	3,724,118	3,731,567
	-----	-----
Total Comprehensive Loss for the year (Page 5)	\$(2,571,091)	\$(1,201,052)
	=====	=====

The attached notes on pages 7 to 26 form an integral part of these financial statements.

MONTserrat UTILITIES LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
FOR YEAR ENDED 31ST DECEMBER 2011
(Expressed in Eastern Caribbean Dollars)

	Share Capital	Contributed Capital	Accumulated Deficit	Total
Equity at 31 st December 2009	2	30,532,847	(71,199)	30,461,650
Comprehensive loss for the year (Page 4)	-	-	(1,201,052)	(1,201,052)
Equity at – 31 ST December 2010	2	30,532,847	(1,272,251)	29,260,598
Comprehensive loss for the year (Page 4)	-	-	(2,571,091)	(2,571,091)
Equity at - 31 st December 2011	\$2 ==	\$30,532,847 =====	\$(3,843,342) =====	\$26,689,507 =====

MONTERRAT UTILITIES LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER 2011
(Expressed in Eastern Caribbean Dollars)

	<u>2011</u>	<u>2010</u>
<u>Cash flows from operating activities</u>		
Comprehensive (Loss) for the year	(2,571,091)	(1,201,052)
Adjusting items:		
Depreciation	1,589,027	1,567,513
	-----	-----
Operating profit before changes in working capital	(982,064)	366,461
<u>Changes in Working Capital</u>		
(Increase)/decrease in accounts receivable	54,515	1,191,238
(Increase)/decrease in goods in transit	91,862	(83,762)
(Increase)/decrease in inventory	816,579	(241,985)
Increase/(decrease) in accounts payable and accruals	(396,728)	(748,807)
Increase/(decrease) Pension Provision	332,781	393,077
(Increase)/decrease in accounts mortgage receivable	111,398	79,943
(Increase)/decrease in Vacant Lots	(94,934)	(670,195)
	-----	-----
Net Change in Working Capital	915,473	(80,491)
	-----	-----
Net cash (used) provided by operating activities	(66,591)	285,970
	-----	-----
<u>Cash flows from financing activities</u>		
Increase/(decrease) in Consumer Refundable Deposits	69,645	584,752
Increase/(decrease) in Contributed Capital	-	(2,059,898)
Increase/(decrease) in Deferred Income	129,329	1,975,589
	-----	-----
Net cash provided by financing activities	198,974	500,443
	-----	-----
<u>Cash flows from investing activities</u>		
(Increase)/decrease in property, plant and equipment	(487,036)	(1,379,358)
(Increase)/decrease in Investment	41,170	(28,321)
	-----	-----
Net cash used in investing activities	(445,866)	(1,407,679)
	-----	-----
Increase/(decrease) in cash	(313,483)	(621,266)
	-----	-----
Cash at the beginning of year	1,210,801	1,832,067
	-----	-----
Cash at the end of year	\$897,318	\$1,210,801
	=====	=====
<u>Cash and cash equivalent</u>		
Cash in hand and at bank	\$897,318	\$1,210,801
	=====	=====

MONTserrat UTILITIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31ST DECEMBER 2011
(Expressed in Eastern Caribbean Dollars)**1. Reporting Entity and Principal Activities**

Montserrat Utilities Limited was incorporated as a private Limited Company on 18th October 2001 under the Companies Act of Montserrat No. 25 of 1998 and registered at Folio 99 of the Register of Companies. It is solely owned by the government of Montserrat.

Effective 1st July 2008, the assets and liabilities of the Montserrat Electricity Services Limited and the Montserrat Water Authority were vested into Montserrat Utilities Limited. The company operates under the licensing of the Utility Services Act 2007 (*NO.3 of 2007*) and the Montserrat Utilities Act 2007, and has the license for the generation, transmission, distribution and supply of electricity and piped drinking water; and collection, treatment and disposal of waste water and sewage.

The registered office of the company is located at Bank's, Montserrat.

2. Basis of Preparation**a) Statement of Compliance**

The opening statement of financial position has been prepared in accordance with International Financial Reporting Standards (IFRS). The accounting policy disclosures primarily follow the guidelines of the Montserrat Utilities Limited Financial and Accounting Policies and Procedures Manual.

These financial statements were approved by the Board of Directors on 27th November 2014.

b) Basis of Measurement

The financial statements have been prepared under the historic cost convention.

c) Functional and Presentation Currency

These financial statements are prepared in Eastern Caribbean Currency Dollars, which is the functional currency of the reporting entity.

d) Use of Estimates and Judgment

The preparation of financial statement in conformity with the International Financial Reporting Standards (IFRS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

MONTSERRAT UTILITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

(Continued)

(Expressed in Eastern Caribbean Dollars)

2. Basis of Preparation – Continued

d) Use of Estimates and Judgment - continued

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, significant areas of estimating, uncertainty and critical judgments in applying accounting policies that have the most significant effect in the amounts recognized in the financial statements are the following:

- | | |
|--|--------------------|
| 1. Impairment losses on Investments | Note 3 (d) and (e) |
| 2. Estimated useful lives of Property, Plant and Equipment | Note 12 |
| 3. Determination of fair values on Financial Instruments | Note 3 (k) |

e) New Standards and Interpretations of and Amendments to existing standards effective during the year

Some new IFRS and interpretations of, and amendments to, existing standards which were in issue and were relevant to the Company came into effect for the current financial year. None of these pronouncements had a material effect on the financial statements.

f) New Standards and Interpretations to Existing Standards that are not yet effective

At the date of authorization of the financial statements, certain new standards, and amendments to interpretations of existing standards, have been issued which are not yet effective and which the Company has not early adopted. The Company has assessed the relevance of all such new standards, amendments and interpretations with respect to its operations, has determined that the following may be relevant to the operations and has concluded as follows:

IFRS 9. Financial Instruments. This IFRS is effective for annual reporting periods beginning on or after 1st January 2013. The standard retains but simplifies the mixed measurements model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The Company is assessing the impact on the 2013 financial statement.

IFRS 9. Financial Instruments (2010). The revised IFRS supersedes the previous version of IFRS 9 issued in 2009 and is effective for accounting periods beginning on or after 1st January 2013. The revised standard now includes guidance on classification and measurement of financial liabilities designed as fair value through profit or loss and incorporates certain existing requirements of IAS 39 Financial Instruments.

MONTSERRAT UTILITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

(Continued)

(Expressed in Eastern Caribbean Dollars)

2. Basis of Preparation – Continued

f) New Standards and Interpretations to Existing Standards that are not yet effective - continued

Recognition and Measurement on the Recognition and De-recognition of Financial Assets and Financial Liabilities. The Company is assessing the impact that the standard will have on the 2013 financial statements.

IFRS 13, Fair Value measurement. This IFRS which is effective for annual reporting periods beginning on or after 1st January 2013 defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure the fair value and is applicable to assets, liabilities and an entity's own equity instrument that, under other IFRSs, are required or permitted to be measured at fair value, or when disclosure or fair value is provided. It does not introduce new fair value measurements, nor does it eliminate the practicality exceptions to fair value measurements that currently exist in certain standards. The Company is assessing the impact this standard will have from the effective date on its financial statements.

IAS 24. Related Party Disclosures Revised effective 1st January 2011. This IAS introduces changes to the related party disclosure requirements for Government related entities and amends the definition of a related party. The standard also expands the list of transactions that require disclosure.

Disclosures – Transfer of financial Assets (Amendments to IFRS 7) is effective for accounting periods beginning on or after 1st July 2011. The amendments require disclosure of information that enable users of financial statements to understand the relationship between transferred financial assets that are derecognised in their entirety and the associated liabilities and to evaluate the nature of and risk associated with the entity's continuing involvement in these derecognised assets.

New information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

3. Statement of Accounting Policies

a) Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the exchange rate prevailing at the Statement of Financial Position date. Transactions denominated in foreign currencies are translated into Eastern Caribbean dollars at the rates prevailing at the dates of the transaction, and the resulting gain or loss is included in the Statement of Comprehensive Loss.

MONTSERRAT UTILITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

(Continued)

(Expressed in Eastern Caribbean Dollars)

3. Statement of Accounting Policies– Continued

b) Accounts Receivable

Accounts receivable are carried at original invoice amount less provision made for the impairment of these receivables. Such provisions for impairment of accounts receivables are established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount.

c) Property, Plant and Equipment

Property, Plant and Equipment are stated at cost less accumulated depreciation. The cost of repairs and replacements of a routine nature are charged to earnings while those expenditure, which improve or extend the useful life of the assets are capitalized. Land is not depreciated. Depreciation is provided using the straight line method at rates sufficient to write off the cost of the assets over their estimated useful lives as follows:

Furniture and Fittings	20%
Motor Vehicle	20 %
Plant & Machinery	4% and 20%
Building	2%

d) Impairment

The carrying amount of the Company's assets is reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at each Statement of Financial Position date. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the Statement of Comprehensive Loss.

MONTSERRAT UTILITIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31ST DECEMBER 2011**(Continued)****(Expressed in Eastern Caribbean Dollars)****3. Statement of Accounting Policies– Continued****e) Investments****i) Investment Securities Held to Maturity**

Investment securities with fixed maturity profiles where management has both the intent and the ability to hold to maturity are classified as held to maturity. Securities held to maturity are initially recognized at cost and are subsequently re-measured at amortized cost less provision for impairment losses. Interest income earned while holding securities is reported as interest income.

ii) Investment Securities Available for Sale

Investment securities intended to be held for an indefinite period of time which may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available for sale. Available for sale financial assets are initially recognised at cost and are subsequently re-measured at fair value based on quoted bid prices.

iii) Unquoted Investments

Unquoted equity instruments for which fair values cannot be reliably measured are recognised at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the Statement of Comprehensive Loss as gains or losses from investments.

f) Interest Bearing Borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction cost. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognised in the statement of Comprehensive Loss over the borrowings on an effective interest basis.

g) Interest Income

Interest income is recognised on the accruals basis in the Statement of Comprehensive Loss, using the effective interest method.

h) Taxation

The Company is owned by the Government of Montserrat and is exempted from several taxes. Under section 5 of the Montserrat Utilities Act 2007, an exemption was granted from the payment Consumption Tax, Customs Duty, Income Tax, Property Tax and Stamp Duty.

MONTserrat UTILITIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011****(Continued)****(Expressed in Eastern Caribbean Dollars)****3. Statement of Accounting Policies– Continued****i) Related Parties**

A party is related to the Company if:

- i) Directly or indirectly through one or more intermediaries the party controls, is controlled by, or is under common control with, the Company (this includes, parents, subsidiaries and fellow subsidiaries); has an interest in the Company that gives it significant influence over the Company; or has joint control over the Company.
- ii) The party is an associate of the Company.
- iii) The party is a joint venture in which the Company is a venture.
- iv) The party is a member of the key management personnel of the Company or its parent.
- v) The party is a close member of the family or any individual referred to in (i) or (iv).
- vi) The party is the entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- vii) The party is a postemployment benefit plan for the benefit of employees of the Company or of any Company that is a related party of the Company.

j) Financial Instruments

In accordance with the provisions of the International Accounting Standard No. 32, disclosure is required regarding credit risk, interest rate risk, currency risk and the fair value of financial assets and liabilities. With the exception of property, plant and equipment, deferred tax and income tax payable, all of the Company's assets and liabilities are financial instruments.

a) Financial Risk Factors

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Further, it should be noted there is potential insurance risk in relation to Transmission and Distribution facilities; which are uninsured.

MONTserrat UTILITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

(Continued)

(Expressed in Eastern Caribbean Dollars)

3. Statement of Accounting Policies– Continued

j) Financial Instruments - continued

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and it also assesses financial and control risks to the Company.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Company's Board of Directors oversee how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risk faced by the Company.

i) Credit Risk

Credit risk arises from the possibility that counter parties may default on their obligations to the Company. The Company has made adequate provision for any potential credit losses and the amount of the Company's maximum exposure to credit risk is indicated by the carrying amount of its financial assets.

	<u>2011</u>	<u>2010</u>
Cash in hand and at bank	897,318	1,210,801
Accounts Receivable	2,416,331	2,470,846
Mortgage Receivable	211,075	322,473
Investment -Available to Maturity-Unquoted	1,478,985	1,520,155
Investment – Available - for - Sale	250,000	250,000
	-----	-----
	\$5,253,709	\$5,774,275
	=====	=====

Accounts and Other Receivables

The Company's exposure to credit risk is influenced mainly by the customers' ability to meet their obligations to the company and this depends on the state of the economy and the demographics of the Company's customer base.

MONTSERRAT UTILITIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011****(Continued)****(Expressed in Eastern Caribbean Dollars)****3. Statement of Accounting Policies – Continued**j) Financial Instruments – continuedCash and Cash Equivalents

Cash and cash equivalents are held with established financial institutions, which represent minimum risk of default.

ii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial assets and liabilities excluding the impact of netting arrangements:

	<u>2011</u>	<u>2010</u>
Assets		
Cash in hand and at bank	897,318	1,210,801
Accounts Receivable	2,416,331	2,470,846
Mortgage and loan Receivable	211,075	322,473
Investments- Held to Maturity	1,478,985	1,520,155
Investments- Available - for - Sale	250,000	250,000
	-----	-----
Total Assets	5,253,709	5,774,275
	-----	-----
Liabilities		
Accounts payable and accruals	2,578,952	2,975,680
Provision for Pension	3,659,724	3,326,944
	-----	-----
Total Liabilities	6,238,676	6,302,624
	-----	-----
Liquidity Gap	(\$984,967)	(\$528,349)
	=====	=====

MONTSERRAT UTILITIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31ST DECEMBER 2011**(Continued)****(Expressed in Eastern Caribbean Dollars)****3. Statement of Accounting Policies– Continued****j) Financial Instruments – Continued****iii) Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and price risk will affect the value of the Company's assets, the amount of its liabilities and/or income. Market risk arises from fluctuations in the value of liabilities and the value of investments held. The Company is exposed to market risk on certain of its financial assets.

a) Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting the entire instrument traded in the market. The Company has no quoted instruments consequently there is no significant exposure to price risk.

b) Interest Rate Risk

The Company's financial assets and liabilities are noninterest bearing. The company's interest bearing assets and liabilities generally carry fixed rates of interest and therefore there is no significant exposure to interest rate risk.

c) Currency Risk

Substantially all the Company's transactions, assets and liabilities are denominated in either Eastern Caribbean or United States Dollars. Therefore, the Company has no significant exposure to currency risk.

k) Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and nonfinancial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value if one exists. With the exception of cash in hand and at bank, none of the Company's financial instruments are traded in a formal market. Estimated fair values are assumed to approximate their carrying values due to their short-term nature. Dividends and related per-share amounts are disclosed either on the face of the statements of changes in shareholder's equity or in the notes.

MONTSERRAT UTILITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

(Continued)

(Expressed in Eastern Caribbean Dollars)

3. Statement of Accounting Policies– Continued

k) Determination of Fair Values - continued

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the bank's market assumption. These two types of inputs have created the following fair value hierarchy:

- Level 1–Quoted prices in active markets for identical assets or liabilities. This level includes listed debt instruments listed on exchanges
- Level 2 – Inputs other than quoted prices included within level1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible.

l) Accounts Receivable

The fair value of accounts and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

m) Non-derivative Financial Liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The fair value of cash in hand and at bank, accounts receivable, due from related parties, accounts payable and accruals and due to related parties are not materially different from their carrying amount due to their short-term period to maturity.

n) Revenue Recognition

Revenue is recognized on the accruals basis. Revenue is reflected in the Statement of Comprehensive Loss when significant risk and rewards of the ownership of services have been transferred to customers and the amount of revenue derived can be measured reliably.

MONTSERRAT UTILITIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011****(Continued)****(Expressed in Eastern Caribbean Dollars)**

4. Cash in hand and at bank	<u>2011</u>	<u>2010</u>
Current Accounts -Royal Bank of Canada	275,461	174,990
-Bank of Montserrat Limited	92,781	11,199
Savings Accounts -Bank of Montserrat Limited	448,757	608,668
-Montserrat Savings Bank	23,008	322,338
-Royal Bank of Canada	10,863	50,000
-Royal Bank of Canada US\$ A/C	1,344	-
Montserrat Building Society	44,304	42,995
	-----	-----
Cash at Bank	896,518	1,210,190
Cash in Hand	800	611
	-----	-----
Total (Page 3)	\$897,318	\$1,210,801
	=====	=====

The savings account at Bank of Montserrat Limited and Montserrat Building Society attract interest of 3% on the lowest quarterly balance. Funds held with the Montserrat Savings Bank earn an interest of 3%.The interest rate on the savings account at Bank of Montserrat Limited was reduced from 3 ½ % to 3% during the year.

5. Short-Term Investments – Held to Maturity	<u>2011</u>	<u>2010</u>
Trinidad and Tobago Unit Trust Corporation		
Opening Balance	1,520,155	1,491,834
Add: Interest earned during the year	25,640	28,321
	-----	-----
	1,545,795	1,520,155
Withdrawals	(66,810)	-
	-----	-----
Total (Page 3)	\$1,478,985	\$1,520,155
	=====	=====

The interest on this investment is paid quarterly and varied from 1.25% to 1.90% over the financial year 2011.

6. Accounts Receivable and Prepayments	<u>2011</u>	<u>2010</u>
Trade Receivable	2,081,488	1,938,507
Staff Loans	151,976	168,338
Other Debtors	126,258	212,502
Prepayments	56,609	151,499
	-----	-----
Total (Page 3)	\$2,416,331	\$2,470,846
	=====	=====

MONTserrat UTILITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

(Continued)

(Expressed in Eastern Caribbean Dollars)

7. Inventory	<u>2011</u>	<u>2010</u>
Generation Cost	142,823	342,981
Transmission and Distribution	374,869	899,753
Motor Vehicles'	139,952	167,707
General Cost	35,568	45,853
Diesel	295,206	247,995
Loose Tools	101,075	154,775
Stationery	27,354	74,362
	-----	-----
Total (Page 3)	\$1,116,847	\$1,933,426
	=====	=====

Stores are assets in the form of spares, supplies etc., expected to be consumed in the generation, transmission and distribution of water and electricity. Material spares were on hand to facilitate major repairs to Plant and Machinery at the statement of financial position date.

8. Goods in Transit	<u>2011</u>	<u>2010</u>
Goods in Transit	38,119	129,981
	-----	-----
Total (Page 3)	\$38,119	\$129,981
	=====	=====

9. Mortgages and Loan Receivable	Current	Non Current	<u>2011</u>	<u>2010</u>
Mortgages	34,127	130,658	164,785	268,193
Staff Loans	12,220	34,070	46,290	54,280
	-----	-----	-----	-----
Total (Page 3)	\$46,347	\$164,728	\$211,075	\$322,473
	=====	=====	=====	=====

The company established a Mortgage Plan for its senior employees who have been employed for a minimum of ten (10) years within the Electricity Division. As a result an Agreement was signed by the Company and the Bank of Montserrat for the Bank to be the administering Agent for the Mortgage Plan.

MONTERRAT UTILITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

(Continued)

(Expressed in Eastern Caribbean Dollars)

9. Mortgages and Loan Receivable – Continued

Mortgage

The Agreement stipulates inter alia that the Agent shall:

- i) Administer the mortgage application process and the mortgages, using reasonable skill and care as if they were using its own funds, and in accordance with best international banking practice and standards.
- ii) Charge a commitment fee of 2% or \$10,000 of the amount to be loaned, payable in advance.
- iii) Be entitled to charge an annual administration fee of 1% of the amount of the balance outstanding on 31st December each year in respect of all mortgages made under the Agreement, provided that such administration fee shall not be less than \$10,000.

Repayment Terms

Mortgages are repayable monthly at various amounts inclusive of interest which is charged at the rate of 7 ½ % per annum.

Security

Mortgages are secured by a first charge note on the land certificate in favour of the Company.

10. Available for Sale Investment

2011

2010

Eastern Caribbean Securities Exchange Limited

25,000 shares of \$10 each

(Page 3)

\$250,000

\$250,000

=====

=====

The Investment is stated at Cost at the Statement of Financial Position date.

11. Accounts Receivable -Infrastructure

2011

2010

Distribution Infrastructure (Page 3)

\$765,129

\$670,195

=====

=====

MONTERRAT UTILITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

(Continued)

(Expressed in Eastern Caribbean Dollars)

12. Property, Plant and Equipment

	<u>Fixtures & Fittings</u>	<u>WIP</u>	<u>Motor Vehicles</u>	<u>Plant & Machinery</u>	Total
COST					
At 1 st January 2011	527,815	-	711,228	22,435,487	23,674,530
Additions	17,746	59,489	-	393,248	470,483
Disposals	-	-	-	-	-
At 31st December 2011	545,561	59,489	711,228	22,828,735	24,145,013
Accumulated Dep.					
At 1 st January 2011	181,763	-	243,152	2,357,644	2,782,559
Charge for the year	106,563	-	106,683	1,131,570	1,344,816
31st December 2011	288,326	-	349,835	3,489,214	4,127,375
Net Book Value					
31 st December 2011	\$257,235	\$59,489	\$361,393	\$19,339,521	\$20,017,638
	=====	=====	=====	=====	=====

Property, Plant and Equipment

	<u>Building</u>	<u>Land</u>	<u>Reservoirs</u>	Total
COST				
At 1 st January 2011	4,270,847	2,777,587	4,544,848	11,593,282
Additions	16,553	-	-	16,553
Disposals	-	-	-	-
At 31st December 2011	4,287,400	2,777,587	4,544,848	11,609,835
Accumulated Dep.				
At 1 st January 2011	199,306	-	287,840	487,146
Charge for the year	92,716	-	151,495	244,211
31st December 2011	292,022	-	439,335	731,357
Net Book Value				
31 st December 2011	\$3,995,378	\$2,777,587	\$4,105,513	\$10,878,478
	=====	=====	=====	=====
Page 3				\$30,896,116
				=====

MONTERRAT UTILITIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011**

(Continued)

(Expressed in Eastern Caribbean Dollars)

Property, Plant and Equipment

	<u>Fixtures & Fittings</u>	<u>WIP</u>	<u>Motor Vehicles</u>	<u>Plant & Machinery</u>	<u>Totals</u>
COST					
At 1 st January 2010	304,314	836,680	637,728	20,680,996	22,459,718
Additions	223,501	-	73,500	917,811	1,214,812
Transfers	-	(836,680)	-	836,680	-
At 31st December 2010	527,815	-	711,228	22,435,487	23,674,530
Accumulated Depreciation					
Balance at Beginning of year	77,418	-	136,468	1,245,040	1,458,926
Charge for the year	104,345	-	106,684	1,112,604	1,323,633
Accumulated Depreciation 2010	181,763	-	243,152	2,357,644	2,782,559
Net Book Value 31-12-2010	\$346,052	\$-	\$468,076	\$20,077,843	\$20,891,971

Property, Plant and Equipment

	<u>Building</u>	<u>Land</u>	<u>Reservoirs</u>	<u>Total</u>
COST				
At 1 st January 2010	4,106,301	2,777,587	4,544,848	11,428,736
Additions	164,546	-	-	164,546
Transfers	-	-	-	-
At 31st December 2010	4,270,847	2,777,587	4,544,848	11,593,282
Accumulated Depreciation				
Balance at Beginning of year	106,921	-	136,345	243,266
Charge for the year	92,385	-	151,495	243,880
Accumulated Depreciation 2010	199,306	-	287,840	487,146
Net Book Value 31-12-2010	\$4,071,541	\$2,777,587	\$4,257,008	\$11,106,136
Page 3				\$31,998,107

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

(Continued)

(Expressed in Eastern Caribbean Dollars)

13. Accounts Payable and Accruals

	<u>2011</u>	<u>2010</u>
Trade payables	1,179,040	1,513,746
Accrued expenses	710,334	515,789
Gratuity payable	79,041	91,415
Other Accounts Payable	610,537	854,730
	-----	-----
Total (Page 3)	\$2,578,952	\$2,975,680
	=====	=====

14. Provision for Contingency

	<u>2011</u>	<u>2010</u>
Employee Pension	\$3,659,724	\$3,326,943
	=====	=====

The company contributes to a defined benefit plan and a defined contribution plan for management and all other permanent staff respectively.

Under the defined benefit plan, the employer contributes such sums that are required to enable the Trustees to provide the benefits under the rules for and in respect of members and former members to preserve the solvency of the plan based on an Actuarial review. Members are not required to contribute to the defined benefit plan. The employer's contribution during the year to the defined contribution plan was 25% of members' salaries. For the defined contribution plan, both the company and employees contribute fixed amounts. The administration expenses are currently being met by surpluses arising from members withdrawing from the plan with less than ten (10) years of service.

The latest Actuarial review carried out on 29 February 2008 revealed that the assets were adequately funded. However, the report indicated that because of the uncertainty regarding the Plan's Investment in CLICO, the results of the valuation should be treated with caution. Pension costs for both plans are charged to the income statement. The assets of the plans are held separately as they are managed by different Trustees.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011**

(Continued)

(Expressed in Eastern Caribbean Dollars)

15. Non-Current Payable

		<u>2011</u>	<u>2010</u>
Consumers' Refundable Deposits	(Page 3)	\$1,263,810	\$1,194,165
		=====	=====

Consumers' refundable deposits which are not immediately repayable have been shown as non-current payable.

16. Deferred Income

		<u>2011</u>	<u>2010</u>
Contributions, Plant & Machinery		4,827,896	4,413,221
Amortization		(949,969)	(664,623)
		-----	-----
Total (Page 3)		\$3,877,927	\$3,748,598
		=====	=====

Provided to finance the purchase of specific assets are credited to Non-Current Deferred Income, and is realized over the useful life of the assets in the Statement of Comprehensive Income. Grants provided for revenue purposes or related to Income are credited to income for Non deferred income in accordance with IAS 20 paragraphs 13-15 which also states that Grants must be recognised as Income over the periods necessary to match them with related costs which they are intended to compensate, on a systematic basis. It must also be recognised on an accrual basis. In addition paragraphs 17-22 expanded the provisions to cover periods over which the Income and Expenditures associated with Government Grants are to be recognized.

17. Share Capital

Authorized		<u>2011</u>	<u>2010</u>
10,000 Common shares of \$1 each		\$10,000	\$10,000
		=====	=====
Issued and Fully paid			
2 Common shares of \$1 each	(Page 3)	\$2	\$2
		==	==

18. Contributed Capital

		<u>2011</u>	<u>2010</u>
Government of Montserrat	(Page 3)	\$30,532,847	\$30,532,847
		=====	=====

This amount represents the Government of Montserrat has injected into the operations of the new company, which commenced operations on 1st July 2008. It reflects the net surplus due to the owner (Government) of the two quasi Government institutions, which combined to form the new entity.

MONTSERRAT UTILITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

(Continued)

(Expressed in Eastern Caribbean Dollars)

19. Capital Commitment & Contingent Liability	<u>2011</u>	<u>2010</u>
Budgeted Estimates – Mechanical & Electrical	16,891,000	16,891,000
Budgeted Estimates - Civil & Building Works	6,978,000	6,978,000
Budgeted Estimates – Other Capital Works	12,265,000	12,265,000
	-----	-----
	\$36,134,000	\$36,134,000
	=====	=====

a. Capital Commitment

The Company is committed to Capital expenditure for the upgrade of its Electricity generating capacity and capability, the capital commitment subsequent to the Statement of Financial Position date is in the order of \$36,134,000.00. This commitment is supported by on-going negotiations by central Government, and the tendering process has been completed for the construction of a new power plant and the supply of new generating equipment.

b. Contingent Liability

As further explained in Note 20, the Company may be liable for any shortfall of the Deposit Administration Pension Plan. The company has committed itself to the settlement of all employee Pension liabilities, in the absence of Pension fund assets to meet employee obligation on retirement. All Pension Fund obligations settled by Montserrat Utilities Limited will remain an obligation of the Fund, and should be settled if and when the Fund has the financial resources so to do.

c. Pending Litigation

A claim was filed for damages against the company for unfair dismissal by a former employee of the company. The claim was heard by the Labour Tribunal in April and May of 2013; the decision is still pending.

20. Taxation

The Company is exempt from payment of any liability to all income tax and other taxes based on income or profits under Section 5 of the Montserrat Utilities Act 2007.

21. Operational Risk

i. Volcanic Activity

The island of Montserrat experienced continuous volcanic activity in July 1995. The continuous eruptions created severe hardships and dislocations and affected living conditions on the island. Consequently, this risk factor should be considered in analysing these Financial Statements.

MONTSERRAT UTILITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

(Continued)

(Expressed in Eastern Caribbean Dollars)

21. Operational Risk –Cont'd

ii. Insurance

It should be noted that Transmission and Distribution facilities are uninsured. This poses an operational risk for the company if there should ever be major damages done to these facilities.

22. Subsequent Events

i) Pension Plan Investment

Subsequent to the date of the financial position, there has been much concern on the local and regional financial industry with regards to the Central Bank of Trinidad and Tobago and the Government of Trinidad and Tobago recent intervention in certain CL Financial Group particularly Colonial Life Insurance Company (Trinidad) Limited (CLICO).

The company's Deposit Administration Pension Plan which is managed by the Trustees, First Caribbean International Bank is invested with CLICO.

The Directors have been monitoring the development in relationship with the CL Financial Group.

ii) Accounting for Impairment

The Board of Directors have decided to provide for 100% impairment of the Pension Plan Investment, and will recognize any recoveries on the Investment on an actual basis when and if recoveries can be determined with certainty.

iii) Settlement Existing Pension Liability

The company's policy position regarding its Pension Liability has been amended due to the impairment of its employees' Pension Fund Investments. The company has committed itself to the settlement of all employee Pension liabilities, in the absence of Pension fund assets to meet employee obligation on retirement. All Pension Fund obligations settled by Montserrat Utilities Limited will remain an obligation of the Fund, and should be settled if and when the Fund has the financial resources so to do. The recognized computed liability at the statement of financial Position date is \$3,659,724.

iv) Caribbean Development Bank Funding

Subsequent to the Statement of Financial Position an agreement was made with the Caribbean Development Bank to provide partial funding in the amount of USD \$2.5 Million, with interest rate cost of 2.5% per annum for the construction of the new power station at a location in Brades. Repayment will be made in (80) eighty equal instalments in equal consecutive payments, commencing 10 years after the date of the agreement.

v) The Company has completed negotiations with two Contractors for the construction of the new power generating facility and the supply of the Generator Sets. Negotiations have concluded with Agelique International Limited of (India) for the construction of the new power plant, and Ningbo CSI Power and Machinery Group for the supply of engines.

MONTERRAT UTILITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

(Continued)

(Expressed in Eastern Caribbean Dollars)

23. Related Party Transaction

	<u>2012</u>	<u>2011</u>
Key Management Compensation	645,126	
Directors' fees	7,300	11,425
	-----	-----
	\$652,926	\$11,425
	=====	=====

The above amount reflects transactions which are considered as related parties.

MONTERRAT UTILITIES LIMITED

SCHEDULE OF OTHER INCOME
FOR THE YEAR ENDED 31ST DECEMBER 2011
 (Expressed in Eastern Caribbean Dollars)

	<u>2011</u>	<u>2010</u>
Mortgages and Loans Interest	20,181	87,527
Overhead Recoveries	-	321,496
Interest	48,966	56,397
Rent	29,638	42,913
Sundry	41,935	25,331
Contributions & Grants	285,348	268,761
	-----	-----
Total (Page 4)	\$426,068	\$802,425
	=====	=====

MONTERRAT UTILITIES LIMITED

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED 31ST DECEMBER 2011
 (Expressed in Eastern Caribbean Dollars)

	<u>2011</u>	<u>2010</u>
Salaries & Wages	2,033,961	2,007,019
Gratuity	96,189	71,377
Insurances	378,915	472,705
Vehicles	33,327	38,799
Repairs & Maintenance	129,488	127,993
Rent, Rates, Taxes & Water	153,327	138,600
Telephone Postage and Fax	99,554	94,542
Stationery	154,555	46,824
Bank Charges	6,835	7,573
Technical Fees	39,282	117,447
Professional and Consultancy Fees	1,854	1,968
Entertainment	22,290	18,041
Travelling	32,272	56,478
Advertising	8,740	1,634
Staff Training and Recruitment	70,714	47,384
Uniform/Protective Clothing	24,498	11,711
Medical	741	-
Canteen	2,153	3,420
Legal Fees	14,940	16,400
Agency Fee	10,000	10,000
Subscription and Donations	72,938	67,592
Sundry	9,685	2,946
Bad Debts	31,641	97,809
Depreciation	172,951	170,401
	-----	-----
Total (Page 4)	\$3,600,850	\$3,628,663
	=====	=====

MONTSERRAT UTILITIES LIMITED
SCHEDULE OF OTHER EXPENSES
FOR THE YEAR ENDED 31ST DECEMBER 2011
(Expressed in Eastern Caribbean Dollars)

	<u>2011</u>	<u>2010</u>
Directors fees		
Audit and professional fees	7,300	11,425
Accounting and consultancy fees	76,250	76,595
	39,718	14,884
	-----	-----
Total (Page 4)	\$123,268	\$102,904
	=====	=====