

WATLINGTON WATERWORKS LIMITED

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

For the years ended December 31, 2020 and 2019

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

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

Furthermore, the report of KPMG is as of April 29, 2021, and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Watlington Waterworks Limited

We have audited the accompanying consolidated financial statements of Watlington Waterworks Limited and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019 and January 1, 2019 and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2020 and 2019, and the related notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 the auditor's 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, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Watlington Waterworks Limited and its subsidiary as of December 31, 2020 and 2019 and January 1, 2019 and the consolidated results of their operations and their cash flows for the years ended December 31, 2020 and 2019 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.



Emphasis of matter

As discussed in Note 23 to the consolidated financial statements, the consolidated financial statements as of December 31, 2019 and January 1, 2019 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 29, 2021

WATLINGTON WATERWORKS LIMITED

Consolidated Statements of Financial Position

As at December 31, 2020 and 2019 and January 1, 2019
(Expressed in Bermuda Dollars)

	December 31, <u>2020</u>	December 31, <u>2019</u> <i>As restated</i> <i>(Note 23)</i>	January 1, <u>2019</u> <i>As restated</i> <i>(Note 23)</i>
Assets			
Non-current assets			
Property, plant and equipment (Notes 10 and 11)	\$ 18,732,755	\$ 19,100,392	\$ 19,333,000
Intangible assets (Note 12)	<u>23,318</u>	<u>67,067</u>	<u>71,333</u>
Total non-current assets	18,756,073	19,167,459	19,404,333
Current assets			
Other assets (Note 18)	2,752	13,666	5,392
Inventories (Note 14)	1,305,403	1,272,331	1,245,959
Trade and other receivables (Note 19)	673,531	900,209	757,960
Prepayments	242,863	151,100	185,840
Investments (Note 19)	8,963,319	6,838,174	5,160,262
Cash and cash equivalents (Notes 15 and 19)	<u>7,520,241</u>	<u>7,785,674</u>	<u>7,226,823</u>
Total current assets	18,708,109	16,961,164	14,582,236
Total assets	<u>\$ 37,464,182</u>	<u>\$ 36,128,623</u>	<u>\$ 33,986,569</u>
Equity			
Share capital (Note 16)	\$ 1,070,330	\$ 1,067,280	\$ 1,064,870
Share premium (Note 16)	1,645,354	1,565,569	1,516,460
Reserves (Note 16)	8,000,000	8,000,000	8,000,000
Retained earnings	<u>25,721,789</u>	<u>24,631,572</u>	<u>22,540,003</u>
Total equity (attributable to owners of the Company)	36,437,473	35,264,421	33,121,333
Liabilities			
Non-current liabilities			
Lease liabilities (Notes 11 and 19)	<u>30,180</u>	<u>—</u>	<u>—</u>
Total non-current liabilities	30,180	—	—
Current liabilities			
Equipment deposits (Note 19)	1,739	1,971	2,080
Trade payables and accrued liabilities (Note 19)	982,933	862,231	863,156
Lease liabilities (Notes 11 and 19)	<u>11,857</u>	<u>—</u>	<u>—</u>
Total liabilities	1,026,709	864,202	865,236
Total liabilities and equity	<u>\$ 37,464,182</u>	<u>\$ 36,128,623</u>	<u>\$ 33,986,569</u>

The notes on pages 7 to 35 are an integral part of these consolidated financial statements

Signed on behalf of the Board



Director



Director

WATLINGTON WATERWORKS LIMITED

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019
(Expressed in Bermuda Dollars)

	<u>2020</u>	<u>2019</u>
Revenue (Notes 6 and 7)	\$ 11,531,182	\$ 12,376,868
Production costs	<u>(2,564,456)</u>	<u>(2,851,193)</u>
Gross profit	<u>8,966,726</u>	<u>9,525,675</u>
Administrative expenses	(3,706,143)	(3,594,086)
Distribution expenses	(2,910,096)	(2,844,936)
Impairment (loss) recovery on cash and cash equivalents and investments (Note 19)	(4,703)	31,357
Impairment loss on trade receivables (Note 19)	<u>(71,511)</u>	<u>(59,417)</u>
Total profit before finance income	<u>2,274,273</u>	<u>3,058,593</u>
Finance income (Note 6)	<u>130,196</u>	<u>131,126</u>
Profit and total comprehensive income for the year (attributable to owners of the Company)	<u>\$ 2,404,469</u>	<u>\$ 3,189,719</u>
Earnings per share		
Basic earnings per share (Note 17)	<u>\$ 2.25</u>	<u>\$ 2.99</u>
Diluted earnings per share (Note 17)	<u>\$ 2.19</u>	<u>\$ 2.91</u>

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

The notes on pages 7 to 35 are an integral part of these consolidated financial statements

WATLINGTON WATERWORKS LIMITED

Consolidated Statements of Changes in Equity

For the years ended December 31, 2020 and 2019
(Expressed in Bermuda dollars)

	Attributable to owners of the Company					<u>Total</u>
	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserve</u>	<u>General reserve</u>	<u>Retained earnings</u>	
Balance at January 1, 2019 (as restated – Note 23)	\$ 1,064,870	\$ 1,516,460	\$ 7,000,000	\$ 1,000,000	\$ 22,540,003	\$ 33,121,333
Total comprehensive income for the year						
Profit for the year	–	–	–	–	3,189,719	3,189,719
Transactions with owners of the Company recognized directly in equity						
Issuance of shares (Note 16)	2,410	49,109	–	–	–	51,519
Dividends (Note 16)	–	–	–	–	(1,098,150)	(1,098,150)
Balance at December 31, 2019 (as restated – Note 23)	1,067,280	1,565,569	7,000,000	1,000,000	24,631,572	35,264,421
Total comprehensive income for the year						
Profit for the year	–	–	–	–	2,404,469	2,404,469
Transactions with owners of the Company recognized directly in equity						
Issuance of shares (Note 16)	3,050	79,785	–	–	–	82,835
Dividends (Note 16)	–	–	–	–	(1,314,252)	(1,314,252)
Balance at December 31, 2020	\$ 1,070,330	\$ 1,645,354	\$ 7,000,000	\$ 1,000,000	\$ 25,721,789	\$ 36,437,473

The notes on pages 7 to 35 are an integral part of these consolidated financial statements

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

1. General

Watlington Waterworks Limited (the "Company") is a company domiciled in Bermuda. The Company is listed on the Bermuda Stock Exchange ("BSX"). The address of the Company's registered office is H.P. House, 21 Laffan Street, Hamilton HM09, Bermuda. These consolidated financial statements of the Company comprise the Company and its wholly-owned subsidiary Bermuda Waterworks Ltd. The Company is primarily involved in the production and distribution of water and purification of drinking water at the retail and wholesale level. The Company is also engaged in the provision of water services, plumbing supplies and the supply of water coolers for sale and rental. There is no parent or ultimate controlling party to the Company.

2. Basis of preparation

a) *Statement of compliance*

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

These consolidated financial statements were authorized for issue by the Board of Directors on April 29, 2021.

b) *Basis of measurement*

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

c) *Functional and presentation currency*

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

d) *Use of estimates and judgements*

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

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

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 apply to impairment of financial assets and non-financial assets (Notes 3(i) and 19).

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

2. Basis of preparation (continued)

e) *Going concern basis of preparation*

On March 11, 2020, the World Health Organization officially declared the outbreak of COVID-19 a pandemic. COVID-19 has caused disruption to businesses and economic in Bermuda.

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

a) *Basis of consolidation*

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

b) *Share capital*

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

c) *Property, plant and equipment*

Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour; and any other costs directly attributable to bringing the assets to a working condition for their intended use.

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

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

Depreciation

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

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Land and assets under construction are not depreciated.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

3. Significant accounting policies (continued)

c) *Property, plant and equipment (continued)*

Depreciation (continued)

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

▪ buildings	40 years
▪ building improvements	10 years
▪ plant and equipment including pipelines	3 – 40 years
▪ fixtures and fittings	3 – 10 years

d) *Intangible assets*

Application software is measured at cost less accumulated amortization and is amortized on a straight-line basis over a useful life of 3 years.

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

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

e) *Investment property*

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

f) *Investment property*

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

▪ buildings	40 years
▪ improvements	10 years

g) *Inventories*

Inventories which comprise essential utility parts, plumbing supplies and bottled water supplies are carried at the lower of cost and net realizable value. Cost is based on the weighted average, and includes expenditure incurred in acquiring the inventories, production and conversion costs, and other costs incurred in bringing them to their present condition and location. Provision is made for obsolete or slow-moving inventories.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

3. Significant accounting policies (continued)

h) Financial instruments

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

(i) Recognition and initial measurement

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

(ii) Classification and subsequent measurement

Financial assets

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

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

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

Financial assets – Business model assessment

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

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

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

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

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

3. Significant accounting policies (continued)

h) *Financial instruments* (continued)

(ii) *Classification and subsequent measurement* (continued)

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

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

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

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

Financial assets – Subsequent measurement and gains and losses

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

Financial liabilities – Classification, subsequent measurement and gains and losses

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

(iii) *Derecognition*

Financial assets

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

Financial liabilities

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

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

3. Significant accounting policies (continued)

h) *Financial instruments* (continued)

(iii) *Derecognition* (continued)

Offsetting

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

i) *Impairment*

Financial assets

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

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

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

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

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

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

Measurement of ECLs

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

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

3. Significant accounting policies (continued)

i) Impairment (continued)

Credit impaired financial assets

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

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

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

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

Write-off

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

Impairment of non-financial assets

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

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

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

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").

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

3. Significant accounting policies (continued)

i) Impairment (continued)

Impairment of non-financial assets (continued)

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.

j) Finance income

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

k) 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.

l) Earnings per share

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

m) Revenue

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

Performance obligations and revenue recognition policies

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

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

3. Significant accounting policies (continued)

m) Revenue (continued)

Performance obligations and revenue recognition policies (continued)

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

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

Rental income

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

n) Leases

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

As a lessee

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

3. Significant accounting policies (continued)

n) Leases (continued)

As a lessee (continued)

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

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

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

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

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

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

3. Significant accounting policies (continued)

n) Leases (continued)

As a lessee (continued)

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

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

Short-term leases and leases of low-value assets

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

As a lessor

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

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

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

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

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

4. Changes to significant accounting policies

There were a number of amendments to standards that were effective for periods beginning on January 1, 2020 but they do not have a material effect on the Company's consolidated financial statements. These have been listed below:

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Definition of a Business (Amendments to IFRS 3)*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*
- *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*

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5. New standards and interpretations not yet adopted

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

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

- *COVID-19-Related Rent Concessions (Amendment to IFRS 16)*
- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*
- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*
- *Annual Improvements to IFRS Standards 2018 – 2020*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)*
- *Reference to the Conceptual Framework (Amendments to IFRS 3)*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*

6. Operating segments

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

Income and expenditure by segment

	2020			
	<u>Utility</u>	<u>Bottled Water</u>	<u>Other</u>	<u>Total</u>
Income				
External revenues	\$ 6,392,077	\$ 4,509,797	\$ 601,808	\$ 11,503,682
Intersegment revenues	55,551	–	–	55,551
Rentals	–	–	27,500	27,500
Finance income	–	–	130,196	130,196
Total income	6,447,628	4,509,797	759,504	11,716,929
Expenditure				
External costs	3,543,779	3,005,378	1,011,055	7,560,212
Depreciation and amortization	1,052,689	156,230	487,778	1,696,697
Intersegment expenditure	–	55,551	–	55,551
Total expenditure	4,596,468	3,217,159	1,498,833	9,312,460
Net profit (loss) by segment	\$ 1,851,160	\$ 1,292,638	\$ (739,329)	\$ 2,404,469

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Notes to Consolidated Financial Statements

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6. Operating segments (continued)*Income and expenditure by segment (continued)*

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

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

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

Reconciliation of revenue

	<u>2020</u>	<u>2019</u>
Total revenue for reportable segments	\$ 10,957,425	\$ 11,746,659
Other revenue	759,504	815,582
Finance income	(130,196)	(131,126)
Elimination of intersegment revenues	<u>(55,551)</u>	<u>(54,247)</u>
Total revenue (Note 7)	<u>\$ 11,531,182</u>	<u>\$ 12,376,868</u>

WATLINGTON WATERWORKS LIMITED

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6. Operating segments (continued)*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.

Reconciliation of assets, liabilities and capital expenditure by segment

	<u>Utility</u>	<u>Bottled Water</u>	<u>Total reportable segments</u>	<u>Other</u>	<u>Total</u>
As at December 31, 2020					
Assets	\$ 16,369,779	\$ 2,171,175	\$ 18,540,954	\$ 18,923,228	\$ 37,464,182
Liabilities	(226,304)	(103,092)	(329,396)	(697,313)	(1,026,709)
Capital expenditure	1,052,926	162,335	1,215,261	25,473	1,240,734

	<u>Utility</u>	<u>Bottled Water</u>	<u>Total reportable segments</u>	<u>Other</u>	<u>Total</u>
As at December 31, 2019					
Assets	\$ 16,574,971	\$ 2,034,364	\$ 18,609,335	\$ 17,519,288	\$ 36,128,623
Liabilities (as restated)	(87,708)	(93,214)	(180,922)	(683,280)	(864,202)
Capital expenditure	1,365,459	32,054	1,397,513	53,801	1,451,314

7. Revenue

	<u>2020</u>	<u>2019</u>
Revenue from contracts with customers	\$ 9,224,488	\$ 10,687,065
Other revenue		
Revenue from bottled water cash sales	2,100,617	1,456,408
Pure Water equipment sales	178,471	165,095
Rental income	27,500	60,000
Pension forfeiture	46	8,280
Book sales	<u>60</u>	<u>20</u>
	<u>\$ 11,531,182</u>	<u>\$ 12,376,868</u>

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7. Revenue (continued)*Disaggregation of revenue from contracts with customers*

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

	2020			
	<u>Utility</u>	<u>Bottled Water</u>	<u>Other</u>	<u>Total</u>
Major products and service lines				
Utility water sales	\$ 6,313,414	\$ –	\$ –	\$ 6,313,414
Bottled water sales	–	2,230,709	–	2,230,709
Plumbing supplies	–	–	601,702	601,702
Utility connection fees	<u>78,663</u>	<u>–</u>	<u>–</u>	<u>78,663</u>
	<u>6,392,077</u>	<u>2,230,709</u>	<u>601,702</u>	<u>9,224,488</u>
Timing of revenue recognition				
Products and services transferred over time	6,392,077	–	–	6,392,077
Products and services transferred at a point in time	<u>–</u>	<u>2,230,709</u>	<u>601,702</u>	<u>2,832,411</u>
Revenue from contracts with customers	<u>6,392,077</u>	<u>2,230,709</u>	<u>601,702</u>	<u>9,224,488</u>
Other revenue	<u>–</u>	<u>2,279,088</u>	<u>27,606</u>	<u>2,306,694</u>
External revenue as reported in Note 6	<u>\$ 6,392,077</u>	<u>\$ 4,509,797</u>	<u>\$ 629,308</u>	<u>\$ 11,531,182</u>

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7. Revenue (continued)*Disaggregation of revenue from contracts with customers (continued)*

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

8. Expenses by nature

Expenses by nature primarily comprise of:

	<u>2020</u>	<u>2019</u>
Employee benefits (Note 9)	\$ 3,849,050	\$ 3,871,556
Depreciation (Note 10)	1,652,948	1,647,600
Electricity	1,100,814	1,291,956
Repairs and maintenance	325,312	281,821
Vehicle	185,387	199,704
Royalties	93,215	44,552
Amortization of intangible assets (Note 12)	43,749	40,588

9. Employee benefit expenses

	<u>2020</u>	<u>2019</u>
Short term employment benefits	\$ 3,051,318	\$ 3,096,345
Compulsory payroll tax, social insurance and health scheme contributions	629,587	620,557
Payments to defined contribution pension scheme	148,408	140,839
Other employee benefit expense	<u>19,737</u>	<u>13,815</u>
	<u>\$ 3,849,050</u>	<u>\$ 3,871,556</u>

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10. Property, plant and equipment

	<u>Land & buildings</u>	<u>Plant & equipment</u>	<u>Fixtures & fittings</u>	<u>Under construction</u>	<u>Total</u>
Cost					
At January 1, 2019	\$ 6,004,784	\$ 32,945,149	\$ 527,328	\$ 1,038,320	\$ 40,515,581
Additions	–	113,974	7,673	1,293,345	1,414,992
Removal of fully depreciated assets	(589,799)	(2,283,883)	(246,416)	–	(3,120,098)
Transfers	<u>1,298,300</u>	<u>218,652</u>	<u>19,042</u>	<u>(1,535,994)</u>	<u>–</u>
At December 31, 2019	6,713,285	30,993,892	307,627	795,671	38,810,475
Additions	17,645	43,166	53,797	1,170,703	1,285,311
Removal of fully depreciated assets	–	(173,777)	(21,572)	–	(195,349)
Transfers	<u>–</u>	<u>329,590</u>	<u>–</u>	<u>(329,590)</u>	<u>–</u>
At December 31, 2020	<u>\$ 6,730,930</u>	<u>\$ 31,192,871</u>	<u>\$ 339,852</u>	<u>\$ 1,636,784</u>	<u>\$ 39,900,437</u>
Accumulated depreciation					
At January 1, 2019	\$ 1,802,899	\$ 18,998,137	\$ 381,545	\$ –	\$ 21,182,581
Removal of fully depreciated assets	(589,799)	(2,283,883)	(246,416)	–	(3,120,098)
Depreciation	<u>374,306</u>	<u>1,239,577</u>	<u>33,717</u>	<u>–</u>	<u>1,647,600</u>
At December 31, 2019	1,587,406	17,953,831	168,846	–	19,710,083
Removal of fully depreciated assets	–	(173,777)	(21,572)	–	(195,349)
Depreciation	<u>374,307</u>	<u>1,236,797</u>	<u>41,844</u>	<u>–</u>	<u>1,652,948</u>
At December 31, 2020	<u>\$ 1,961,713</u>	<u>\$ 19,016,851</u>	<u>\$ 189,118</u>	<u>\$ –</u>	<u>\$ 21,167,682</u>
Carrying amounts					
At January 1, 2019	<u>\$ 4,201,885</u>	<u>\$ 13,947,012</u>	<u>\$ 145,783</u>	<u>\$ 1,038,320</u>	<u>\$ 19,333,000</u>
At December 31, 2019	<u>\$ 5,125,879</u>	<u>\$ 13,040,061</u>	<u>\$ 138,781</u>	<u>\$ 795,671</u>	<u>\$ 19,100,392</u>
At December 31, 2020	<u>\$ 4,769,217</u>	<u>\$ 12,176,020</u>	<u>\$ 150,734</u>	<u>\$ 1,636,784</u>	<u>\$ 18,732,755</u>

The removal of fully depreciated assets relates to items with \$nil carrying amounts as at December 31, 2020 and 2019 that are no longer in use by the Company.

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11. Leases*Leases as lessee*

During 2020 the Company leased office equipment for a period of four years. Lease payments are \$635 per month. The Company has recognized right-of-use assets in relation to leased office equipment which are presented as property, plant and equipment. The Company historically leases wells, well rights and right of ways on various landowners' properties. As at December 31, 2020 the Company's only enforceable contracts with respect to its use of wells, well rights and right of ways were considered leases of low-value assets.

Right-of-use assets

	Land & buildings	Fixtures & fittings	Total
Balance at January 1	\$ —	\$ —	\$ —
Additions to right-of-use asset	17,645	26,932	44,577
Depreciation charge for the year	<u>—</u>	<u>(1,795)</u>	<u>(1,795)</u>
Balance at December 31	<u>\$ 17,675</u>	<u>\$ 25,137</u>	<u>\$ 42,782</u>

Amounts recognized in the consolidated statement of comprehensive income

	<u>2020</u>	<u>2019</u>
Interest on lease liabilities	\$ —	\$ —
Expenses relating to leases of low-value assets	955	945

Amounts recognized in the consolidated statement of cash flows

	<u>2020</u>	<u>2019</u>
Total cash outflow for leases	\$ 2,540	\$ —

Leases as lessor

The Company leased out its investment property during the year ended December 31, 2020. The term of the lease is one year. The Company classified this lease as an operating lease, because it did not transfer substantially all of the risks and rewards incidental to the ownership of the asset. Rental income recognized by the Company during 2020 was \$27,500 (2019 - \$60,000). Rental income due through July 31, 2021 is \$35,000.

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12. Intangible assets

	<u>Application software</u>
Cost	
January 1, 2019	\$ 645,523
Additions	36,322
Removal of fully depreciated assets	<u>(530,722)</u>
December 31, 2019 and 2020	\$ 151,123
Accumulated amortization	
At January 1, 2019	\$ 574,190
Amortization	40,588
Removal of fully depreciated assets	<u>(530,722)</u>
At December 31, 2019	84,056
Amortization	<u>43,749</u>
At December 31, 2020	\$ 127,805
Carrying amounts	
At January 1, 2019	\$ 71,333
At December 31, 2019	\$ 67,067
At December 31, 2020	\$ 23,318

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13. Investment property

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

	<u>Investment property</u>
Cost	
At January 1, 2019 and December 31, 2019 and 2020	\$ 330,153
	=====
Accumulated depreciation	
At January 1, 2019 and December 31, 2019 and 2020	\$ 330,153
	=====
Carrying amounts	
At January 1, 2019 and December 31, 2019 and 2020	\$ -
	=====

The property was valued by an independent appraiser, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued, on June 8, 2020 at a value of \$1,150,000. The property is leased at a monthly rental of \$5,000. Management believe that this appraised valuation approximates the fair value of the investment property. Earned rental income for the year ended December 31, 2020 was \$27,500 (2019 - \$60,000) and operating expenses pertaining to its investment property was \$17,664 (2019 - \$1,111).

14. Inventories

	<u>2020</u>	<u>2019</u>
Spares and production parts	\$ 963,884	\$ 906,668
Goods for resale	372,075	414,169
Water bottling supplies	60,323	45,677
Inventory provision	<u>(90,879)</u>	<u>(94,183)</u>
	\$ 1,305,403	\$ 1,272,331
	=====	=====

Included in the consolidated statement of comprehensive income are recognized inventory expenses of \$937,479 (2019 - \$987,447).

15. Cash and cash equivalents

	<u>2020</u>	<u>2019</u>
Bank balances	\$ 1,246,710	\$ 968,140
Call deposits	<u>6,273,531</u>	<u>6,817,534</u>
	\$ 7,520,241	\$ 7,785,674
	=====	=====

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16. Capital and reserves

Share capital

	<u>Ordinary shares of \$1 par value</u>	
	<u>2020</u>	<u>2019</u>
Issued as at January 1	\$ 1,067,280	\$ 1,064,870
Issued for cash during the year	<u>3,050</u>	<u>2,410</u>
Issued at December 31 – fully paid	<u>\$ 1,070,330</u>	<u>\$ 1,067,280</u>
Authorized	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>

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

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

Share premium

The share premium balance relates to the excess of the consideration received over par value of shares of the Company.

Employee share purchase plan

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

As at January 1, 2020 the total number of shares available for purchase under the plan was 33,000 (2019 - 31,000). During the year ended December 31, 2020, employees subscribed for and were issued 3,050 (2019 - 2,410) common shares for consideration of \$68,994 (2019 - \$43,790). The difference between the discounted price at which the shares were issued and the market price at the plan's subscription date was \$13,841 (2019 - \$7,729) and is included in employee benefit expenses for the year ended December 31, 2020 (Note 9). The excess of the market price over the par value of the shares of \$79,785 (2019 - \$49,109) is recorded as share premium. The weighted-average exercise price of exercised options was \$22.62 (2019 - \$18.17). As at December 31, 2020, there were 29,950 options outstanding with a weighted-average exercise price of \$22.81 (2019 - 28,590 and \$18.70 respectively).

Capital reserve

The amount of the capital reserve of \$7,000,000 was transferred from retained earnings and represents the Company's investment in infrastructure renovations and improvements, including pipelines and reservoirs, in order to maintain the permanent capital of the Company and has been approved by the Board of Directors.

General reserve

General reserve of \$1,000,000 (2019 - \$1,000,000) is an appropriation from retained earnings as a contingency for unexpected future expenditures and has been approved by the Board of Directors.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

16. Capital and reserves (continued)*Dividends*

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

	<u>2020</u>	<u>2019</u>
40 cents per qualifying ordinary share (2019 - 38 cents) March	\$ 426,912	\$ 404,651
20 cents per qualifying ordinary share (2019 - 18 cents) June	213,724	191,945
43 cents per qualifying ordinary share (2019 - 27 cents) September	459,550	288,098
20 cents per qualifying ordinary share (2019 - 20 cents) December	<u>214,066</u>	<u>213,456</u>
	\$ 1,314,252	\$ 1,098,150
	<u> </u>	<u> </u>

Subsequent to the year-end, the Company declared a dividend of 20 cents per share on February 4, 2021 payable on March 31, 2021.

17. Earnings per share*Basic earnings per share*

The calculation of basic earnings per share for the year ended December 31, 2020 is based on the profit attributable to ordinary shareholders of \$2,404,469 (2019 - \$3,189,719), and a weighted average number of ordinary shares outstanding of 1,068,743 (2019 - 1,065,855), calculated as follows:

Weighted average number of ordinary shares

	<u>2020</u>	<u>2019</u>
Issued ordinary shares at January 1	1,067,280	1,064,870
Effect of shares issued during the year	<u>1,463</u>	<u>985</u>
Weighted average number of ordinary shares at December 31	<u>1,068,743</u>	<u>1,065,855</u>

Diluted earnings per share

Share options with a dilutive effect were issued in June 1999 (Note 16). The calculation of diluted earnings per share for the year ended December 31, 2020 is based on the profit attributable to ordinary shareholders of \$2,404,469 (2019 - \$3,189,719), and a weighted average number of ordinary shares outstanding after adjustment of the effects of dilutive potential ordinary shares of 1,098,693 (2019 - 1,094,445), calculated as follows:

	<u>2020</u>	<u>2019</u>
Weighted average number of ordinary shares at December 31	1,068,743	1,065,855
Effect of dilutive ordinary shares	<u>29,950</u>	<u>28,590</u>
Weighted average number of ordinary shares at December 31 (diluted)	<u>1,098,693</u>	<u>1,094,445</u>

18. Other assets

The Company participates in a defined contribution pension plan on behalf of its employees with a third-party insurer. As at December 31, 2020 the Company has a pension surplus of \$2,752 (2019 - \$13,666) which is included in other assets on the consolidated statement of financial position. The pension surplus arises from contributions made by the Company for former employees who left the pension plan prior to the vesting date and can be offset against the Company's future pension contributions payable.

19. Financial instruments

Fair value

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

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

The carrying value of the Company's financial assets and liabilities approximate their fair value due to their short-term nature or the fact that they attract interest at market rates.

Fair value hierarchy

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

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

The Company does not hold any investments which are required to be disclosed in accordance with the above fair value hierarchy.

Credit risk

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

The Company is exposed to credit related losses to the extent of non-performance by counterparties to the financial instruments, predominately trade and other receivable balances. There are no significant concentrations of credit risk.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

19. Financial instruments (continued)*Credit risk (continued)**a) Cash and cash equivalents and investments*

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

Investments comprise of time deposits carried at cost and which earn fixed interest rates between 0.45% and 2.32% per annum. Investments have been entered into for terms of six months and one year. The Company maintains its investments in term deposits with two Bermuda-based banks, HSBC Bank Bermuda Limited and Bermuda Commercial Bank.

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents		
A-	\$ 110	\$ 30
BBB+	7,453,277	7,753,073
B+	74,094	39,420
B	<u>2,500</u>	<u>2,500</u>
	7,529,981	7,795,023
Impairment loss	<u>(9,740)</u>	<u>(9,349)</u>
	<u>\$ 7,520,241</u>	<u>\$ 7,785,674</u>
	<u>2020</u>	<u>2019</u>
Investments		
A-	\$ 4,775,361	\$ 3,691,133
BB+	<u>4,205,599</u>	<u>3,160,370</u>
	8,980,960	6,851,503
Impairment loss	<u>(17,641)</u>	<u>(13,329)</u>
	<u>\$ 8,963,319</u>	<u>\$ 6,838,174</u>

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

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Notes to Consolidated Financial Statements

December 31, 2020 and 2019

19. Financial instruments (continued)*Credit risk* (continued)*b) Trade and other receivables*

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

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

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

Expected credit loss assessment for individual customers

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

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

The following table provides information about the exposure to credit risk and ECLs for trade receivables from individual customers as at December 31, 2020:

As at December 31, 2020	<u>Weighted - average loss rate</u>	<u>Gross carrying amount</u>	<u>Loss allowance</u>	<u>Credit - impaired</u>
Current	9%	\$ 604,013	\$ (54,622)	No
Past 30 days	25%	129,982	(32,496)	No
Past 60 days	44%	18,716	(8,235)	No
Past 90 days	89%	<u>147,018</u>	<u>(130,845)</u>	Yes
		<u>\$ 899,729</u>	<u>\$ (226,198)</u>	

Loss rates are based on the actual credit loss experience over the past 3 years. These rates are multiplied by scalar factors to reflect the difference between economic conditions during the period over which the historical data has been collected, current conditions, the impact of COVID-19 on the local economy, and the Company's view of economic conditions over the expected lives of the receivables.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

19. Financial instruments (continued)*Credit risk* (continued)*b) Trade and other receivables* (continued)

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

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

Movements in the allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	<u>2020</u>	<u>2019</u>
Balance at January 1	\$ 154,687	\$ 95,270
Amounts written off	(16,172)	(1,000)
Net re-measurement of loss allowance	<u>87,683</u>	<u>60,417</u>
Balance at December 31	<u>\$ 226,198</u>	<u>\$ 154,687</u>

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.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

19. Financial instruments (continued)*Liquidity risk (continued)*

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>0 - 3 months</u>	<u>4 - 12 months</u>	<u>Greater than 1 year</u>
As at December 31, 2020					
Trade payables	\$ 102,695	\$ 102,695	\$ 102,695	\$ -	\$ -
Equipment deposits	1,739	1,739	1,739	-	-
Lease liabilities	<u>42,037</u>	<u>53,695</u>	<u>1,905</u>	<u>10,664</u>	<u>41,126</u>
Total financial liabilities	<u>\$ 146,471</u>	<u>\$ 158,129</u>	<u>\$ 106,339</u>	<u>\$ 10,664</u>	<u>\$ 41,126</u>
	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>0 - 3 months</u>	<u>4 - 12 months</u>	<u>Greater than 1 year</u>
As at December 31, 2019					
Trade payables	\$ 23,775	\$ 23,775	\$ 23,775	\$ -	\$ -
Equipment deposits	<u>1,971</u>	<u>1,971</u>	<u>1,971</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>\$ 25,746</u>	<u>\$ 25,746</u>	<u>\$ 25,746</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk

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

Currency risk

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

Capital management

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

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

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Notes to Consolidated Financial Statements

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20. Commitments

As at December 31, 2020, the Company had contracted capital commitments in respect of plant and equipment of \$184,580 (2019 - \$82,456). These commitments will be met from operations during 2021. During the year, the Company entered into a contract of \$15,212,723 to construct a reservoir and treatment plant at Lot 6B, Luke's Pond Drive, Southampton. The project is expected to extend through 2021 with commitments of \$14,778,673. These commitments will be met from a combination of operations and term deposits maturing during 2021.

21. Related parties

Directors' fees

Directors' fees in 2020 amounted to \$46,211 (2019 - \$35,300).

Key management personnel compensation

Key management compensation comprised the following:

	<u>2020</u>	<u>2019</u>
Short term employment benefits	\$ 953,344	\$ 914,202
Post-employment pension benefits	47,642	45,685
Dividends	<u>24,702</u>	<u>20,241</u>
	<u>\$ 1,025,688</u>	<u>\$ 980,128</u>

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, 2020 was 119,741 (2019 - 121,961) shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer, except for the managing director who qualifies under the employee share purchase plan (Note 16).

The Company has a service contract with a third party entity in which a director of the Company holds a material interest. Fees under the service contract for the year ended December 31, 2020 amounted to \$38,125 (2019 - \$38,125). There are no other contracts with the Company in which a director has a material interest, either directly or indirectly.

22. Subsequent events

Development of Lot 6B, Luke's Pond Drive, Southampton

The Planning Department issued a building permit for excavation to the Company on March 2019, which led to the completion of the purchase of Lot 6B in April 2019. Excavation commenced in April 2019 and the certificate of completion for excavation was issued by Planning in March 2020. A building permit was submitted in May 2020. The building permit was issued by Planning in September 2020. The Company entered into an agreement with D & J Construction to build the reservoir, pump station and Phase 1 of the treatment building in October 2020. Construction began in February 2021 and the project is scheduled for completion in May 2022.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

23. Prior year restatement

During the year ended December 31, 2020, it was determined that the balance for the bonus accrual included within trade payables and accrued liabilities in the Company's consolidated statement of financial position was overstated as at December 31, 2019, and January 1, 2019 by an historic amount of \$156,518.

The error has been corrected by restating each of the affected consolidated financial statement line items for prior periods. The following table summarizes the impact on the Company's consolidated financial statements:

Consolidated statement of financial position

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
January 1, 2019			
Trade payables and accrued liabilities	\$ <u>1,019,674</u>	\$ <u>(156,518)</u>	\$ <u>863,156</u>
Total liabilities	\$ <u>1,021,754</u>	\$ <u>(156,518)</u>	\$ <u>865,236</u>
Retained earnings	\$ <u>22,383,485</u>	\$ <u>156,518</u>	\$ <u>22,540,003</u>
Total equity	\$ <u>32,964,815</u>	\$ <u>156,518</u>	\$ <u>33,121,333</u>
December 31, 2019			
Trade payables and accrued liabilities	\$ <u>1,018,749</u>	\$ <u>(156,518)</u>	\$ <u>862,231</u>
Total liabilities	\$ <u>1,020,720</u>	\$ <u>(156,518)</u>	\$ <u>864,202</u>
Retained earnings	\$ <u>24,475,054</u>	\$ <u>156,518</u>	\$ <u>24,631,572</u>
Total equity	\$ <u>35,107,903</u>	\$ <u>156,518</u>	\$ <u>35,264,421</u>

There was no impact of the prior year restatement on the Company's previously reported consolidated comprehensive income or cash flows as at and for the year ended December 31, 2019.