

***BRITISH VIRGIN ISLANDS
ELECTRICITY CORPORATION***

Financial Statements for the year
ended December 31, 2010
and Independent Auditor's report

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

Corporation Directory At December 31, 2010

Board of Directors

Chairman

Mr. Allan Parker

Vice Chairman

Mr. Norbert Edison O'Neal

Members

Ms. Pearl Smith

Mr. Wayne A. Robinson

Mr. Ira Oliver Skelton

Mr. John Rhymer

Ex-officio members

Mr. Leroy A. E. Abraham (General Manager)

Ms. Arlene Smith (Ag. Permanent Secretary – Ministry of Communication and Works)

Registered Office

Long Bush
P.O Box 268
Road Town,
Tortola, VG 1110
British Virgin Islands

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010	
Statement of financial position	2
Statement of comprehensive income	3
Statement of changes in equity	4
Statement of cash flows	5
Notes to the financial statements	6 – 22
Schedule to the financial statements - Expenses	23 – 24

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of

British Virgin Islands Electricity Corporation

We have audited the accompanying financial statements of the British Virgin Islands Electricity Corporation (the "Corporation") which comprise the statement of financial position as of December 31, 2010, the statement of comprehensive income, the statement of changes in equity and the statement of 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, and for such internal controls management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2010 and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

September ____, 2011

British Virgin Islands

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BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION**STATEMENT OF FINANCIAL POSITION****AT DECEMBER 31, 2010***(Expressed in United States dollars)*

DRAFT

	Note	2010	2009
ASSETS			
Current assets			
Cash and cash equivalents	4	\$ 4,212,878	\$ 2,929,039
Trade and other receivables	5	10,658,089	14,718,309
Inventories	6	8,331,250	7,343,575
Total current assets		<u>23,202,217</u>	<u>24,990,923</u>
Non-current assets			
Property, plant and equipment	7	54,121,309	57,339,574
Total assets		<u>\$ 77,323,526</u>	<u>\$ 82,330,497</u>
EQUITY AND LIABILITIES			
Capital and reserve			
Share capital	8	\$ 7,052,465	\$ 7,052,465
Contributed surplus	8	9,661,763	12,611,763
Retained earnings		24,025,136	23,313,880
Total equity		<u>40,739,364</u>	<u>42,978,108</u>
Current liabilities			
Bank overdraft		553,664	338,233
Trade and other payables	9	3,918,215	5,201,714
Deferred revenue receipts		-	465,772
Borrowings	10	2,000,532	2,000,532
Customer deposits		2,564,516	2,713,983
Total current liabilities		<u>9,036,927</u>	<u>10,720,234</u>
Non-current liabilities			
Borrowings	10	17,504,669	19,505,201
Pension fund liability	11	2,828,551	2,679,299
Deferred capital receipts	12	7,214,015	6,447,655
Total non-current liabilities		<u>27,547,235</u>	<u>28,632,155</u>
Total liabilities		<u>36,584,162</u>	<u>39,352,389</u>
Total liabilities and shareholder's equity		<u>\$ 77,323,526</u>	<u>\$ 82,330,497</u>

APPROVED BY THE BOARD OF DIRECTORS:

Director_____
Date

See notes to the financial statements

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION**STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED DECEMBER 31, 2010***(Expressed in United States dollars)*

DRAFT

	Note	2010	2009
INCOME			
Sale of electricity	13	\$ 55,807,880	\$ 48,404,635
Sale of water		4,984	8,789
Other Income		181,576	149,195
		<u>55,994,440</u>	<u>48,562,619</u>
EXPENSES			
Generation		39,978,439	32,201,768
Depreciation	7	4,879,537	4,822,594
Transmission and distribution		4,613,155	4,254,865
Human resource and administrative		2,059,914	2,375,339
Finance		1,165,211	1,295,801
Customer services and meter reading		1,019,036	835,921
Information technology		445,505	451,785
Desalination		211,234	296,726
Vehicles		196,875	183,635
Other expenses		239,273	84,981
Release of deferred capital receipts	12	(810,326)	(741,165)
		<u>53,997,853</u>	<u>46,062,250</u>
OPERATING PROFIT		1,996,587	2,500,369
Interest expense		(1,345,053)	(1,412,810)
Interest income		54,760	31,052
Foreign exchange gain		4,962	30,736
Gain on disposal of property, plant and equipment		-	7,846
PROFIT FOR THE YEAR		<u>\$ 711,256</u>	<u>\$ 1,157,193</u>

See notes to the financial statements

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

DRAFT

	Note	Share capital	Contributed surplus	Retained earnings	Total equity
Balance at January 1, 2009		\$ 7,052,465	\$ 9,661,763	\$ 22,156,687	\$ 38,870,915
Additional contributed surplus	8	-	2,950,000	-	2,950,000
Profit for the year		-	-	1,157,193	1,157,193
Balance at 31 December, 2009		7,052,465	12,611,763	23,313,880	42,978,108
Profit for the year		-	-	711,256	711,256
Additional contributed surplus	8	-	1,180,000	-	1,180,000
Repayment of contributed surplus	8	-	(4,130,000)	-	(4,130,000)
Balance at December 31, 2010		<u>\$ 7,052,465</u>	<u>\$ 9,661,763</u>	<u>\$ 24,025,136</u>	<u>\$ 40,739,364</u>

See notes to the financial statements

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION**STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED DECEMBER 31, 2010***(Expressed in United States dollars)*

DRAFT

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	\$ 711,256	\$ 1,157,193
<i>Items not involving the movement of cash:</i>		
Depreciation	4,879,537	4,822,594
Interest expense	1,345,053	1,412,810
Interest income	(54,760)	(31,052)
Foreign exchange gain	(4,962)	(30,736)
Gain on disposal of fixed assets	-	(7,846)
Operating profit before working capital changes	6,876,124	7,322,963
Decrease/(increase) in trade and other receivables	4,060,220	(4,298,672)
(Increase)/decrease in inventory	(987,675)	201,699
Increase/(decrease) in bank overdraft	215,431	(2,133,354)
Decrease in trade and other payables	(1,283,499)	(1,088,311)
Decrease in deferred revenue receipts	(465,772)	(919,235)
(Decrease)/increase in customer deposits	(149,467)	392,247
Increase in pension fund liability	149,252	220,642
Increase in deferred capital receipts	766,360	377,977
Net cash provided by operating activities	9,180,974	75,956
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of fixed asset	-	7,846
Payment for purchase of fixed assets	(1,569,288)	(1,812,782)
Phase V development costs	(91,984)	(169,503)
Interest received	54,760	31,052
Net cash used in investing activities	(1,606,512)	(1,943,387)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term loan	(2,000,532)	(3,750,532)
Receipt of contributed surplus	1,180,000	2,950,000
Repayment of contributed surplus	(4,130,000)	-
Interest paid	(1,345,053)	(1,412,810)
Net cash used in financing activities	(6,295,585)	(2,213,342)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,278,877	(4,080,773)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,929,039	6,979,076
Effect of exchange rate fluctuations on cash and cash equivalents	4,962	30,736
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,212,878	\$ 2,929,039
Cash and cash equivalents comprise the following items:		
Bank and cash balances	1,151,673	766,397
Money market deposits	3,061,205	2,162,642
	\$ 4,212,878	\$ 2,929,039

See notes to the financial statements

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

1. GENERAL INFORMATION

The British Virgin Islands Electricity Corporation (the "Corporation") is a body corporate established in the British Virgin Islands under the Electricity Corporation Act, 1978 (the "Act") and is wholly owned by the Government of the British Virgin Islands (the "Government"). The principal activities of the Corporation are the generation, transmission, supply, distribution and sale of electricity within the British Virgin Islands. The financial records and statements are maintained and presented in United States ("US") dollars.

These financial statements were approved by the Board of Directors (the "Board") and authorised for issue on September [REDACTED] by [REDACTED].

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Standards and interpretations in issue not yet adopted

The following new and revised standards and interpretations have been adopted in the current period, but have had no effect on the amounts reported in these financial statements.

- Amendments to IAS 24 *Related Party Disclosures* (Revised November 2009) – The revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government and clarifies the definition of related party. This revised standard will be effective for period beginning on or after January 1, 2011.
- Improvements to IFRSs (2010) – The improvements have led to a number of changes in the detail of the Corporation's accounting policies, some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported. The majority of these improvements are effective from January 1, 2011.
- *IFRS 9 Financial Instruments* – The new standard, which is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement*, enhances the ability of investors and other users to understand the accounting of financial assets and reduces complexity. IFRS 9 uses a single approach to determine whether financial assets are measured at amortised cost or fair value, based on how they are managed and the contractual cash flow characteristics of the financial asset. IFRS 9 also requires a single impairment method to be used. IFRS 9 was expanded during 2010 to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment, and hedge accounting.

This new standard will be effective for periods beginning on or after 1 January 2013. The Board anticipates that this standard will be adopted in the Company's financial statements for the year beginning 1 January 2013 but has not yet assessed the potential impact of adoption.

- *Amendments to IFRS 7 Financial Instruments: Disclosure* – The amendment enhances disclosures about transfers of financial assets. It requires an entity to disclose information that enables users of its financial statements (i) to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and (ii) to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The required disclosure for transferred financial assets that are not derecognised in their entirety include description of the nature of the transferred assets, nature of risk and rewards as well as description of the nature and quantitative disclosure depicting relationship between transferred financial assets and the associated liabilities.

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (continued)

Standards and interpretations in issue not yet adopted (continued)

For transferred financial assets that are derecognised in their entirety required disclosures include the carrying amount of the assets and liabilities recognised, fair value of the assets and liabilities that represent continuing involvement, maximum exposure to loss from the continuing involvement as well as maturity analysis of the undiscounted cash flows to repurchase the derecognised financial assets. Additional disclosures are required for any gain or loss recognised at the date of transfer of the assets, income or expenses recognised from the entity's continuing involvement in the derecognised financial assets as well as details of uneven distribution of proceed from transfer activity throughout the reporting period.

This new standard will be effective for periods beginning on or after 1 July 2011. The Board anticipates that this standard will be adopted in the Company's financial statements for the year beginning 1 January 2012 but has not yet assessed the potential impact of adoption.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with IFRS.

Basis of preparation

The Corporation has elected to present a single statement of comprehensive income. The Corporation does not have separate components of other comprehensive income, and as such, comprehensive income is equal to the profit/(loss) reported for all periods presented.

The financial statements have been prepared on the historical cost basis and do not take into account changes in the market value of assets. The accounting policies have been applied consistently throughout the period from January 1, 2010 to December 31, 2010 and the principal accounting policies are set out below.

Foreign currency translation

The financial statements are presented in US dollars, which is both the presentation and the functional currency. Transactions in currencies other than the Corporation's functional currency ("foreign currencies") are recorded at the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences are recognised in the statement of comprehensive income in the period in which they arise. Net gains or losses from assets or liabilities denominated in foreign currencies are reported separately in the statement of comprehensive income within "Foreign exchange gains or losses".

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting year. Actual results could differ from those estimates.

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Classification

The Corporation classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities or terms greater than twelve months after the reporting date. These are classified as non-current assets.

Specific financial instruments

Cash and cash equivalents – The Corporation considers cash and short-term deposits with a maturity of less than three (3) months to be cash and cash equivalents.

Trade and other receivables – Trade and other receivables are recorded at invoiced amounts based on meter readings reduced by any appropriate allowances for estimated irrecoverable amounts. A provision for impairment of trade and other receivables is established when there is evidence that the Corporation will not be able to collect the amounts due. The Corporation primarily uses the specific identification method to determine if the receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income.

Specific allowances are also established on a case-by-case basis by management. The Corporation writes off accounts receivable when they become uncollectible. Actual bad debts, when determined, reduce the allowance, the adequacy of which management then reassesses. The Corporation writes off accounts after a determination by management that the amounts at issue are no longer likely to be collected, following the exercise of reasonable collection efforts and upon management's determination that the costs of pursuing collection outweigh the likelihood of recovery.

Trade and other payables – Trade and other payables are stated at their cost. No interest is charged on trade and other payables.

Bank borrowings – Interest bearing bank loans and overdrafts are initially measured at fair value, and subsequently measured at amortised cost using the effective interest rate method.

Equity instruments – An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Corporation are recorded at the proceeds received, net of direct issue costs.

The Corporation derecognises a financial asset only when the contractual rights to the cash flows from the asset have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership of the asset to another entity. The Corporation derecognises financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or expired.

Inventories

Inventories are carried at the lower of cost and net realisable value, on a first-in, first-out basis. Cost includes any expenditure incurred in bringing the inventory to its present condition and location. As items of inventories are used by the Corporation, they are transferred to fixed assets or expenses as repairs and maintenance, as appropriate.

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment except land, are carried at cost less accumulated depreciation and amortisation and any impairment in value. Land is carried at cost less any impairment in value.

The initial cost of property, plant and equipment consists of the purchase price, including import duties, taxes and any directly attributable cost to bring the assets to the working condition and location for their intended use. Repairs and maintenance costs are normally charged to income in the period costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditures are capitalised as additional cost of property, plant and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of the property, plant and equipment. The rates of depreciation in use are based on the following estimated useful lives:

Freehold buildings	20-40 years
Generating plants and equipment	8-25 years
Distribution and transmission equipment	5-25 years
Motor vehicles	4 years
Computer and other equipment	5 years
Furniture and fittings	8 years

Freehold land is not depreciated where the cost is distinguishable from the cost of buildings.

When an asset is sold or disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is reflected in current operations.

Work in progress which includes construction in progress and equipment under installation is stated at cost and includes cost of construction, equipment, and other direct costs. Borrowing costs that are directly attributable to the construction of property and equipment are capitalised during the construction period. Construction in progress and equipment under installation are not depreciated until such time as the relevant assets are completed and put into operational use.

Impairment of assets

The carrying amounts of the Corporation's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is estimated as the greater of an asset's net selling price and value in use. The impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the statement of comprehensive income.

An impairment loss is reversed only to extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and expenditure recognition

Revenue derived from the sale of electricity is recognised based on meter readings which are billed to customers on a monthly basis. In addition, the Corporation takes into account an estimated amount, which represents consumption for the days unread at the end of the year.

Interest and other income are recognised as they accrue. Expenses are recorded on the accrual basis as incurred.

Borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs not directly attributable to the acquisition or construction of a qualifying asset are expensed when incurred.

Government grants

Government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Corporation with no future related costs are recognised in profit or loss in the period in which they become receivable.

Deferred capital receipts

Customer contributions towards distribution and transmission equipment are taken to deferred capital receipts on the transaction date and are credited to the statement of comprehensive income on a systematic basis over the respective useful life of the assets.

Retirement benefit costs

Retirement benefits cost is actuarially computed using the accrued benefit actuarial cost method (projected unit credit cost). This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement benefits cost includes current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the average of the expected remaining working lives of covered employees.

Taxation

In accordance with section 20 of the Act, the Corporation is exempt from custom duties, land and house taxes, stamp duties and income taxes. Effective January 1, 2005, the Government of the British Virgin Islands, by virtue of the introduction of the Payroll Taxes Act, 2004, zero rated both personal and corporate income taxes in the Territory. Further, beginning January 1, 2005, the Corporation became subject to a payroll tax equating to 6% on all salaries, wages and benefits to employees.

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

4. CASH AND CASH EQUIVALENTS

	<u>2010</u>	<u>2009</u>
Current accounts	\$ 1,148,873	\$ 763,697
Cash at hand	2,800	2,700
Short term deposits	3,061,205	2,162,642
	<u>\$ 4,212,878</u>	<u>\$ 2,929,039</u>

5. TRADE AND OTHER RECEIVABLES

	<u>2010</u>	<u>2009</u>
Trade receivables	\$ 10,409,848	\$ 11,016,424
Prepayments	212,379	3,051,783
Insurance receivable	-	708,421
Other receivables	435,736	357,846
	<u>11,057,963</u>	<u>15,134,474</u>
Provision for doubtful debts	(399,874)	(416,165)
	<u>\$ 10,658,089</u>	<u>\$ 14,718,309</u>

Movement in provision for doubtful debts

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	\$ 416,165	\$ 417,010
Decrease for the year	(16,291)	(845)
Balance at the end of the year	<u>\$ 399,874</u>	<u>\$ 416,165</u>

6. INVENTORIES

	<u>2010</u>	<u>2009</u>
Generating plant and equipment parts	\$ 4,951,081	\$ 4,577,432
Distribution and transmission parts	2,299,484	2,078,773
Diesel fuel	976,718	795,415
Lubricating oil	61,094	16,411
Vehicle parts	136,291	133,388
Other spare parts and supplies	34,619	38,641
Goods in transit	571,944	403,496
	<u>9,031,231</u>	<u>8,043,556</u>
Provision for obsolete inventory	(699,981)	(699,981)
	<u>\$ 8,331,250</u>	<u>\$ 7,343,575</u>

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

7. PROPERTY, PLANT AND EQUIPMENT

	<u>Land & Buildings</u>	<u>Generating Plant & Equipment</u>	<u>Distribution & Transmission Equipment</u>	<u>Motor Vehicles</u>	<u>Computer & Other Equipment</u>	<u>Furniture & Fittings</u>	<u>Work in Progress</u>	<u>Total</u>
<u>Cost</u>								
At January 1, 2010	\$ 17,676,803	\$ 60,355,444	\$ 45,840,496	\$ 1,315,131	\$ 1,522,843	\$ 779,261	\$ 768,490	\$ 128,258,468
Additions	50,012	81,370	1,160,450	99,762	65,386	28,213	176,080	1,661,273
At December 31, 2010	<u>17,726,815</u>	<u>60,436,814</u>	<u>47,000,946</u>	<u>1,414,893</u>	<u>1,588,229</u>	<u>807,474</u>	<u>944,570</u>	<u>129,919,741</u>
<u>Accumulated depreciation</u>								
At January 1, 2010	6,793,581	33,010,486	28,050,665	1,226,891	1,272,971	564,300	-	70,918,894
Charge for the year	405,901	2,270,633	1,995,992	60,234	105,016	41,762	-	4,879,538
At December 31, 2010	<u>7,199,482</u>	<u>35,281,119</u>	<u>30,046,657</u>	<u>1,287,125</u>	<u>1,377,987</u>	<u>606,062</u>	<u>-</u>	<u>75,798,432</u>
<u>Net book value</u>								
At January 1, 2010	<u>\$ 10,883,222</u>	<u>\$ 27,344,958</u>	<u>\$ 17,789,831</u>	<u>\$ 88,240</u>	<u>\$ 249,872</u>	<u>\$ 214,961</u>	<u>\$ 768,490</u>	<u>\$ 57,339,574</u>
At December 31, 2010	<u>\$ 10,527,333</u>	<u>\$ 25,155,695</u>	<u>\$ 16,954,289</u>	<u>\$ 127,768</u>	<u>\$ 210,242</u>	<u>\$ 201,412</u>	<u>\$ 944,570</u>	<u>\$ 54,121,309</u>

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

	<u>Land & Buildings</u>	<u>Generating Plant & Equipment</u>	<u>Distribution & Transmission Equipment</u>	<u>Motor Vehicles</u>	<u>Computer & Other Equipment</u>	<u>Furniture & Fittings</u>	<u>Work in Progress</u>	<u>Total</u>
<u>Cost</u>								
At January 1, 2009	\$ 17,639,552	\$ 60,342,898	\$ 43,029,689	\$ 1,279,423	\$ 1,404,155	\$ 645,962	\$ 1,969,405	\$ 126,311,084
Additions	37,251	12,546	1,097,086	70,608	118,688	133,299	512,806	1,982,284
Transfer	-	-	1,713,721	-	-	-	(1,713,721)	-
Disposals	-	-	-	(34,900)	-	-	-	(34,900)
At December 31, 2009	<u>17,676,803</u>	<u>60,355,444</u>	<u>45,840,496</u>	<u>1,315,131</u>	<u>1,522,843</u>	<u>779,261</u>	<u>768,490</u>	<u>128,258,468</u>
<u>Accumulated depreciation</u>								
At January 1, 2009	6,390,317	30,739,168	26,093,761	1,213,442	1,165,566	528,946	-	66,131,200
Charge for the year	403,264	2,271,318	1,956,904	48,349	107,405	35,354	-	4,822,594
Eliminated on disposals	-	-	-	(34,900)	-	-	-	(34,900)
At December 31, 2009	<u>6,793,581</u>	<u>33,010,486</u>	<u>28,050,665</u>	<u>1,226,891</u>	<u>1,272,971</u>	<u>564,300</u>	<u>-</u>	<u>70,918,894</u>
<u>Net book value</u>								
At January 1, 2009	<u>\$ 11,249,235</u>	<u>\$ 29,603,730</u>	<u>\$ 16,935,928</u>	<u>\$ 65,981</u>	<u>\$ 238,589</u>	<u>\$ 117,016</u>	<u>\$ 1,969,405</u>	<u>\$ 60,179,884</u>
At December 31, 2009	<u>\$ 10,883,222</u>	<u>\$ 27,344,958</u>	<u>\$ 17,789,831</u>	<u>\$ 88,240</u>	<u>\$ 249,872</u>	<u>\$ 214,961</u>	<u>\$ 768,490</u>	<u>\$ 57,339,574</u>

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Work in progress

At December 31, 2010, work in progress amounting to \$944,570 (2009 - \$768,490) is related to the cost of the Automatic Meter Reading System of \$683,083 (2009 - \$598,987) and the Phase 5 capital expansion programme of \$261,487 (2009 - \$169,503).

8. SHARE CAPITAL

Authorised capital

The Corporation has an unlimited authorised share capital.

	2010	2009
Issued capital		
778 fully paid shares of \$1.00 par value each	\$ 778	\$ 778
Share premium	7,051,687	7,051,687
	<u>\$ 7,052,465</u>	<u>\$ 7,052,465</u>

All shares in the Corporation are owned by the Government of the British Virgin Islands.

Governance

A Board of Directors has been appointed. The Chairman has a casting, as well as deliberative vote; however, the decision of the majority of the directors present and voting at any meeting of the Corporation is deemed to be the decision of the Corporation.

Contributed surplus

Contributed surplus represents amounts contributed by the Government of the British Virgin Islands in addition to its subscription to the issued share capital.

During the year ended December 31, 2010, the Corporation received an additional contributed surplus of \$1,180,000 from the Government of the British Virgin Islands, which brought the total to \$4,130,000 to assist with the purchase of a MAN Diesel 3.87 megawatt ("MW") generator. Per request from the Government of the British Virgin Islands, the total amount was repaid on December 7, 2010.

9. TRADE AND OTHER PAYABLES

	2010	2009
Trade payables	\$ 3,294,754	\$ 4,564,748
Other payables	623,461	636,966
	<u>\$ 3,918,215</u>	<u>\$ 5,201,714</u>

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

10. BORROWINGS

<u>Bank loan</u>	2010	2009
Banco Popular de Puerto Rico		
\$30,008,000 was borrowed in connection with the Phase IV Development Programme. The loan is repayable in 60 quarterly installments of \$500,133 which commenced on December 31, 2005, bears interest at a fixed rate of 5.5% per annum and is guaranteed by the Government of the BVI.	\$ 19,505,201	\$ 21,505,733
	19,505,201	21,505,733
Less: repayable within one year	(2,000,532)	(2,000,532)
Repayable outside of one year	\$ 17,504,669	\$ 19,505,201

Revolving line of credit

The Corporation has a revolving line of credit of US\$2,000,000, which bears interest at Prime rate + 0.5% p.a. and is secured by a charge over the assets of the Corporation.

Overdraft facilities

The Corporation has an overdraft facility available from Scotiabank (BVI) Limited allowing the Corporation to borrow up to \$800,000, and is secured by an unconditional and irrevocable guarantee from the Government. As at December 31, 2010, the Corporation has \$Nil (2009 - \$Nil) drawn down under this facility.

11. PENSION FUND LIABILITY

The Corporation has established a defined benefit plan which is fully funded. The assets of the plan are held independently of the Corporation's assets. The plan is valued by independent actuaries with the most recent valuation being carried out on June 14, 2011.

	2010	2009
Present value of funded obligations	\$ 19,388,497	\$ 17,027,605
Fair value of plan assets	(12,306,279)	(11,418,502)
Unrecognised loss	(4,253,667)	(2,929,804)
Liability in the statement of financial position	\$ 2,828,551	\$ 2,679,299

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

11. PENSION FUND LIABILITY (continued)

The amount recognised in the statement of comprehensive income as pension expense is as follows:

	2010	2009
Current service cost	\$ 743,623	\$ 719,902
Interest cost	1,079,564	1,007,673
Amortised net loss	121,490	156,122
Expected return on plan assets	(858,673)	(773,531)
	<u>\$ 1,086,004</u>	<u>\$ 1,110,166</u>

The movement in the liability recognised in the statement of financial position is as follows:

	2010	2009
Opening net liability	\$ 2,679,299	\$ 2,458,657
Net periodic pension cost	1,086,004	1,110,166
Contributions	(936,752)	(889,524)
	<u>\$ 2,828,551</u>	<u>\$ 2,679,299</u>

The principal actuarial assumptions used in calculating the pension fund liability are:

	2010	2009
Discount rate	6.0%	6.5%
Expected rate of return on plan assets	7.5%	7.5%
Rate of compensation increase	4.0%	4.0%

12. DEFERRED CAPITAL RECEIPTS

	2010	2009
Balance at 1 January	\$ 6,447,655	\$ 6,069,678
Customer contributions for the year	1,576,684	1,119,142
Released to the statement of comprehensive income	(810,326)	(741,165)
Balance at 31 December	<u>\$ 7,214,013</u>	<u>\$ 6,447,655</u>

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

13. RELATED PARTY TRANSACTIONS

Sale of electricity

The Corporation earned \$8,237,210 (2009 - \$8,228,184) in revenue from Government and related statutory bodies for the provision of products and services, of which \$2,737,152 (2009 - \$3,842,699) was receivable at the year end.

General and administrative expenses

Director's fees and expenses during the year amounted to \$54,936 (2009 - \$49,733).

14. STAFF COSTS

	2010	2009
Wages and salaries	\$ 6,590,541	\$ 6,112,602
Social security	200,766	187,975
Pension expense	1,086,007	1,110,166
Payroll taxes	304,336	267,435
Other employee expenses	367,303	371,579
	<u>\$ 8,548,953</u>	<u>\$ 8,049,757</u>

The average number of full time employees in 2010 was 164 (2009 – 164).

During the year ended December 31, 2010, the Corporation paid \$Nil (2009 - \$Nil) for past service costs and \$743,623 (2009 - \$719,902) for current service costs to the defined benefit pension plan, which has been included as part of pension expense. Details of the pension plan can be found in Note 11.

15. COMMITMENTS

Commitments for capital expenditure

	2010	2009
Commitments for the acquisition of property, plant and equipment	<u>\$ -</u>	<u>\$ 2,940,125</u>

Other commitments

The Corporation signed a contract with Delta Petroleum Caribbean Ltd. ("Delta") for the exclusive supply of 28,323,549 US gallons of refined petroleum products, for the period September 1, 2010 to August 31, 2012. Based on current fuel prices, the contract is valued at approximately \$101,088,195. During the year \$30,581,180 (2009 – \$23,057,767) was paid to Delta for supplies received.

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

15. COMMITMENTS (continued)

Other commitments (continued)

On January 16, 2008 the Corporation signed a three (3) year agreement with Wartsila Caribbean, Inc for advisory services relating to the operations and maintenance of the Generation department. The Corporation is to pay a fixed fee of \$61,700 per month, adjusted annually for inflationary increases, along with all reimbursable costs and extraordinary expenses, if any.

On November 22, 2007, the Corporation renewed its contract for cash in transit services with Top Priority Services, Ltd. for the period from February 7, 2009 to February 6, 2010. In accordance with the terms of the contract, the Corporation will pay Top Priority a monthly fee of US\$4,950 (US\$59,400 per annum). Subsequent to February 6, 2010, the services were provided on a month to month basis, where the monthly fee paid for the remainder of 2010 remained unchanged.

16. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one enterprise or a financial liability or equity instrument of another enterprise.

The Corporation's activities expose it to a variety of risks: market risk (including foreign currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk.

Market risk

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation incurs foreign currency risk on transactions that are denominated in currencies other than the US dollar. The principal currency giving rise to this risk is the British Pound ("£").

At December 31, the Corporation had net foreign currency exposure as follows:

	<u>2010</u>	<u>2009</u>
<i>Financial Assets</i>		
Cash - GBP Currency	\$ -	\$ 13,207

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

16. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Cashflow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Corporation's income and operating cash flows are substantially independent of changes in market rates since the majority of interest bearing instruments are fixed rate instruments.

At December 31, 2010, the Corporation's financial assets and liabilities were classified as follows:

	<u>Interest Bearing</u>	<u>Non-Interest Bearing</u>	<u>Total</u>
<u>Financial assets</u>			
Cash and cash equivalents	\$ 4,195,010	\$ 17,868	\$ 4,212,878
Receivables	-	10,658,089	10,658,089
Total financial assets	<u>\$ 4,195,010</u>	<u>\$ 10,675,957</u>	<u>\$ 14,870,967</u>
<u>Financial liabilities</u>			
Payables	\$ -	\$ 3,918,215	\$ 3,918,215
Bank overdraft	553,664	-	553,664
Customer deposits	-	2,564,516	2,564,516
Term loan payable	19,505,201	-	19,505,201
Total financial liabilities	<u>\$ 20,058,865</u>	<u>\$ 6,482,731</u>	<u>\$ 26,541,596</u>
Interest sensitivity gap	<u>\$ (15,863,855)</u>	<u>\$ -</u>	<u>\$ (15,863,855)</u>

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

16. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Cashflow and fair value interest rate risk (continued)

At December 31, 2009, the Corporation's financial assets and liabilities were classified as follows:

	<u>Interest Bearing</u>	<u>Non-Interest Bearing</u>	<u>Total</u>
<u>Financial assets</u>			
Cash and cash equivalents	\$ 2,916,226	\$ 12,813	\$ 2,929,039
Receivables	-	14,718,309	14,718,309
Total financial assets	<u>\$ 2,916,226</u>	<u>\$ 14,731,122</u>	<u>\$ 17,647,348</u>
<u>Financial liabilities</u>			
Payables	\$ -	\$ 5,201,714	\$ 5,201,714
Bank overdraft	338,233	-	338,233
Deferred revenue receipts	-	465,772	465,772
Customer deposits	-	2,713,983	2,713,983
Term loan payable	21,505,733	-	21,505,733
Total financial liabilities	<u>\$ 21,843,966</u>	<u>\$ 8,381,469</u>	<u>\$ 30,225,435</u>
Interest sensitivity gap	<u>\$ (18,927,740)</u>	<u>\$ -</u>	<u>\$ (18,927,740)</u>

The Corporation is exposed to interest rate price risk on term loans payable to the extent that prevailing interest rates may fluctuate from the fixed interest rate stated in Note 10. Movement in the interest rate will not have a significant impact on the carrying value of these loans. However, there is an inherent risk that during the period to maturity, rates shown in Note 10 may be higher than the prevailing market rates.

Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss. Financial assets, which potentially expose the Corporation to credit risk, consist of cash and cash equivalents and receivables. The extent of the Corporation's exposure to credit risk in respect of these financial assets approximate the carrying values as recorded in the Corporation's statement of financial position.

To reduce exposure to credit risk, the Corporation regularly reviews the credit performance of its customers. The Corporation invests available cash with various local banks, and is exposed to credit related losses in the event of non-performance by these counterparties to financial instruments but, given their high credit ratings, management does not expect any counterparty to fail to meet its obligation.

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

16. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

The following table summarises the credit quality and aging analysis of the Corporation's financial assets as of December 31, 2010:

	Neither past due nor impaired			Past due but not impaired (US\$000)	Past due and impaired (US\$000)	Total (US\$000)
	High Grade (US\$000)	Standard Grade (US\$000)	Substandard Grade (US\$000)			
Cash at bank	\$ 4,213	\$ -	\$ -	\$ -	\$ -	\$ 4,213
Receivables	8,303	-	-	2,355	399	11,057
Total	\$12,516	\$ -	\$ -	\$ 2,355	\$ 399	\$ 15,270

The following table summarises the credit quality and aging analysis of the Corporation's financial assets as of December 31, 2009:

	Neither past due nor impaired			Past due but not impaired (US\$000)	Past due and impaired (US\$000)	Total (US\$000)
	High Grade (US\$000)	Standard Grade (US\$000)	Substandard Grade (US\$000)			
Cash at bank	\$ 2,929	\$ -	\$ -	\$ -	\$ -	\$ 2,929
Receivables	10,637	-	-	4,081	416	15,134
Total	\$13,566	\$ -	\$ -	\$ 4,081	\$ 416	\$ 18,063

The following table summarises the aging of the Corporation's financial assets at December 31, 2010:

	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Over 90 days	Total
<u>Financial assets</u>					
Cash and cash equivalents	\$ 4,212,878	\$ -	\$ -	\$ -	\$ 4,212,878
Receivables	8,702,673	464,255	204,422	1,686,613	11,057,963
	\$ 12,915,551	\$ 464,255	\$ 204,422	\$ 1,686,613	\$ 15,270,841

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

16. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

Of the balance over 90 days of \$1,686,613 only \$399,874 is considered impaired and was fully provided for. This relates to the portion of the accounts receivable which the Corporation is not certain that they will recover.

The following table summarises the aging of the Corporation's financial assets at December 31, 2009:

	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Over 90 days	Total
<u>Financial assets</u>					
Cash and cash equivalents	\$ 2,929,039	\$ -	\$ -	\$ -	\$ 2,929,039
Receivables	11,052,888	1,060,777	440,357	2,580,452	15,134,474
	<u>\$ 13,981,927</u>	<u>\$ 1,060,777</u>	<u>\$ 440,357</u>	<u>\$ 2,580,452</u>	<u>\$ 18,063,513</u>

Of the balance over 90 days of \$2,580,452 only \$416,165 is considered impaired and was fully provided for. This relates to the portion of the accounts receivable which the Corporation is not certain that they will recover.

Liquidity risk

Liquidity risk also referred to as funding risk, is the risk that the Corporation will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through adequate amount of committed facilities.

At December 31, 2010, the Corporation's current liabilities of \$9,036,926 (2009 - \$10,720,234) are due within 12 months and are equal to their carrying balances as the impact of discounting is not significant. These are adequately covered by the financial assets. Thus at December 31, 2010, the Corporation has no significant exposure to liquidity risk.

Fair value

The fair value of cash and cash equivalents, receivables, payables, customer deposits and the current portion of borrowings payable are not materially different from their carrying amounts due to the relatively short periods to maturity of these financial instruments.

17. EVENTS AFTER THE REPORTING DATE

Tenders for the Corporation's Phase V Expansion Project were opened on January 28, 2011. Three bids were received, one from Wartsila for Package A, and two for Package B from K-Line International (Canada) Ltd. and Interserve Industrial Services Ltd. Wartsila's tender for Package A totalled \$52,286,621, and K-Line's and Interserve's bids for Package B were \$2,850,400 and \$4,164,011 respectively. As at present, no contract awards have been made.

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION
SCHEDULE TO THE FINANCIAL STATEMENTS - EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

	<u>2010</u>	<u>2009</u>
Generation		
Fuel usage	\$ 30,435,137	\$ 23,057,767
Lubricating oil	374,520	386,304
Materials and maintenance	5,890,122	5,568,059
Wages and salaries	2,425,345	2,275,116
Social security	68,125	68,520
Pension expense	342,312	372,944
Payroll tax	103,157	95,988
Other employee expenses	125,537	131,149
Other generation expenses	214,184	245,921
	<u>\$ 39,978,439</u>	<u>\$ 32,201,768</u>
Transmission and Distribution		
Materials and maintenance	\$ 1,710,324	\$ 1,698,445
Wages and salaries	1,916,423	1,724,844
Social security	59,451	52,788
Pension expense	301,322	302,995
Payroll tax	98,129	82,527
Other employee expenses	108,610	103,581
Other distribution expenses	418,896	289,685
	<u>\$ 4,613,155</u>	<u>\$ 4,254,865</u>
Human Resource and Administrative		
Insurance	\$ 504,990	\$ 487,957
Legal and professional fees	571,849	348,364
Wages and salaries	415,044	371,240
Social security	10,911	9,471
Pension expense	87,661	85,544
Payroll tax	19,486	16,884
Other employee expenses	22,600	20,457
Other expenses	427,373	1,035,422
	<u>\$ 2,059,914</u>	<u>\$ 2,375,339</u>
Finance		
Wages and salaries	\$ 698,770	\$ 754,347
Social security	21,458	23,624
Pension expense	138,045	167,778
Payroll tax	30,571	31,144
Other employee expenses	39,671	47,787
Other expenses	236,696	271,121
	<u>\$ 1,165,211</u>	<u>\$ 1,295,801</u>

BRITISH VIRGIN ISLANDS ELECTRICITY CORPORATION
SCHEDULE TO THE FINANCIAL STATEMENTS - EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

(Expressed in United States dollars)

	<u>2010</u>	<u>2009</u>
Customer service and meter reading		
Wages and salaries	\$ 669,043	\$ 567,576
Social security	23,802	19,201
Pension expense	122,774	98,006
Payroll tax	28,340	21,853
Other employee expenses	51,067	41,848
Other expenses	124,010	87,437
	<u>\$ 1,019,036</u>	<u>\$ 835,921</u>
Information Technology		
Wages and salaries	\$ 223,742	\$ 189,799
Social security	6,599	4,958
Pension expense	43,954	31,945
Payroll tax	10,134	6,995
Other employee expenses	11,153	9,054
Other computing expenses	149,923	209,034
	<u>\$ 445,505</u>	<u>\$ 451,785</u>
Desalination		
Desalination plant maintenance	\$ 61,665	\$ 149,997
Wages and salaries	103,374	101,523
Social security	5,517	4,990
Pension expense	23,182	23,904
Payroll tax	8,481	6,869
Other employee expenses	8,953	8,887
Other expenses	62	556
	<u>\$ 211,234</u>	<u>\$ 296,726</u>
Vehicles		
Wages and salaries	\$ 138,800	\$ 128,157
Social security	4,903	4,423
Pension expense	26,757	27,050
Payroll tax	6,038	5,175
Other employee expenses	8,705	8,816
Other expenses	11,672	10,014
	<u>\$ 196,875</u>	<u>\$ 183,635</u>