The Journey to Recovery Continues

2018 Annual Report

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Chairman's Report

The Company's financial position is gradually improving.

By year-end, 100% of our customers had access to the grid if they were willing and able to reconnect. However, it has been observed that a significant number of customers are not ready for reconnection and further, the consumption of connected customers is not comparable with pre-Maria levels.

2018 was a very challenging year with the Company striving to deliver on the expectations of its stakeholders, particularly its customers, shareholders and employees. The Company's sole focus was to safely restore the power supply to its customers following the passage of Hurricane Maria on September 18, 2017.

By the end of 2018, 28,353 customers or 77.7% of the pre-Maria count were safely connected to the grid. However, projected customer energy consumption has not kept pace with forecasts. A 12-month comparison reveals that 2018 sales were 56.4% of pre-Maria sales.

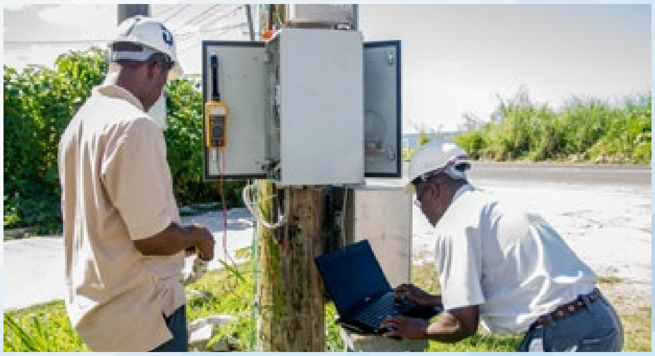
At the commencement of the restoration process, the Company set a 95% target to reconnect customers within 7 days of receipt of electrical certificates if the location had access to power. The Company is pleased to report that 97.25% of customers were connected within 7 days.

By year-end, 100% of our customers had access to the grid if they were willing and able to reconnect. However, it has been observed that a significant number of customers are not ready for reconnection and further, the consumption of connected customers is not comparable with pre-Maria levels. This has placed the Company in an unenviable position as $64,131,208 has been expended on the restoration but the expected recovery in sales has not yet materialized.

Table 1 reflects the progress at December 31, 2018 at Feeder level.

Table 1: Restoration at Feeder Level

Feeder	Restoration of Access Update	
	11 Nov, 2018	31 Dec, 2018
Belfast	100%	100%
Upper Goodwill	100%	100%
Lower Goodwill	100%	100%
Trafalgar	100%	100%
North Hydro	100%	100%
South Hydro	98%	99%
Portsmouth	99%	100%
Sugarloaf West	99%	100%
Sugarloaf East	99%	100%
East Coast	89%	99%



The increase in line construction activities necessitated the importation of external resources to assist with this work. Table 2 below provides additional information.

Table 2: Foreign Crews - Number of Employees

Regional Contracting Firms	Caribbean Electric Utility Services Corporation (CARILEC) Utilities		Emera Affiliates	Government of Cuba
117	Anguilla Electricity Company	6	11	15
	Barbados Light and Power Company	15		
	Grand Bahama Power Company	8		
	Grenada Electricity Services Ltd.	5		
	Fortis TCI Ltd.	5		
	St. Vincent Electricity Services Ltd.	5		
		44		

We are truly grateful for all the assistance received from regional utilities and CARILEC, the Governments of Dominica and Cuba, and Emera and its affiliates.

Implementation of the Generation Restoration Plan continued. Total Available Capacity at year-end was 21.82MW. This represents 79.84% of pre-Maria installed capacity. Table 3 shows the available capacity at year-end 2018.

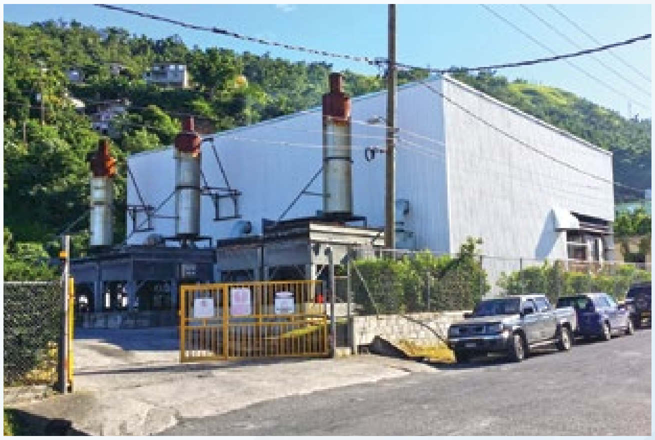
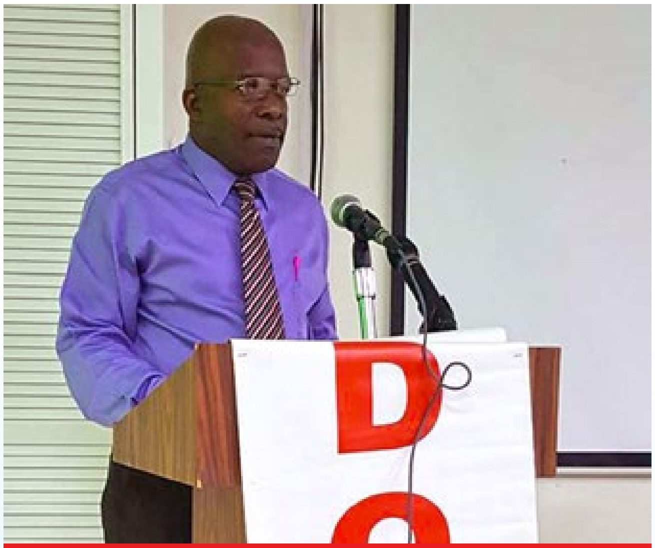


Table 3: Generating Units Restoration

Generating Unit	Date	Total Available Capacity (MW)
FCs 7&8	30-Sep-17	3.62
SLs 4,5&6	13-Oct-17	4
SLs 3&7	31-Oct-17	2.4
FCs 5&6	15-20-Nov-17	3.75
FCs 1& 4	15-Dec-17	1.2
LD, NT1&2	22-Dec-17	4.76
FC 10 & 12	30-Sep-18	2.09
		21.82

The adherence to safety principles, practices and procedures remained of paramount importance during restoration. This was demonstrated by the enhancement of safety oversight of the field work. Safety supervision by DOMLEC was augmented by a total of eight safety officers from TECO, Barbados Light and Power Co. and Emera Caribbean Inc. This resulted in a decrease in safety incidents during the year.

In its drive to continue to provide service excellence to its customers, the Company signalled its commitment by launching its Customer Service Charter in December 2018. The Charter communicates the framework for defining service delivery standards, the rights and responsibilities of customers and how customer issues and concerns are handled. It sets expectations for service and demonstrates the utility's transparency which aims to build trust between it and its customers.



Commercial Manager at launch of Customer Service Charter

During the year the Company explored several avenues aimed at moving towards its sustainable renewable energy goals. The negotiations targeted at the development of a Power Purchase Agreement (PPA) with the Dominica Geothermal Development Company was one such activity. The PPA for the purchase of geothermal energy is expected to be signed in 2019.

Another activity was DOMLEC's involvement in the preparation of a Strategic Renewable Energy Plan (S-REP) for the Country. The Plan is being developed by the Clinton Climate Initiative team. The goal is to assess multiple generation and T&D options to determine the path to the most cost-effective, reliable and resilient electricity system. The S-REP Final Report is due by May 2019.

2018 was a year in which restoration costs of $64,131,208 had to be met by the utility, which faced adverse sales and cash flow positions. The previously arranged standby facility of EC$30 million from the National Bank of Dominica (NBD) proved inadequate. Therefore, additional financing in the form of loan, i.e. EC$43.5 million and grant of EC$0.57 million was sought and delivered to fund the restoration process. These financing options coupled with cost cutting measures ensured that the Company remained a going concern.

Full year electricity sales decreased by 37.9% over sales in 2017. Total revenue fell by 21.8% while operating expenses were 12.4% lower than that incurred in 2017. The impact of Hurricane Maria continued to adversely affect the Company's profitability as it did in 2017. Compared to a net loss after tax of $9.35 million in 2017, the Company suffered a net loss after tax of EC $2.5 Million in 2018.

The rebuilding of the network will continue in 2019. It will focus on restoring the resilience and flexibility of the grid which will contribute to increased reliability. The Company's financial position is gradually improving. However, complete recovery and growth is dependent on the prevailing macro-economic situation of the country. The utility will continue to play its role in meeting the energy needs of the nation safely and reliably. Management and staff continue to fulfil the Company's mandate under the direction of the Board. We look forward to positioning the Utility within the market so that our strategic goals in the area of sustainable, resilient and renewable energy are realized.

Board of Directors

The Team responsible for Corporate Governance for 2018

Frederica James
Chairman - HR & Compensation Committee

Peter Williams
Deputy Chairman

David McGregor
Chairman

Adler Hamlet
Chairman - Audit Committee

Roger Blackman
Director

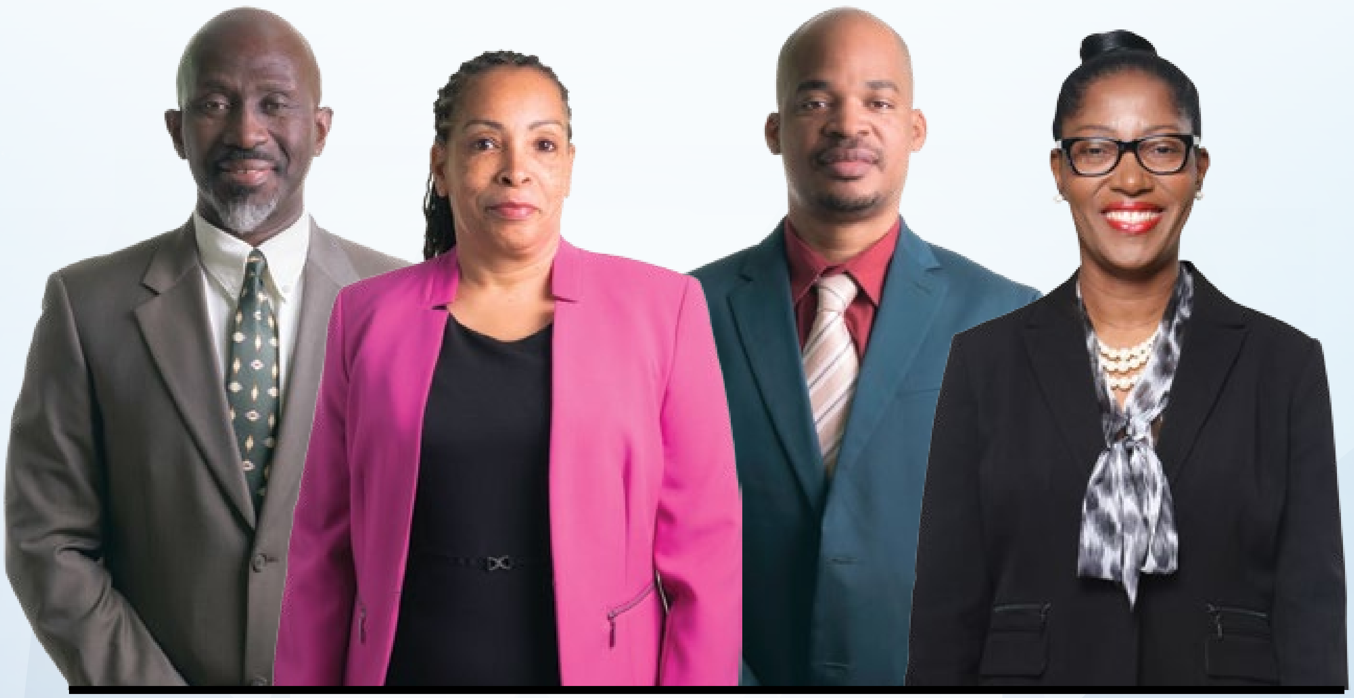
Joseph Peltier
Director

Cecil Joseph
Director

Ricaido Jennings
Director

Management Team

DOMLEC's Management Team remained mostly unchanged for 2018



Dave Stamp
Generation Manager

Bertilia Mc Kenzie
General Manager

Lemuel Lavinier
Engineering, Transmission & Distribution Manager

Marvelin Etienne
Financial Controller (To August 2018)

Carl Maynard
IT Manager

Ellise Darwton
Corporate Secretary / Legal Officer

Paul Moses
Commercial Manager

Clyde Edwards
Financial Controller (Ag) (From August 2018)

Ronald Isidore
Human Resources & Administration Manager

Financial Statements

For the year ended December 31, 2018

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Building a better working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DOMINICA ELECTRICITY SERVICES LIMITED

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Dominica Electricity Services Ltd ("the Company"), which comprise the balance sheet as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DOMINICA ELECTRICITY SERVICES LIMITED (CONT'D)

Report on the Audit of the Financial Statements

Key Audit Matters (cont'd)

Key audit matter	How our audit addressed the key audit matter
Expected Credit Loss Allowance	
The Group adopted IFRS 9, Financial Instruments effective 1 January 2018. The standard changes the evaluation of credit losses from an incurred approach to an expected credit loss ("ECL") model which requires significantly greater management judgment and incorporation of forward-looking information. IFRS 9 requires the Company to record an allowance for ECLs for all receivables to customers and other financial assets not held at fair value through profit and loss. The estimation of ECLs is inherently uncertain and requires the application of judgment and use of subjective assumptions by management. Certain inputs used are not fully observable.	We evaluated the methodologies developed by the Company to estimate ECLs, and assessed their compliance with the requirements of IFRS 9. ‣ We tested the completeness and accuracy of input data to the model used to determine the ECLs. We assessed the reasonableness of the methodologies and assumptions applied in determining the default loss ratios. ‣ We assessed the adequacy of disclosures in the financial statements.

Other information included in the Company's 2018 Annual Report
Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of Management and the Audit Committee for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DOMINICA ELECTRICITY SERVICES LIMITED (CONT'D)

Report on the Audit of the Financial Statements

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company's audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DOMINICA ELECTRICITY SERVICES LIMITED (CONT'D)

Report on the Audit of the Financial Statements

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)
We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement executive in charge of the audit resulting in this independent auditor's report is Rishi Ramkissoon.

Ernst & Young.
Chartered Accountants
St. Lucia
18 April 2019

Dominica Electricity Services Limited

Balance Sheet

As of December 31, 2018

(Expressed in Eastern Caribbean dollars)

Assets	Notes	2018 $	2017 $
Non-current assets			
Property, plant and equipment	5	**175,397,740**	135,646,128
		175,397,740	135,646,128
Current assets			
Cash and cash equivalents	6	**4,385,200**	11,374.587
Trade and other receivables	7	**18,470,607**	13,525,019
Inventories	8	**21,189,449**	11,946,513
Corporation tax recoverable	14	**1,233,057**	1,233,057
		45,278,313	38,079,176
Total assets		**220,676,053**	173,725,304
Equity			
Share capital	9	**10,417,328**	10,417,328
Retained earnings		**78,037,812**	80,542,803
		88,455,140	90,960,131
Non-current liabilities			
Borrowings	10	**67,367,786**	30,151,149
Customers' deposits	11	**3,748,577**	3,701,273
Promissory note	20	-	2,716,900
Deferred revenue	12	**11,433,875**	11,241,237
Deferred tax liability	14	**15,444,289**	17,242,323
		97,994,527	65,052,882
Current liabilities			
Trade and other payables	15	**20,341,759**	10,821,311
Due to related party	20	**3,745,552**	1,232,983
Demand promissory note	20	**2,716,900**	-
Borrowings	10	**7,422,175**	5,657,997
		34,226,386	17,712,291
Total equity and liabilities		**220,676,053**	173,725,304

The accompanying notes form an integral part of these financial statements.

Approved by the Board of Directors on April 18, 2019 and signed on its behalf by:

..............................Director ....Director

Dominica Electricity Services Limited

Statement of Changes in Equity
For the year ended December 31, 2018

(Expressed in Eastern Caribbean dollars)

	Common shares $	Retained earnings $	Total $
Balance at December 31, 2016	10,417,328	93,022,706	103,440,034
Total comprehensive loss	-	(9,354,705)	(9,354,705)
Dividends paid (30¢ per share)	-	(3,125,198)	(3,125,198)
Balance at December 31, 2017	10,417,328	80,542,803	90,960,131
Total comprehensive loss	**-**	**(2,504,991)**	**(2,504,991)**
Balance at December 31, 2018	**10,417,328**	**78,037,812**	**88,455,140**

The accompanying notes form an integral part of these financial statements.
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Dominica Electricity Services Limited
Statement of Comprehensive Income
For the year ended December 31, 2018

(Expressed in Eastern Caribbean dollars)

	Notes	2018 $	2017 $
Operating revenue	19	**56,736,668**	72,532,565
Operating expenses			
Fuel		**20,589,949**	24,797,980
Generation		**5,400,716**	8,520,317
General		**11,789,606**	15,158,079
Engineering and distribution		**8,059,089**	9,081,525
Insurance		**2,308,039**	1,825,031
Depreciation	5	**13,702,601**	11,225,930
	16	**61,850,000**	70,608,862
Operating (loss)/income		**(5,113,332)**	1,923,703
Other income	17	**3,479,170**	1,171,717
Finance and other costs	18	**(2,668,863)**	(14,793,215)
Loss before taxation		**(4,303,025)**	(11,697,795)
Taxation	14	**1,798,034**	2,343,090
Net loss being comprehensive loss for the year		**(2,504,991)**	(9,354,705)
Basic and diluted earnings per share (cents)	21	**(24)**	(90)

The accompanying notes form an integral part of these financial statements

Dominica Electricity Services Limited

Statement of Cash Flows

For the year ended December 31, 2018

(Expressed in Eastern Caribbean dollars)

	Notes	2018 $	2017 $
Cash flows from operating activities			
Loss before taxation		**(4,303,025)**	(11,697,795)
Adjustments for non-cash items:			
Depreciation	5	**13,702,601**	11,225,930
Gain on foreign exchange		**(88,747)**	(22,159)
(Gain) loss on disposal of property, plant and equipment	17,18	**(2,726,843)**	13,421,632
Provision for inventory obsolescence	8	**793,490**	739,042
Finance costs	18	**2,668,863**	1,371,583
Amortization of deferred revenue	17	**(663,580)**	(629,342)
Amortization of capital grants	17	**-**	(120,299)
Net change in provision for other liabilities and charges		**790,185**	1,382,364
Operating income before working capital changes		**10,172,944**	15,670,956
Increase in trade and other receivables		**(4,945,588)**	(709,824)
Increase in inventories		**(10,036,426)**	(3,249,558)
Increase (decrease) in trade and other payables		**8,535,391**	(441,514)
Increase in due to related parties		**2,512,569**	3,795,259
Cash generated from operations		**6,238,890**	15,065,319
Interest and finance charges paid		**(2,385,244)**	(1,371,583)
Corporation tax paid	14	**-**	(2,279,206)
Net cash from operating activities		**3,853,646**	11,414,530
Cash flows used in investing activities			
Additions to property, plant and equipment	5	**(55,549,113)**	(22,167,552)
Proceeds on disposal of property, plant and equipment		**4,821,744**	-
Net cash used in investing activities		**(50,727,369)**	(22,167,552)
Cash flows used in financing activities			
Proceeds from borrowings	10	**41,355,452**	13,585,500
Dividends paid		**-**	(3,125,198)
Repayment of borrowings	10	**(2,374,636)**	(4,163,852)
Customers' contributions		**856,217**	2,086,406
Customers' deposits (net)	11	**47,303**	677
Net cash from financing activities		**39,884,336**	8,383,533
Net decrease in cash and cash equivalents		**(6,989,387)**	(2,369,490)
Cash and cash equivalents - beginning of year		**11,374,587**	13,744,077
Cash and cash equivalents - end of year	6	**4,385,200**	11,374,587

(Expressed in Eastern Caribbean dollars)

1 General information

Dominica Electricity Services Limited (the Company), was incorporated as a public limited liability company on April 30, 1975 and is domiciled in the Commonwealth of Dominica. The Company operates in a fully liberalised sector under the Electricity Supply Act of 2006. Under the Act, an Independent Regulatory Commission (the commission) is vested with broad regulatory oversight over all aspects of the energy sector. The Company's operations are regulated by the Commission. The principle activity of the Company includes the generation, distribution and transmission of electricity.

The Company is listed on the Eastern Caribbean Stock Exchange and falls under the jurisdiction of the Eastern Caribbean Regulatory Commission.

Dominica Power Holding Limited, a subsidiary of Emera (Caribbean) Incorporated, owns 52% of the ordinary share capital of the Company. The ultimate parent of the Company is Emera Inc, an energy and services company registered in Canada.

The Dominica Social Security owns 21% of the ordinary share capital, while 27% is held by the general public.

The registered office and principal place of business of the Company is located at 18 Castle Street, Roseau, Commonwealth of Dominica.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies were consistently applied to all years presented unless otherwise stated.

2 Summary of significant accounting policies *...continued*

2.1 Basis of preparation *...continued*

2.1.1 Changes in accounting policy and disclosures

a) New and amended standards, and interpretations adopted by the Company

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendment to IFRS effective as of January 1, 2018. Unless otherwise noted, the adoption of the revised standards did not have a significant change on the financial statements of the Company.

- **IFRS 9, 'Financial instruments'**, issued in July 2014. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. With the exception of hedge accounting, which the Company applied prospectively, the Company has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. No material adjustments were required for comparative information.

  The assessment of the Company's business model was made as of January 1, 2018, and then applied retrospectively to the financial assets that were not derecognised before that date. Financial assets held by the Company include trade and other receivables, quoted debt securities and quoted equity securities. Trade and other receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These continue to be measured as at amortised cost.

  The Company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Company's financial liabilities.

  The adoption of IFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss approach. IFRS 9 requires the Company to recognise an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss and contract assets. Impairment losses do not reduce the carrying amount of debt instruments at fair value through other comprehensive income in the balance sheet, which remains at fair value.

- **IFRS 15, 'Revenue from Contracts with Customers'**, issued May 2014. The new standard specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

2 Summary of significant accounting policies *...continued*

2.1 Basis of preparation *...continued*

2.1.1 Changes in accounting policy and disclosures *...continued*

a) New and amended standards, and interpretations adopted by the Company*...continued*

- **IFRS 15, 'Revenue from Contracts with Customers'***...continued*
  The standard provides a single, principles based five-step model to be applied to all contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Company adopted IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized at January 1, 2018. The adoption of IFRS 15 resulted in no adjustments to the Company's opening retained earnings as of the adoption date or the Company's statement of comprehensive income. The impact of the adoption of the new standard was immaterial to the Company's net income and is expected to be immaterial on an ongoing basis.

b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning January 1, 2018 but not currently relevant to the Company

- **IAS 28, 'Investments in Associates and Joint Ventures'**, issued December 2016. The standard was amended to clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendment is applicable for annual periods beginning on or after January 1, 2018. The amendment is not applicable to the Company.

- **IAS 40, 'Investment Property'**, amended in December 2003. The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. This amendment is applicable for annual periods beginning on or after January 1, 2018. The amendment is not applicable to the Company.

- **IFRS 2, 'Share-based Payment'**, issued June 2016. The amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. This amendment is effective for annual periods beginning on or after January 1, 2018. The amendment is not applicable to the Company.

2 Summary of significant accounting policies *…continued*

2.1 Basis of preparation *…continued*

2.1.1 Changes in accounting policy and disclosures *…continued*

c) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2018 and not early adopted

Management has reviewed the new standards, amendments and interpretations to existing standards that are not yet effective and have determined that the following are relevant to the Company's operations. The Company has not early adopted the new standards, amendments and interpretations:

- **IAS 12 'Income Taxes'**, issued in December 2017. The amendments clarify that the requirements to recognize the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised apply to all income tax consequences of dividends and is not only applicable to situations where there are different tax rates for distributed and undistributed profits. The amendment is applicable for annual periods beginning on or after January 1, 2019. The amendment is not expected to have an impact on the financial statements of the Company.

- **IAS 19 'Employee Benefits**, issued February 2018. The amendments apply to plan amendments, curtailments or settlements. If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment is applicable on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Early application is permitted but must be disclosed. The amendment is not expected to have an impact on the financial statements of the Company.

- **IAS 23 'Borrowing Costs'**, issued December 2017. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The amendment is applicable for annual periods beginning on or after January 1, 2019. The amendment is not expected to have an impact on the financial statements of the Company.

2 Summary of significant accounting policies *…continued*

2.1 Basis of preparation *…continued*

2.1.1 Changes in accounting policy and disclosures *…continued*

c) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2018 and not early adopted*…continued*

- **IFRS 16, 'Leases'**, issued January 2016. The new standard specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. With IFRS 16's approach to lessor accounting, the accounting substantially remains unchanged from its predecessor, IAS 17. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17. The new standard is effective for annual periods beginning on or after January 1, 2019.

  The Company plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying the Standard recognised on January 1, 2019 with no restatement of comparative information. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

  The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

  The standard will affect the Company's financial position by increasing the assets and liabilities recorded relating to its operating leases. However, with the expected increase in right of use assets as at January 1, 2019 of $6.3 million, the impact of the new standard on the Company's financial statements and disclosures is not expected to be material. In 2017, the Company developed and began execution of a project plan, which included holding training sessions with key stakeholders throughout the organization and gathering detailed information on existing lease arrangements. The Company will implement additional processes and controls to facilitate the identification, tracking and reporting of potential leases based on the requirements of the standard. Significant updates to systems are not expected.

2 Summary of significant accounting policies *...continued*

2.1 Basis of preparation *...continued*

2.1.1 Changes in accounting policy and disclosures *...continued*

c) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2018 and not early adopted*...continued*

- **IFRS 17, 'Insurance Contracts'**, issued May 2017. The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021. The new standard is effective for annual periods beginning on or after January 1, 2021. It is not anticipated that this standard will have an impact on the Company's financial statements.

2.2 Foreign currency translation

Functional and presentation currency

The financial statements are presented in Eastern Caribbean dollars which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into Eastern Caribbean currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.3 Property, plant and equipment

Property, plant and equipment are stated at historic cost less accumulated depreciation and impairment losses. Cost represents expenditure that is directly attributable to the acquisition of the items and includes cost of materials, direct labour, supervision and engineering charges and interest incurred during construction which is directly attributable to the acquisition or construction of a qualifying asset.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Included in subsequent costs are the costs of major spare parts and standby equipment. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Contributions received towards construction of electric plant are credited to the cost of work in progress or are shown as deferred credits in the case where construction has not yet started.

2 Summary of significant accounting policies *...continued*

2.3 Property, plant and equipment*...continued*

The Company includes borrowing costs directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of that asset until the asset is made available for service.

Land is not depreciated. No depreciation is provided on work-in-progress until the assets involved have been completed and are available for use. For financial reporting purposes depreciation on other property, plant and equipment is calculated by the straight line method using rates required to allocate the cost of the assets less salvage over their estimated service lives as follows:

Generation equipment	2.25% - 44.44%
Transmission and distribution	4.5% - 5%
Other	2% - 25%

When depreciable property, plant and equipment other than motor vehicles and property are retired, the gross book value less proceeds net of retiral expense is charged to accumulated depreciation. For material disposals of motor vehicles and property, the asset cost and accumulated depreciation are removed with any gain or loss credited or charged to current operations.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount.

2.4 Financial investments

The Company has classified its financial investments as loans and receivables. Management determines the classification at initial recognition and reviews the designation at every reporting date. The classification depends on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

a) Loans and receivables

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 maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise cash resources and trade and other receivables.

2 Summary of significant accounting policies *...continued*

2.4 Financial investments *...continued*

b) Financial assets at amortized cost

Financial assets at amortized cost 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 maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Company's financial assets at amortized cost comprise cash resources and trade and other receivables.

c) Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. In the case of debt securities classified as available-for-sale, a breach of contract such as default or delinquency in interest or principal payments, or evidence of significant financial difficulty of the issuer is considered as an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from other comprehensive income and recognised in the statement of comprehensive income.

In the case of loans not quoted in an active market, a breach of contract such as default or delinquency in interest or principal payments, or evidence of significant financial difficulty of the issuer is considered as an indicator of impairment. If any such evidence exists, the impairment loss, measured as the difference between the carrying value and the net recoverable amount, is recognised in the statement of comprehensive income.

For trade receivables, the Company applies a simplified approach in calculating expected credit losses. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Company considers its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 61 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2 Summary of significant accounting policies *...continued*

2.5 Financial investments *...continued*

d) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers or retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety, the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Assets that have an indefinite life, e.g. land are not subject to amortisation and are reviewed for impairment annually.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.6 Cash and cash equivalents

These consist of cash held in hand and at bank, deposits held at call with banks and other short-term highly liquid investments with original maturities of three (3) months or less. Cash allocated to the Self Insurance Fund is excluded from cash and cash equivalents as disclosed in the cash flow statement.

2 Summary of significant accounting policies *...continued*

2.7 Trade receivables

Trade receivables are amounts due from customers for electricity or other services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and are subsequently measured at amortised cost less provision for impairment. See Note 2.5c for the calculation of the impairment provision for trade receivables.

The amount of the provision is recognised in the statement of comprehensive income. When a trade receivable is uncollectible it is written off in the statement of comprehensive income. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

2.8 Inventories

Inventories of fuel, materials and supplies are stated at the lower of cost or net realisable value. Cost is determined on an average cost basis. Generation spares are carried at cost less provision for obsolescence.

2.9 Share capital

Common shares are classified as equity.

2.10 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has the unconditional right to defer settlement of the liability for at least twelve (12) months after the balance sheet date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan.

2.11 Taxation

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised directly in equity.

The current tax is the expected tax payable on taxable income for the period and is calculated on the basis of the tax rates enacted or substantially enacted at the balance sheet date.

2 Summary of significant accounting policies *...continued*

2.11 Taxation *...continued*

Current and deferred income tax *...continued*

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted by the balance sheet date and are expected to apply when the asset is realised or the liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

2.12 Customers' deposits

Commercial and all other customers except prepaid customers are normally required to provide security for payment. The cash deposit is refunded when the account is terminated.

Given the long term nature of the customer relationship, customer deposits are shown in the balance sheet as non-current liabilities (i.e. not likely to be repaid within twelve months of the balance sheet date). Interest on deposits is recognised using the effective interest rate method.

2.13 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

2.14 Revenue recognition

Basic Revenue

Basic revenues are recognized when electricity is delivered to customers over time as the customer simultaneously receives and consumes the benefits of the electricity. Revenues are recognized on an accrual basis and include billed and unbilled revenues. Revenues related to the sale of electricity are recognized at rates approved by the respective regulator and recorded based on metered usage, which occur on a periodic, systematic basis. At the end of each reporting period, the electricity delivered to customers, but not billed, is estimated and the corresponding unbilled revenue is recognized. The Company's estimate of unbilled revenue at the end of the reporting period is calculated by estimating the number of megawatt hour ("MWh") delivered to customers at the established rate expected to

2 Summary of significant accounting policies *...continued*

2.14 Revenue recognition*...continued*

Basic Revenue…*continued*

prevail in the upcoming billing cycle. This estimate includes assumptions as to the pattern of energy demand, weather, line losses and inter-period changes to customer classes.

Fuel Revenue

Fuel costs are passed to customers through the fuel clause adjustment mechanism, which provides the opportunity to recover substantially all fuel costs required for the generation of electricity. The calculation of the fuel charge was approved by the respective regulator in each subsidiary country. The Company recognises fuel revenue on the basis of the amount recoverable for the accounting period.

Miscellaneous Revenue

Miscellaneous revenue is generated from the sale of goods and services, which do not form part of the principal activity of generating, distributing and supplying of electricity. This includes pole rentals, other rentals and service fees.

Revenue for the rental of poles, and other services is recognised when the Company provides the assets for use by the customer or when the various services are provided.

Service fees are recognised as the various services are provided.

Other

Value added taxes collected by the Company concurrent with revenue-producing activities are excluded from revenue.

2.15 Employee benefits

The Company contributes to a defined contribution plan for all employees contributing to the plan. The assets of the plan are held separately. The pension plan is funded by payments from participating employees and the Company. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all the employees the benefits relating to employee services in the current and prior periods.

2.16 Bonus plans

The Company recognises a liability and an expense for bonuses on a formula that takes into consideration the profit attributable to the Company's shareholders. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3 Financial risk management

3.1 Financial instruments by category

At December 31, 2018

	Loans and receivables $	Total $
Assets as per balance sheet		
Trade and other receivables excluding pre-payments	**15,205,018**	**15,205,018**
Cash and cash equivalents	**4,385,200**	**4,385,200**
Total	**19,590,218**	**19,590,218**

	Other financial liabilities at amortised cost $	Total $
Liabilities as per balance sheet		
Borrowings	**74,789,961**	**74,789,961**
Trade and other payables excluding statutory liabilities	**20,140,010**	**20,140,010**
Customers' deposits	**3,748,577**	**3,748,577**
Total	**98,678,548**	**98,678,548**

3 Financial risk management*...continued*

3.1 Financial instruments by category *...continued*

At December 31, 2017

	Loans and receivables $	Total $
Assets as per balance sheet		
Trade and other receivables excluding pre-payments	12,732,188	12,732,188
Cash and cash equivalents	11,374,587	11,374,587
Total	24,106,775	24,106,775

	Other financial liabilities at amortised cost $	Total $
Liabilities as per balance sheet		
Borrowings	35,809,146	35,809,146
Trade and other payables excluding statutory liabilities	10,518,867	10,518,867
Customers' deposits	3,701,273	3,701,273
Total	50,029,286	50,029,286

3.2 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange, price risk, cash flow and interest rate risk), liquidity, credit risk and underinsurance risks. The Group's overall risk management policy is to minimise potential adverse effects on its financial performance and to optimise shareholders' value within an acceptable level of risk.

Risk management is carried out by the Company's management under direction from the Board of Directors.

3 Financial risk management *...continued*

3.2 Financial risk factors *...continued*

The Company's exposure and approach to its key risks are as follows:

a) Market risk

i) Foreign currency risk

This is the potential adverse impact on the Company's earnings and economic value due to movements in exchange rates.

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Company trades internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar, Euros and the Great Britain Pound (GBP). The exchange rate of the Eastern Caribbean dollar (EC$) and the United States dollar (US$) has been formally pegged at EC$ 2.70=US$ 1.00 since July 1976.

Management has established a policy requiring the Company to manage its foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transaction and recognised assets and liabilities, the Company attempts to enter into transactions that are based largely in United States dollars.

The Company has not entered into forward exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates.

ii) Price risk

Commodity price risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in commodity (copper, aluminum). Prices for these commodities are impacted by world economic events that dictate the level of supply and demand. Management perceives that the risk is low as major fluctuations are uncommon.

iii) Cash flow and fair value interest rate risk

Interest rate risk is the potential adverse impact on the earnings and economic value of the Company caused by movements in interest rates.

The Company's interest rate risk also arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The Company's policy is to maintain its borrowings in fixed rate instruments thereby minimising cash flow interest rate risk.

3 Financial risk management *...continued*

3.2 Financial risk factors *...continued*

a) Market risk *...continued*

Exposure to fair value interest rate risk on its borrowings results from fluctuations in the fair value of borrowings in response to changes in market interest rates. At December 31, 2018 the Company held borrowings at both fixed and floating interest rates. At December 31, 2017 all borrowings were at fixed interest rates.

The Company's exposure to interest rates and the terms of borrowings are disclosed in Note 10.

b) Liquidity risk

Liquidity risk refers to the risk that the Company cannot adequately generate sufficient cash and cash equivalents to satisfy commitments as they become due.

The Company currently settles its financial obligations out of cash and cash equivalents. The ability to do this relies on the Company collecting its accounts receivable in a timely manner, and maintaining sufficient cash and cash equivalents in excess of anticipated financial obligations. To support the cash flow position, the Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal and operating and capital requirements.

Management monitors the Company's liquidity reserves which comprise undrawn borrowing facility to meet operational needs so that the Company does not break covenants (where applicable) on its borrowing facilities. Management monitors cash and cash equivalents (note 6), on the basis of expected cash flows and is of the view that the Company holds adequate cash and credit facilities to meet its short-term obligations. Management monitors the Company's liquidity requirements on a continuous basis to ensure it has sufficient cash.

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Balances due within 12 months equal their carrying balances. The amounts disclosed in the below table for borrowings will not reconcile to the balance sheet as they are the contractual undiscounted cash flows.

3 Financial risk management *...continued*

3.2 Financial risk factors *...continued*

b) Liquidity risk*...continued*

	Less than 1 year $	Between 1 & 2 years $	Between 2 & 5 years $	Over 5 years $	Total $
At December 31, 2018					
Assets					
Cash and cash equivalents	**4,385,200**	**–**	**–**	**–**	**4,385,200**
Trade and other receivables	**18,470,607**	**–**	**–**	**–**	**18,470,607**
Total assets	**22,855,807**	**–**	**–**	**–**	**22,855,807**
Liabilities					
Borrowings	**11,199,793**	**11,476,341**	**24,905,654**	**76,411,181**	**123,992,969**
Trade and other payables	**20,341,759**	**–**	**–**	**–**	**20,341,759**
Customers' deposits	**–**	**–**	**–**	**3,748,577**	**3,748,577**
Total liabilities	**31,541,552**	**11,476,341**	**24,905,654**	**80,159,758**	**148,083,305**
At December 31, 2017					
Assets					
Cash and cash equivalents	11,374,587	–	–	–	11,374,587
Trade and other receivables	13,525,019	–	–	–	13,525,019
Total assets	24,899,606	–	–	–	24,899,606
Liabilities					
Borrowings	6,520,000	9,780,000	19,560,000	5,086,447	40,946,447
Trade and other payables	10,821,311	–	–	–	10,821,311
Customers' deposits	–	–	–	3,701,273	3,701,273
Total liabilities	17,341,311	9,780,000	19,560,000	8,787,720	55,469,031

3 Financial risk management *...continued*

3.2 Financial risk factors *...continued*

c) Credit risk

Credit risk is the inherent risk that counterparties may experience business failure or otherwise avoid their contractual obligations to the Company.

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions as well as credit exposure to customers, including outstanding receivables and committed transactions. The Company's bank deposits and financial instruments are placed with reputable financial institutions to limit its exposure. Credit risk with respect to trade receivables is substantially reduced due to the policies implemented by management. Deposits are required from commercial customers upon application for a new service and management performs periodic credit evaluations of its general customers' financial condition. Management does not believe significant credit risk exists at December 31, 2018, or 2017. Further analysis of the Company's trade receivables is disclosed in Note 7.

d) Underinsurance risk

Prudent management requires that a Company protects its assets against catastrophe and other risks. In order to protect its customers and investors, the Company has arranged a catastrophe standby facility with a financial institution to cover the Transmission and Distribution assets.

3.3 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

In managing capital, the Company estimates its future cash requirements by preparing a budget annually for review and approval by the Board of Directors. The budget establishes the activities for the upcoming year and estimates costs of these activities. Budget to actual variances are prepared monthly and reviewed by the Company's management.

The Company also monitors capital on the basis of the debt to equity ratio. This ratio is calculated as total equity divided by total borrowing.

3 Financial risk management *...continued*

3.3 Capital risk management *...continued*

The debt to equity ratios at December 31 were as follows:

	2018 $	2017 $
Shareholders' equity	**88,455,140**	90,960,131
Total borrowings	**74,789,961**	35,809,146
Debt/equity ratio	**1:1.18**	1:2.54

3.4 Fair value estimation

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no obligation to act and is best evidenced by a quoted market price, if one exists. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability, based on the best available information including the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model.

The carrying value of cash, short term deposits, trade receivables less impairment provision and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes (Note 10) is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Significant accounting judgements, estimates and assumptions

4.1 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The development of estimates and the exercise of judgement in applying accounting policies may have a material impact on reported assets, liabilities, revenues and expenses.

4 Significant accounting judgements, estimates and assumptions *...continued*

4.2 Critical judgements in applying the entity's accounting principles

Impairment of financial assets

When the fair value declines or when there is objective evidence of impairment, management makes assumptions about the declines in value to determine whether it is an impairment that should be recognized in income.

5 Property, plant and equipment

	Generation $	Transmission and distribution $	Other $	Work in progress $	Total $
At December 31, 2018					
Cost	**130,551,067**	**165,310,047**	**40,500,526**	**10,300,428**	**346,662,068**
Accumulated depreciation	**(94,375,129)**	**(57,578,266)**	**(19,310,933)**	**-**	**(171,264,328)**
Net book amount	**36,175,938**	**107,731,781**	**21,189,593**	**10,300,428**	**175,397,740**
For the year ended December 31, 2018					
Opening net book amount	**42,456,433**	**64,788,499**	**20,960,311**	**7,440,885**	**135,646,128**
Additions and transfers	**136,558**	**49,332,712**	**3,196,010**	**2,883,833**	**55,549,113**
Retirals	**(1,597,132)**	**-**	**(473,478)**	**(24,290)**	**(2,094,900)**
Depreciation charge	**(4,819,921)**	**(6,389,430)**	**(2,493,250)**	**-**	**(13,702,601)**
Closing net book amount	**36,175,938**	**107,731,781**	**21,189,593**	**10,300,428**	**175,397,740**
At December 31, 2017					
Cost	132,654,552	115,977,335	38,319,910	7,440,885	294,392,682
Accumulated depreciation	(90,198,119)	(51,188,836)	(17,359,599)	-	(158,746,554)
Net book amount	42,456,433	64,788,499	20,960,311	7,440,885	135,646,128
For the year ended December 31, 2017					
Opening net book amount	45,538,108	68,692,311	19,950,355	3,945,364	138,126,138
Additions and transfers	2,870,212	12,319,007	3,226,756	3,751,578	22,167,552
Retirals	(957,618)	(12,090,953)	(117,005)	(256,057)	(13,421,632)
Depreciation charge	(4,994,269)	(4,131,866)	(2,099,795)	-	(11,225,930)
Closing net book amount	42,456,433	64,788,499	20,960,311	7,440,885	135,646,128

There were no borrowing costs capitalised during 2018 and 2017. For property, plant and equipment ("PPE") pledged as security, see Note 10. In 2017, a loss on disposal of $13,421,632 was recognised on the Company's assets as a result of the passage of Hurricane Maria. The insurance recovery on the assets retired of $4.81 million was recognized in 2018.

6 Cash and cash equivalents

	2018 $	2017 $
Cash in hand and at bank	**4,385,200**	11,374,587

7 Trade and other receivables

	2018 $	2017 $
Trade receivables	**9,148,549**	10,339,073
Less provision for expected credit losses	**(633,909)**	(1,096,433)
Trade receivables, net	**8,514,640**	9,242,640
Other receivables	**6,690,378**	3,489,548
Less provision for expected credit losses	**-**	(81,922)
Other receivables, net	**6,690,378**	3,407,626
Prepayments	**3,265,589**	792,831
	18,470,607	13,525,019

The fair values of trade and other receivables equal their carrying values due to the short-term nature of these assets.

An impairment analysis is performed at each reporting date to measure expected credit losses. The provision rates are based on days past due and shared credit risk characteristics and reflect the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Trade receivables are written-off when there is no reasonable expectation of recovery. Indicators include failure of a debtor to make contractual payments and a failure of the debtor to engage in a repayment plan with the Company. Impairment losses are presented in general expenses in the Statement of Comprehensive Income. Subsequent recoveries are credited against the same line item.

The movement in the provision for impairment was as follows:

	2018 $	2017 $
Balance - beginning of year	**1,178,355**	253,294
(Decrease) increase in provision	**(544,446)**	925,061
Balance - end of year	**633,909**	1,178,355

Based on the historic trend and expected performance of customers, the Company believes that the above allowance for doubtful receivables sufficiently covers the risk of default.

7 Trade and other receivables *...continued*

Direct write-offs for impaired receivables during the year to the statement of comprehensive income was $87,978 (2017 – a recovery of $15,883).

The ageing of trade and other receivables is as follows:

	2018			2017		
	Trade receivables $	**Other receivables $**	**Expected credit losses $**	**Trade receivables $**	**Other receivables $**	**Expected credit losses $**
Less than 30 days	**5,349,842**	**3,988,883**	**370,694**	2,537,839	2,531,813	289,240
31 - 60 days	**2,746,463**	**(327,497)**	**190,304**	2,426,981	268,685	276,606
61 - 90 days	**186,207**	**360,454**	**12,902**	162,703	262,756	18,543
Over 90 days	**866,037**	**2,668,538**	**60,008**	5,211,551	508,216	593,966
	9,148,549	**6,690,378**	**633,909**	10,339,074	3,571,470	1,178,355

8 Inventories

	2018 $	**2017 $**
Networks spares	**17,828,343**	7,095,570
Generation spares	**5,530,127**	5,509,684
Fuel	**475,485**	446,524
Other	**810,170**	1,555,921
	24,644,125	14,607,699
Provision for impairment of inventories	**(3,454,676)**	(2,661,186)
	21,189,449	11,946,513

The cost of inventories written down and recognised as an expense during the year is included in operating expenses in the amount of $793,490 (2017 - $739,042).

9 Share capital

	2018 $	**2017 $**
Authorised:		
15,000,000 Ordinary shares of no par value	**15,000,000**	15,000,000
Issued (2017 – 10,417,328) Ordinary shares	**10,417,328**	10,417,328

10 Borrowings

	2018 $	2017 $
National Bank of Dominica Repayable by 2022 in monthly instalments of blended principal at an interest rate of 5% (2017 - 5%)	**20,798,842**	22,223,646
National Bank of Dominica Repayable by 2023 in monthly instalments of blended principal at an interest rate of 5%. (2017 - 5%)	**29,738,969**	13,585,500
Caribbean Development Bank Repayable by 2035 in quarterly instalments of blended principal with a floating interest rate (3.06% at December 31, 2018)	**12,666,425**	-
Caribbean Development Bank Repayable by 2035 in quarterly instalments of blended principal with a floating interest rate (4.8% at December 31, 2018)	**12,666,425**	-
Less: Caribbean Development Bank Loan Appraisal Fees and Other Charges	**(1,080,700)**	-
Less: Current portion	**(7,422,175)**	(5,657,997)
Non-current portion	**67,367,786**	30,151,149

Borrowings are secured by hypothecary obligations and mortgage debentures creating fixed charges over certain specific immovable properties.

As at December 31, 2018, the Company was in breach of one of its covenants with the National Bank of Dominica under the existing credit facilities. The Bank issued a waiver to suspend its rights and powers relating to the breach of the debt service coverage covenant until January 1, 2020.

The maturity of borrowings is as follows:

	2018 $	2017 $
Less than 1 year	**7,422,175**	5,657,997
Between 1 and 2 years	**7,795,868**	8,193,779
Between 2 and 5 years	**14,150,778**	20,537,596
Over 5 years	**46,501,840**	1,419,774
Total	**75,870,661**	35,809,146

10 Borrowings *...continued*

The carrying amounts and fair value of the borrowings are as follows:

	Carrying amount		Fair value	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Borrowings	**75,870,661**	35,809,146	**91,541,814**	33,374,394

The fair values are based on cash flows discounted using a rate based on the Government bond rate of 7% (2017 - 7%).

11 Customers' deposits

Commercial and non-resident customers are required to pay a security deposit for energy connections that are refundable when service is no longer required. Interest accrued at a rate of 2% (2017 - 2%) per annum.

	2018	**2017**
	$	**$**
Balance - beginning of year	**3,701,273**	3,700,596
New deposits	**102,140**	46,486
Deposits refunded	**(54,836)**	(45,809)
Balance - end of year	**3,748,577**	3,701,273

12 Deferred revenue

	2018	**2017**
	$	**$**
Customer contributions	**11,433,875**	11,241,237

Deferred revenue represents payments made by customers towards the cost of capital works to be undertaken by the Company in order for the customer to receive electricity. When the asset is completed and transferred to property, plant and equipment, the deferred revenue is amortised in accordance with the depreciation rate of the asset.

(Expressed in Eastern Caribbean dollars)

13 Capital grants

	2018 $	2017 $
Balance - beginning of year	-	120,299
Amortization	-	(120,299)
Balance - end of year	-	-

14 Taxation

Corporation tax expense

	2018 $	2017 $
Current taxation	**-**	-
Deferred tax	**(1,798,034)**	(2,343,090)
Taxation credit	**(1,798,034)**	(2,343,090)

The tax on income before taxation differs from the theoretical amount that would arise using the corporation tax rate of 25% (2017 - 25%) for the following reasons:

	2018 $	2017 $
Loss before taxation	**(4,303,025)**	(11,697,795)
Corporation tax at 25% (2017 - 25%)	**(1,075,756)**	(2,738,716)
Expenses not subject to tax	**(124,087)**	46,638
Income not subject to tax	**-**	(36,402)
Tax losses (recognized) not recognized	**(541,048)**	571,123
Under-provision of prior year tax credit	**(57,143)**	-
Tax credit for the year	**(1,798,034)**	(2,343,090)

14 Taxation *...continued*

Corporation tax payable

	2018 $	2017 $
Opening (refundable) payable	**(1,233,057)**	1,046,149
Taxes paid	**-**	(2,279,206)
Corporation tax refundable	**(1,233,057)**	(1,233,057)

Subject to agreement with the Inland Revenue Division, the Company has tax losses as at December 31, 2018 of $9,704,925 (2017 - $2,164,193) which may be carried forward and used to reduce taxable income in future years and for which no benefit has been recognized in these financial statements. The expiry date for claiming these losses is March 31, 2022 ($2,164,193) and March 31, 2023 ($7,540,732).

Deferred tax liability

The net deferred tax liability is calculated in full on temporary differences under the liability method using a tax rate of 25%.

	2018 $	2017 $
Balance - beginning of year	**17,242,323**	19,585,413
Current year credit	**(1,798,034)**	(2,343,090)
Balance - end of year	**15,444,289**	17,242,323

The deferred tax liability on the balance sheet consists of the following components:

	2018 $	2017 $
Accelerated tax depreciation	**71,482,081**	63,953,043
Tax losses	**(9,704,925)**	-
	61,777,156	68,969,291

(Expressed in Eastern Caribbean dollars)

15 Trade and other payables

	2018 $	2017 $
Trade payables	**13,868,278**	5,985,633
Accrued expenses	**6,266,795**	4,528,297
Social security and other taxes	**201,749**	302,444
Retirement benefit plan	**4,937**	4,937
	20,341,759	10,821,311

16 Expenses by nature

	2018 $	2017 $
Fuel	**20,589,949**	24,797,980
Maintenance of plant	**1,781,483**	4,525,815
Employee benefits (excluding amounts charged to capital projects)	**15,256,698**	18,353,773
Depreciation (Note 5)	**13,702,601**	11,225,930
Insurance	**2,308,039**	1,825,031
Other expenses	**8,211,230**	9,880,333
Total operating expenses	**61,850,000**	70,608,862

Employee benefits comprise:	2018 $	2017 $
Wages and salaries	**11,390,977**	14,080,440
Social security costs	**848,067**	798,102
Pension (Note 22)	**260,401**	261,722
Other benefits	**2,851,014**	3,654,184
	15,350,459	18,794,448
Allocated as follows:		
Operating expenses	**15,256,698**	18,353,773
Capitalised	**93,761**	440,675
	15,350,459	18,794,448

(Expressed in Eastern Caribbean dollars)

17 Other income

	2018 $	2017 $
Amortization of capital grants	**-**	120,299
Amortization of deferred revenue	**663,580**	629,342
Currency exchange gain	**88,747**	22,159
Gain on insurance claim	**-**	399,916
Gain on disposal of plant and equipment	**2,726,843**	-
Other income	**3,479,170**	1,171,717

18 Finance and other cost

	2018 $	2017 $
Finance cost is comprised as follows:		
Loan interest charges	**2,622,948**	1,286,164
Customer deposit interest	**37,495**	85,419
	2,660,443	1,371,583
Other cost:		
Deferred expense amortization	**8,420**	-
Loss on disposal of plant and equipment (Note 5)	**-**	13,421,632
Finance and other cost	**2,668,863**	14,793,215

19 Operating revenue

	2018 $	2017 $
Energy sales	**38,764,359**	52,179,348
Fuel Surcharge	**17,850,016**	18,839,974
Other revenue	**122,293**	1,513,243
	56,736,668	72,532,556

20 Related party transactions

Key management compensation

	2018 $	2017 $
Salaries and other short-term benefits	**1,815,470**	1,791,075
Directors' fees	**66,117**	122,840
Post-employment benefit	**54,786**	48,264
	1,936,373	1,962,179

Other related party transactions

During the year, the Company engaged in transactions with its indirect parent Emera (Caribbean) Incorporated. These are expenses paid on behalf of the Company. These include insurance, consultancies, professional fees, corporate support and hurricane materials and support. Total transactions with Emera (Caribbean) Incorporated for the year is $5,024,597 (2017 - $1,889,047).

The Company also received a loan of US$1,000,000 in the form of a promissory note to assist in restoration following Hurricane Maria from Emera Inc., the ultimate parent company. This loan is unsecured and interest free, and matures in 2019.

	2018 $	2017 $
Due to Emera Inc. – Loan	**2,716,900**	2,716,900
Due to Emera (Caribbean) Incorporated (ECI)	**3,745,552**	1,232,983

The amounts advanced by ECI have no fixed date of repayment and are interest-free.

21 Earnings per share

The earnings per share is calculated by dividing the profit or loss for the year by the weighted average number of common shares in issue during the year.

	2018 $	2017 $
Net loss for the year	**(2,504,991)**	(9,354,705)
Weighted average number of common shares	**10,417,328**	10,417,328
Basic and diluted earnings per share (cents)	**(24)**	(90)

(Expressed in Eastern Caribbean dollars)

22 Retirement benefits

The Company operates a defined contribution plan. Pension cost for the year was $241,195 (2017 - $241,237).

23 Bank overdraft facilities

The Company entered into a credit agreement with National Bank of Dominica on October 24, 2011 to create a loan facility in the maximum aggregate principal amount of EC$83.6 million. Included under the facility is an overdraft facility with a limit of EC$3.0 million. During the year, DOMLEC's overdraft facility was increased to EC$9.0 million to facilitate restoration activities after the passage of Hurricane Maria in 2017. As at December 31, 2018, DOMLEC had no advances (2017 – Nil) on the facility.

24 Capital commitments

The Company budgeted capital expenditure of $41,403,480 (2017 - $63,536,033) for the 2018 income year. This amount was revised to $62,899,605 due to the increase in Hurricane Maria restoration cost. A total of $55,875,052 (2017 - $25,409,219) was contracted for at December 31, 2018.

25 Contingent liabilities

The Company is contingently liable in respect of various claims arising in the ordinary course of business. The amounts are considered negligible and are usually covered by insurance.

Operating Statistics

Operating Statistics for the period 2014-2018

CAPACITY & DEMAND (kW)	2018	2017	2016	2015	2014
Generating Plant Installed Capacity					
- Hydro	**6,640**	6,640	6,640	6,640	6,640
- Diesel	**20,100**	20,100	20,100	20,100	20,100
Total	**26,740**	26,740	26,740	26,740	26,740
Firm* Capacity					
- Hydro (Dry Season)	**3,200**	3,200	3,200	3,200	3,200
- Diesel	**14,860**	14,860	14,860	14,860	14,860
Total	**18,060**	18,060	18,060	18,060	18,060
*Capacity available during normal operation in a very dry month, assuming the largest thermal unit breaks down while another is out for maintenance.					
Peak Demand (kW)	**12,920**	18,010	17,766	17,260	16,972
Growth (%)	**-28.3**	1.4	2.9	1.7	1.1
Load Factor = Average Demand/ Maximum Demand	**0.58**	0.54	0.72	0.71	0.69
ENERGY PRODUCED (kWh x 1000)					
Gross Generation					
- Hydro	**24,180**	27,152	36,367	24,441	30,639
- Diesel	**41,224**	58,495	75,422	82,548	71,786
Energy Purchased	**7**	90	114	95	131
Total	**65,411**	85,737	111,903	107,084	102,556
Growth (%)	**-23.7**	-23.4	4.5	4.4	1.8
Diesel Fuel Used in Generation					
Quantity (Imp.Gal)	**2,372,105**	3,299,289	4,217,167	4,624,191	4,010,875
Fuel Efficiency (kWh per Imp.Gal)	**17.4**	17.7	17.9	17.8	17.9

Operating Statistics Cont.

Operating Statistics for the period 2014-2018

ENERGY SOLD (kWh x 1000)	2018	2017	2016	2015	2014
- Domestic	23,280	34,461	45,847	43,256	41,684
- Commercial	28,090	33,002	40,820	39,163	37,503
- Industrial	4,014	7,538	9,492	9,260	8,721
- Hotel	543	1,094	1,245	1,299	1,377
- Street Lighting	363	1,502	1,980	1,980	1,874
Total	56,290	77,597	99,384	94,958	91,158
Growth (%)	-27.5	-21.9	4.7	4.2	2.0
OWN USE & LOSSES (kWh x 1000)					
Power Station Use	2,374	2,691	3,298	3,379	2,829
Office Use	529	442	560	579	570
Losses	6,121	5,007	8,661	8,168	7,998
Losses (% of Gross Generation)	9.4	5.8	7.7	7.6	7.8
Losses (% of Net Generation)	9.7	6.0	8.0	7.9	8.0
NUMBER OF CUSTOMERS AT YEAR END					
- Domestic	23,437	4,329	31,913	31,308	30,954
- Commercial	2,992	737	4,198	4,144	4,055
- Industrial	31	28	40	41	42
- Hotel	26	10	33	32	39
- Street Lighting	102	1	283	267	264
Total	26,588	5,105	36,467	35,792	35,354
Growth (%)	420.8	-86.0	1.9	1.2	-0.5
No. of Full-Time Equivalent Employees	240	254	240	238	219
Number of Customers per Employee	111	20	152	150	161

Financial Statistics

Financial Statistics for the period 2014-2018

	2018	2017	2016	2015	2014
Units Sold (Kwh X 1000)	**56,289**	77,597	99,384	94,958	91,158
Revenue/Unit Sold (Ec Cents)	**100.58**	91.52	88.83	97.88	109.92
Summarized Balance Sheet (Ec$ 000)					
Share Capital	**10,417**	10,417	10,417	10,417	10,417
Retained Earnings	**78,038**	80,543	93,023	84,314	76,194
Deferred Credits	**26,878**	28,484	29,490	28,249	26,737
Long Term Liabilities	**71,116**	36,569	24,500	30,247	35,372
	186,450	156,013	157,430	153,227	148,720
Fixed Assets (Net)	**175,398**	135,646	138,126	129,399	127,069
Current Assets	**45,278**	38,079	35,995	40,896	40,777
Current Liabilities	**(34,266)**	(17,712)	(16,691)	(17,068)	(19,126)
	186,450	156,013	157,430	153,227	148,720
Operating Expenses					
Fuel	**20,590**	24,798	27,285	35,734	45,063
Generation	**5,401**	8,520	9,497	10,527	8,740
General	**11,790**	15,158	14,036	11,987	11,789
Distribution	**8,059**	9,082	7,664	7,392	6,597
Depreciation	**13,703**	11,226	10,305	9,409	8,842
Insurance	**2,308**	1,825	2,098	1,572	1,577
	61,850	70,609	70,884	76,621	82,608
Operating Revenue					
Electricity Sales	**38,764**	52,179	67,674	64,698	62,120
Fuel Surcharge	**17,850**	18,840	20,609	28,245	38,085
Other	**122**	1,513	625	594	1,706
	56,737	72,533	88,908	93,537	101,911

Financial Statistics Cont.

Financial Statistics for the period 2014-2018

	2018	2017	2016	2015	2014
Operating Income	**(5,113)**	1,924	18,023	16,916	19,303
Interest Charges	**(2,669)**	(1,372)	(1,560)	(2,040)	(2,344)
Other Charges & Credits	**2,727**	(13,422)	80	(75)	(1,094)
Amortisation of Capital Grants/Deferred Revenue	**664**	1,150	670	629	633
Gain On Insurance Claim	**0**	0	29	1,423	0
Foreign Exchange Gain/(Loss)	**89**	22	15	(12)	22
Taxation	**1,798**	2,343	(4,381)	(4,554)	(1,698)
Net Income	**(2,505)**	(9,355)	12,875	12,287	14,822
Dividend	**0**	3,125	4,167	4,167	3,229
Reinvested Earnings	**(2,505)**	(12,480)	8,708	8,120	11,592
Average Fixed Assets	**155,522**	136,886	133,763	128,234	127,030
Return on Average Fixed Assets	**-3.29%**	1.41%	13.47%	13.19%	15.20%
Debt/Equity Ratio	**46/54**	28/72	20/80	25/75	30/70
Current Ratio	**1.32**	2.15	2.16	2.40	2.13
Collection Period (Days)	**59**	53	40	46	51

Notes

Notes

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