

**ICD Utilities Limited**  
**Financial Statements**  
**December 31, 2012 and 2011**

## Independent Auditor's Report

The Shareholders  
ICD Utilities Limited

We have audited the accompanying financial statements of ICD Utilities Limited (the Company), which comprise the balance sheets as at December 31, 2012, and the statements of net loss, statements of comprehensive loss, statements of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### 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 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.

### 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 about 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 company'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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 ICD Utilities Limited as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards

### **Emphasis of Matter**

We draw attention to Note 10 to the financial statements which describe the restatement of certain comparative figures. Our opinion is not qualified in respect of this matter.

*Ernst & Young*

April 29, 2013

**ICD Utilities Limited**  
**Statements of Net Loss**  
**Year Ended December 31**

	2012	2011 Restated – See note 10
thousands of Bahamian dollars		
Equity loss	<b>\$(8,574)</b>	<b>\$(3,373)</b>
Cost of operations		
Registrar fees	40	40
Annual general meeting and annual report costs	28	37
Operating and general	27	128
Foreign exchange loss (gain)	8	(7)
Stock exchange listing fees	5	5
Other	1	3
	109	206
Total net loss	<b>\$(8,683)</b>	<b>\$(3,579)</b>
Weighted average shares of common stock outstanding – basic	10,000	10,000
Earnings per common share - basic	<b>\$(0.868)</b>	<b>\$(0.358)</b>

*See accompanying notes to the financial statements.*

**ICD Utilities Limited**  
**Statements of Comprehensive Loss**  
**Years Ended December 31**

	2012	2011 Restated – See note 10
thousands of Bahamian dollars		
<b>Total net loss of ICD Utilities Limited</b>	<b>\$(8,683)</b>	<b>\$(3,579)</b>
<b>Other comprehensive income</b>		
Share of investment accounted for using the equity method	1	20
<b>Comprehensive loss</b>	<b>\$(8,682)</b>	<b>\$(3,559)</b>

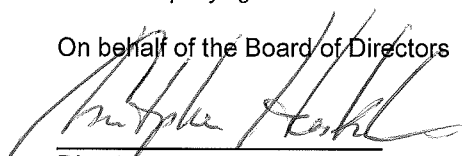
*See accompanying notes to the financial statements.*

**ICD Utilities Limited**  
**Balance Sheets**  
**As at December 31**

	2012	2011
		Restated – See note 10
thousands Bahamian dollars		
<b>Assets</b>		
Current assets		
Cash	\$37	\$7
Long-term investment (note 5)	41,370	49,943
<b>Total assets</b>	<b>\$41,407</b>	<b>\$49,950</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$9	\$8
Due to related parties (note 7)	467	329
Shareholders' equity		
Common shares (note 6)	1,000	1,000
Additional paid in capital	40,250	40,250
Accumulated other comprehensive loss	(715)	(716)
Retained earnings	396	9,079
Total equity	40,931	49,613
<b>Total liabilities and equity</b>	<b>\$41,407</b>	<b>\$49,950</b>

*See accompanying notes to the financial statements.*

On behalf of the Board of Directors

  
 Director

\_\_\_\_\_  
 Director

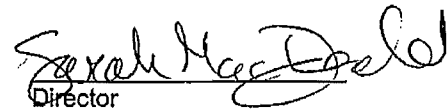
**ICD Utilities Limited**  
**Balance Sheets**  
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		Restated – See note 10
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*See accompanying notes to the financial statements.*

On behalf of the Board of Directors

\_\_\_\_\_  
Director

  
Director

**ICD Utilities Limited**  
**Statements of Cash Flows**  
**Year Ended December 31**

thousands of Bahamian dollars	2012	2011
<b>Operating activities</b>		Restated – See note 10
Net loss	<b>\$(8,683)</b>	<b>\$(3,579)</b>
Non-cash items:		
Equity loss	<b>8,574</b>	3,373
Decrease in accrued interest and prepayments	-	-
Increase (decrease) in accounts payable and accrued liabilities	<b>1</b>	(2)
Increase in amounts due to related parties	<b>138</b>	154
Net cash provided by (used in) operating activities	<b>30</b>	(54)
Increase (decrease) in cash	<b>30</b>	(54)
Cash, beginning of year	<b>7</b>	61
Cash, end of year	<b>\$37</b>	\$7

*See accompanying notes to the financial statements.*

**ICD Utilities Limited**  
**Statements of Changes in Shareholders' Equity**  
**Year Ended December 31**

<b>For the year ended December 31, 2012</b> thousands of Bahamian dollars	<b>Common Shares</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total</b>
Balance, December 31, 2011	\$1,000	\$40,250	\$9,079	\$ (716)	\$49,613
Total net loss	-	-	(8,683)	-	(8,683)
Share of other comprehensive income of investment accounted for under the equity method	-	-	-	1	1
<b>Balance, December 31, 2012</b>	<b>\$1,000</b>	<b>\$40,250</b>	<b>\$396</b>	<b>\$(715)</b>	<b>\$40,931</b>

For the year ended December 31, 2011 Restated – See Note 10					
Balance, December 31, 2010	\$1,000	\$40,250	\$12,658	\$(736)	\$53,172
Total net loss	-	-	(3,579)	-	(3,579)
Share of other comprehensive income of investment accounted for under the equity method	-	-	-	20	20
Balance, December 31, 2011	\$1,000	\$40,250	\$9,079	\$ (716)	\$49,613

*See accompanying notes to the financial statements.*



**ICD Utilities Limited**  
**Notes to the Financial Statements**  
**As at December 31, 2012 and 2011**

**1. DESCRIPTION OF BUSINESS**

ICD Utilities Limited ("ICDU" or "the Company"), was incorporated under the laws of the Commonwealth of The Bahamas on April 15, 1993, for the purpose of holding a 50 percent interest in Grand Bahama Power Company Limited ("GBPC"), formerly Freeport Power Company Limited. The shares were transferred from a related company on April 30, 1993.

The financial statement for the year ended December 31, 2012, were authorized for issue in accordance with a resolution of the directors on April 25, 2013. The registered office of the Company is Suite 1; Chancery House; The Mall, P.O. Box F-40437, Freeport, Grand Bahama, The Bahamas.

In September 2008, Emera Inc. ("Emera") purchased a 50 percent interest in ICDU and in December 2010, through one of its subsidiaries, Emera Caribbean Limited, purchased the remaining 50 percent interest in GBPC and an additional 10.7 percent interest in ICDU.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**a) Basis of Accounting**

The accompanying financial statements have been prepared in accordance with applicable International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and expressed in Bahamian dollars.

The financial statements of the Company have been prepared on a historical cost basis.

The preparation of financial statements 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 revenues and expenses during the reported period. Significant estimates are included in the assessment of the Company's long-term investment, as discussed in Note 2d below. Actual results could differ from the estimates.

**b) Going Concern**

These financial statements have been prepared on a going concern basis and in accordance with applicable IFRS. The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

**c) Foreign Currency Transactions**

These financial statements are expressed in Bahamian dollars, which is the Company's functional and presentation currency. Monetary assets and liabilities denominated in currencies other than the Bahamian dollar as translated into Bahamian dollars at the rate of exchange in effect at the date of the Balance Sheets. Income and expenses transacted in currencies other than Bahamian dollars are translated into Bahamian dollars at the rates of exchange prevailing at the transaction dates.

#### **d) Long-term Investment**

The Company accounts for its long-term investment using the equity method of accounting as the Company determined it maintains significant influence over the investment, but not control. The amount is adjusted annually for the Company's pro-rata share of the net earnings or losses of the investment and reduced by the amount of dividends received.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the "Equity income (loss)" in the Statements of Net Loss.

#### **e) Income Taxes**

The Company is a Bahamian corporation and accordingly, is not subject to income taxes.

### **3. CHANGE IN ACCOUNTING POLICIES AND PRACTICES**

The accounting policies adopted are consistent with those of the previous financial year. Amendments resulting from improvements to IFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- IFRS 1 *Limited Exemption for Comparative IFRS 7 Disclosures (Amendment)*

### **4. FUTURE ACCOUNTING PRONOUNCEMENTS**

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2012, or later periods, and the Company has not early adopted are as follows:

#### **IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1***

The amendments to IAS 1 change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on ICDU's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012, and will therefore be applied in ICDU's first annual report after becoming effective..

#### **IAS 28 *Investments in Associates and Joint Ventures (as revised in 2011)***

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after January 1, 2013.

#### **IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7***

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users

with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments*:

*Presentation.* The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Company's financial position or performance and become effective for annual periods beginning on or after January 1, 2013.

#### **IFRS 9 *Financial Instruments: Classification and Measurement***

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

#### **IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements***

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in Standing Interpretations Committee ("SIC") -12 Consolidation – Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. IFRS 10 is not expected to have any impact on the currently held investment of the Company. This standard becomes effective for annual periods beginning on or after January 1, 2013.

#### **IFRS 12 *Disclosure of Interests in Other Entities***

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Company's financial position or performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

#### **IFRS 13 *Fair Value Measurement***

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary

analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after January 1, 2013.

#### ***Annual Improvements May 2012***

These improvements will not have an impact on ICDU, but include:

#### ***IFRS 1 First-time Adoption of International Financial Reporting Standards***

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

#### ***IAS 1 Presentation of Financial Statements***

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

#### ***IAS 32 Financial Instruments, Presentation***

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

These improvements are effective for annual periods beginning on or after January 1, 2013.

The Company does not anticipate any material impact on the results of its operations from the implementation of these new standards when they become effective.

### **5. LONG-TERM INVESTMENT**

This investment represents a 50 percent interest in GBPC. GBPC was incorporated under the laws of the Commonwealth of The Bahamas and this is the principal place of business. GBPC's principal business activity is power generation and distribution within Grand Bahama. The shares are not quoted or traded as securities and have no readily determinable open-market value.

The investment in GBPC as at December 31 is as follows:

	2012	2011 Restated – See Note 10
thousands of Bahamian dollars		
Opening balance	\$49,943	\$53,296
Equity loss	(8,574)	(3,373)
Other comprehensive income	1	20
Closing balance	\$41,370	\$49,943

Financial data of the Company's equity method investment in GBPC is included in the following table:

	2012	2011 Restated – See Note 10
thousands of Bahamian dollars		
<b>Balance sheet data</b>		
Current assets	\$50,331	\$41,156
Other assets	198,324	182,919
Goodwill	51,763	51,763
Total assets	\$300,418	\$275,838
Current liabilities	\$80,936	\$79,203
Long-term liabilities	136,742	96,750
Total liabilities	\$217,678	\$175,953
Net assets	\$82,740	\$99,885
ICDU's investment	\$41,370	\$49,943
<b>Income statement data</b>		
Operating revenues	\$120,352	\$123,589
Operating expenses	113,054	124,308
Income from operations	7,298	(719)
Loss on disposal of assets	(22,878)	(128)
Other expenses, net	(1,569)	(5,900)
Net loss	(17,149)	(6,747)
Other comprehensive income	\$1	\$40

## 6. COMMON SHARES

**Authorized and issued:** 10,000,000 common shares with a par value of \$0.10 each.

On incorporation, the authorized share capital was \$10,000 consisting of 10,000 ordinary shares with a par value of \$1.00 each. On this date, two ordinary shares with a par value of \$1.00 each were issued and outstanding.

On April 16, 1996, the authorized share capital was increased to \$1,000,000 consisting of 10,000,000 common shares with a par value of \$0.10 each. On the same date, 5,000,000 ordinary shares were issued to each of the shareholders of the Company, for a total of 10,000,000 common shares. The increase in the issued share capital was accounted for by a transfer from additional paid-in-capital.

## 7. RELATED PARTY TRANSACTIONS

During the year Emera paid expenses on behalf of the Company in the amount of \$467 thousand (2011 – \$329 thousand). This amount is measured at the exchange amount. There is no written agreement between the Company and Emera for the allocation of the above expenses; however, the ICDU Board of Directors has approved the above allocation.

As at year end, the following related party balances were included in the balance sheets:

thousands of Bahamian dollars	2012	2011
Due to Emera Inc.	\$467	\$329

## 8. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

	2012	2011 Restated – See Note 10
thousands of Bahamian dollars		
Total net loss	<b>\$(8,683)</b>	<b>\$(3,579)</b>
Weighted average number of ordinary shares	<b>10,000</b>	10,000
Earnings per share	<b>\$(0.868)</b>	<b>\$(0.358)</b>

## 9. CAPITAL MANAGEMENT

Capital includes equity attributable to the equity holders of the Company. The primary objective of the Company's capital management is to ensure that it maintains sufficient capital to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2012 and December 31, 2011.

## 10. RESTATEMENT OF COMPARATIVE FIGURES

Certain comparative figures have been restated as it was determined that the Company's long-term investment was overstated and the equity loss from the investment was understated by \$3,207 thousand as at and for the year ended December 31, 2011. Certain amounts were capitalized and recorded as income in the financial statements of the Company's investee which should have been charged to income during 2011. The Company retrospectively adjusted the equity loss for the year ended December 31, 2011. The impact of this restatement on earnings per share for the year ended December 31, 2011 was \$(0.321) per share.

Certain comparative figures have been restated as a result of the Company's equity investment's early adoption of the revisions to IAS 19 *Employee Future Benefits*. As a result of this change in accounting policy, the Company retrospectively adjusted the accumulated other comprehensive loss in accordance with IAS 19, which resulted in an accumulated other comprehensive loss recorded in the financial statements as at January 1, 2011 and December 31, 2011 of \$736,thousand and \$716,thousand, respectively. This restatement had no impact on earnings per share.

## 11. SUBSEQUENT EVENTS

On January 17, 2013, GBPC and the Grand Bahama Port Authority ("GBPA"), GBPC's regulator, finalized an Operating Protocol and Regulatory Framework Agreement. This agreement formalizes the operating protocols and regulatory construct GBPC agreed to in principle in June 2012, when the GBPA approved GBPC's new rate structure.

The new regulatory rate structure, which became effective July 1, 2012, consists of two components:

- a base rate intended to recover GBPC's operating expenses, depreciation and return on capital investment; and
- a fuel charge intended to recover all of GBPC's fuel costs.

On January 2, 2013, GBPC issued 32,000 non-voting cumulative redeemable variable perpetual preferred shares at \$1.00 (expressed in thousands of Bahamian dollars) par value per share. The shares were fully subscribed and funds received February 1, 2013.

**ICD Utilities Limited**  
**Supplemental Information**  
**As at December 31, 2012**

On January 17, 2013, GBPC and the GBPA finalized an Operating Protocol and Regulatory Framework Agreement. This agreement formalizes the operating protocols and regulatory construct GBPC agreed to in principle in June 2012, when the GBPA approved GBPC's new rate structure.

The new regulatory rate structure, which became effective July 1, 2012, consists of two components:

- a base rate intended to recover GBPC's operating expenses, depreciation and return on capital investment; and
- a fuel charge intended to recover all of GBPC's fuel costs.

As part of the initial rate case filing under the new regulatory structure, the GBPA approved a return on rate base of 10 percent. Every three years, commencing in January 2016, base rates will be reviewed and set by the GBPA.

To recognize the economic effects of the actions of the GBPA, the timing of recognition of certain revenues and expenses may differ from otherwise expected under generally accepted accounting principles for non-rate regulated entities. These timing differences create regulatory assets or liabilities representing amounts that GBPC is expected to collect from or return to customers in future rates. Under United States generally accepted accounting principles ("US GAAP"), guidance is provided regarding these regulatory assets and liabilities recognized in GBPC's US GAAP financial statements.

Under IFRS there is no specific guidance for regulated entities and in particular for the recognition of regulated assets and liabilities. In order to provide users of the financial statements with a clear and complete understanding of GBPC's economic position, operating within a rate regulated environment, we have provided a reconciliation of the balance sheets and statement of comprehensive income between IFRS and US GAAP.

**IFRS differences**

The reconciliation of the December 31, Balance Sheets of GBPC from IFRS to US GAAP is as follows:

As at December 31, 2012 in thousands of Bahamian dollars	IFRS	Effect of IFRS	US GAAP
Regulatory assets	nil	\$34,565	\$34,565

As at December 31, 2011 in thousands of Bahamian dollars	IFRS	Effect of IFRS	US GAAP
Regulatory assets	nil	\$10,859	\$10,859

For the year ended December 31, the effect on the Statements of Net Loss is as follows:

As at December 31, 2012 in thousands of Bahamian dollars	IFRS	Effect of IFRS	US GAAP
<b>Revenue</b>			
Equity loss per GBPC	\$(17,149)	\$21,052	\$3,903
Equity loss per ICDU	\$(8,574)	\$10,526	\$1,952



As at December 31, 2011 in thousands of Bahamian dollars	IFRS	Effect of IFRS	US GAAP
<b>Revenue</b>			
Equity loss per GBPC	\$(6,747)	\$12,197	\$5,450
Equity loss per ICDU	\$(3,373)	\$6,098	\$2,725