



2012

Belize Electricity Limited

ANNUAL REPORT

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CORPORATE

PROFILE

Belize Electricity Limited (BEL) is the primary distributor of electricity in Belize, Central America.

Aggregate annual energy sold was approximately 462,000 megawatt hours (MWh) in 2012. The Company serves a customer base of 80,363 accounts or 65,067 customers and in 2012 met a peak power demand of approximately 82 megawatts (MW) mainly from independent power producers utilizing multiple energy sources. All major municipalities (load centers) are connected to the country's national electricity system, except for Caye Caulker. Since 1998, the national electricity grid has been interconnected with the Mexican national electricity grid, allowing BEL to expand its power supply by 50 MW. BEL has an installed generating capacity of 25 MW and owns approximately 1,820 miles of transmission and distribution lines.

The Government of Belize and the Social Security Board currently hold 70.2 per cent and 26.9 per cent, respectively, of the ordinary shares issued by the Company. The remaining ordinary shares are held by just over 1,500 small shareholders. Only the ordinary shares carry voting rights.

REPORT

TO SHAREHOLDERS

Transition continued to be a main theme of BEL's operations in 2012, following the change of majority ownership in the Company on June 20, 2011. During the year, much resources were spent on establishing new processes towards improving system reliability, managing cost and ultimately delivering top service to customers at the most reasonable cost.

On February 1, 2012, electricity rates were reduced from \$0.441 per kilowatt hour (kWh) to \$0.418 per kWh. Between 2008 and 2011 there was a significant build up in the Cost of Power Rate Stabilization Account (CPRSA) in favor of customers, due to reduced cost of power during those years. The Public Utilities Commission (PUC) reduced electricity rates to rebate customers for overcharges in the cost of power during those years. While the Mean Electricity Rate (MER) was reduced, the Value Added of Delivery (VAD) component, net of the CPRSA adjustments, increased from \$0.129 per kWh to \$0.14 per kWh. This resulted in an increase of \$5 million contribution towards operating income for the 2012 - 2013 review period.

In addition to the lowering of electricity rates, the PUC approved the reclassification of customers to reflect how they utilize electricity. This now allows BEL to enhance its service to customers, as the Company is better positioned to predict customer needs and behaviors and provide customized service accordingly.

At the time of its application for a reduction in electricity rates, BEL had noted that the reduction would only have been sustainable if the actual cost of power remained at the projected level or lower. Unfortunately, in July 2012 cost of power increased drastically, resulting in a record high average cost of power, at \$0.355 per kWh in 2012 compared to \$0.30 per kWh in 2011. This increase in cost of power was due primarily to extremely low rainfall levels which caused low hydroelectric output from Belize Electric Company Limited (BECOL). In addition, production problems at Belize Cogeneration Energy Limited (Belcogen) forced the Company to purchase more power from Mexico's Comisión Federal de Electricidad (CFE) than planned. Problems related to natural gas supply as well as low hydroelectric production in Mexico also resulted in an increase in the cost of power from Mexico's CFE. The Company had to purchase twice as much energy than was originally planned from CFE. The additional amount was at a rate of \$0.43 per kWh from CFE instead of the approximately \$0.22 per kWh that would have otherwise been paid for power purchases from BECOL and Belcogen.

On December 10, 2012, the Company, in compliance with Statutory Instrument (SI) No. 116 of 2009 and the PUC's Rate Setting Methodology byelaws, made a submission to the PUC showing that cost of power had increased by more than 30 per cent above the PUC's regulated Cost of Power. In accordance with the SI and byelaws, the PUC was obliged to increase the electricity rates accordingly.

To help reduce the burden to customers, BEL recommended to the PUC to net the increases in cost of power against the \$30.3 million that BEL owed customers, as ruled by the PUC in the 2012 Full Tariff Review Proceeding (FTRP). Consequently, while cost of power had increased by more than 30 per cent, the PUC decided to increase rates to customers by 16.9 per cent to \$0.489 per kWh for the period January 1 to June 30, 2013.

At the commencement of 2012, an immediate undertaking of the Company involved the transitioning of its financial reporting system from Canadian Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS). The Company had made this commitment to shareholders at the Annual General Meeting of Shareholders (AGM) on June 20, 2012 and by the end of the year the exercise was substantially completed. Under IFRS, the cost of power in the Statement of Comprehensive Income is now based on the actual cost of power instead of the regulated Cost of Power. Therefore, earnings reported in the Statement of Comprehensive Income are actual instead of the regulated earnings that were reported in previous Annual Shareholder Reports.

At the 2012 AGM, shareholders were also advised that the Company would have been making material adjustments to the financial statements in 2012 and 2013, as a result of the PUC's 2012 FTRP Final Decision and a Fixed Asset Audit exercise being conducted by the Company. The FTRP decision eliminated the \$61.6 million in the CPRSA and established the balance of \$30.3 million in an Annual Correction account as of December 31, 2011. These adjustments led to the restatement of the 2011 earnings from \$1.9 million to \$3.2 million and a \$23.5 million increase in retained earnings.

The 2011 financials were restated to comply with IFRS. The \$30.3 million Annual Correction was recorded as a deferred liability at the end of 2011. As a result of the decision made by the PUC to net the cost of power increase in 2012 against this liability, the full \$30.3 million was written down in 2012 instead of over the 2012 -2016 period as originally prescribed by the PUC in the 2012 FTRP ruling. Based on the Company's interpretation of the IFRS, this adjustment should have offset a \$16 million operating loss in 2012, resulting in earnings of \$14.3 million for 2012. The 2012 Audited Financial Statements, as presented on page 19 of this report, is based on the External Auditor's interpretation of IFRS, which the Company has accepted but with which it is not in agreement. [See Note 19 in the financial statements for details of the Company's position].

The operating loss of approximately \$16 million in 2012, prior to the adjustment, was due to the high cost of power during the second half of the year. All other expenditures of the Company were within budget and in fact unit operating expense was reduced to \$112 per MWh sold in 2012 from \$152 in 2011.

The reduction in the Company's unit operating expense was due mainly to a 23 per cent reduction in operating expenses and a 37 per cent reduction in business tax on revenues. The reduction in operating expenses, was as a result of management's continued efforts to tightly manage costs. In relation to business tax, in July 2012, the Company successfully lobbied for the Income and Business Tax (Amendment) Act 2012, which reduced the business tax rate from 6.5 per cent to 1.75 per cent.

As the Company transitions to IFRS, a Rate Reserve Account has been established in the Statement of Changes in Equity, to recognize the Company's liability to customers, as determined by the PUC in its rate review proceedings. Movement of funds in the Rate Reserve account will be solely to and from Retained Earnings to reflect PUC's decisions on the Annual Corrections balance. This Rate Reserve has become necessary since the Company is not allowed to recognize this regulatory liability in the Statement of Financial Position [Balance Sheet]. The Rate Reserve Account will ensure that the Company's decisions relating to the declaration of dividends are made only after giving consideration to any regulated liability that could have led to an overstatement or understatement of the Company's earnings.

In the years between 2008 and 2011, the Company decided not to pay dividends, since it recorded a loss in 2008 and its cash position was deteriorating rapidly. For dividends declared in 2008 but later suspended, the Board of Directors approved the related payments in 2012 and by the end of the year all small shareholders were paid and installment payments were completed to the second largest shareholder, the Social Security Board. In 2013, the Company plans to complete outstanding dividend payments to its largest shareholder on record in 2008, Fortis Inc.

After all the adjustments related to the PUC decisions, shareholders' equity increased by \$37.8 million for the period January 1, 2011 to December 31, 2012. Therefore, the Board of Directors has declared a dividend of \$0.05 per share on the issued and outstanding fully paid shares of the Company, payable to shareholders of record at the close of business on December 31, 2012.

During the period 2008 to 2011, the Company reported that it was unable to borrow money as it was not in compliance with a loan covenant of the Caribbean Development Bank [CDB]. Following a request in the latter part of 2011 to the CDB for a waiver, the CDB confirmed that this covenant does not restrict BEL's borrowing capacity. BEL welcomed this development and in fact the CDB itself has expressed high interest in financing the Company's service improvement initiatives going forward. With this development, the Company was able to commence plans to refinance its activities at lower interest rates.

High confidence in the Company's operations and cash flow management was also evidenced by a successful offering of debentures. The Series 5 Debenture Offer was for \$25 million at 7 per cent interest per annum for 12 years. The offer, which was oversubscribed, opened on November 15, 2012 and closed earlier than scheduled on December 6, 2012. The funds generated were used primarily to refinance the 12 per cent \$16.9 million Series 1 Debentures.

BEL remains steadfast in its commitment to keep the lights on.

In 2012, the Company's customer base continued to grow, increasing by 2.1 per cent. Over 1,684 new customers were connected to BEL under the Company's continuing expansion plans and a system expansion initiative financed by the European Union and the Government of Belize. Under this \$5.5 million initiative, a total of 34 new communities will be connected to the national grid by the end of 2013.

In the medium term, BEL's energy supply capacity projections show an urgent need to increase local generating capacity in the system. In 2012, the Company negotiated an emergency supply contract with Blair Athol Power Company Limited [BAPCOL] for 13.5 MW. As requested by BEL, the PUC is also releasing a Request for Proposals [RFP] for approximately 200 to 250 GWh of energy per annum. The execution of this RFP is scheduled to be completed in 2013.

BEL remains steadfast in its commitment to keep the lights on. This commitment led to a record reduction in the average frequency of power interruptions per customer by 39 per cent in 2011 compared to the previous year, which the Company was able to sustain in 2012. This was a direct result of the keen attention paid by the rejuvenated Service Reliability Committee, which focused on upgrading and maintaining the most vulnerable parts of the transmission and distribution system. Along with the upgrades which minimized unplanned interruptions, the Company's coordinated response to outage events also resulted in a 14 per cent reduction in the average duration of interruptions.

In its continuous efforts to improve the quality and standards of customer services, the Company is pleased to report the establishment of a Service Delivery Committee. This committee is tasked with identifying service gaps, exploring and implementing new and more efficient processes to address these gaps and the proactive monitoring of the quality of service to customers.

During the year, BEL teamed up with sister utilities, Belize Water Services Limited (BWS) and Belize Telemedia Limited (BTL) to explore ways of utilizing joint resources to enhance efficiency, while reducing cost of operations. Towards this objective, BEL and BWS implemented a cashiering system during the year, which allows both companies to collect bill payments for each other, thereby offering customers more convenience when paying their bills. Full rollout of the system in 2013, will enable customers to pay both their electricity and water bills at all BWS branches, BEL headquarters and BEL agents countrywide.

Maintaining high safety, health and environmental standards continues to be another important area of priority for BEL. This focus drives training, customer awareness initiatives and other activities for employees and contractors to help them remain committed to delivering electricity in a safe and environmentally friendly manner. These efforts are also manifested by the completion of yet another year of operation without a fatality or major injury, by continued compliance with ISO 14001 standards and by the Company's move towards compliance with the Occupational Health & Safety Administration (OHS) 18001 standard.

As the Company heads into 2013, it does so with much enthusiasm for the future. Certainly the Company encountered some major hurdles in 2012, but it also quickly found related solutions. In spite of the pending settlement of the mediation between the Company and the Belize Energy Workers Union (BEWU), management together with staff continue to demonstrate commitment to the success of the Company.

The approach to work is articulated in the new Company Vision and Values that the Company is proposing to shareholders going forward: Vision - A Model of Excellence and Values - Integrity, Teamwork, Respect, Passion for Excellence and Reliability. Complementing these proposals is also a recommendation to revise the Mission statement to read as follows: to provide reliable electricity at the lowest sustainable cost, stimulate national development and improve the quality of life in Belize.

In closing, the Board of Directors and Management of the Company also express gratitude to shareholders for their continued support as the Company continues the transitioning process since June 2011. The Company now enters another chapter and looks forward to reporting more accomplishments for the new BEL in 2013.



Rodwell Williams
Chairman of the Board



Jeffrey Locke
Chief Executive Officer

HIGHLIGHTS

OF 2012

- The Board of Directors approved the payment of dividends declared on March 11, 2008 to all shareholders on record as at April 25, 2008.
- Considering the \$37.8 million increase in Shareholders' equity at December 31, 2012, compared to the previously reported figure at January 1, 2011, the Board of Directors approved a dividend of \$0.05 per share to ordinary shareholders for the year ended December 31, 2012.
- On February 1, 2012, electricity rates were reduced from \$0.441 per kWh to \$0.418 per kWh.
- Adjustments to the financial statements offset a \$16 million operating loss in 2012 and resulted in an increase in retained earnings of \$14.3 million.
- 2011 earnings were restated from \$1.9 million to \$3.2 million.
- The Company migrated its financial reporting system from Canadian GAAP to IFRS.
- Energy sales grew by 7.9 per cent compared to 2011, primarily driven by a 93 per cent growth in industrial sales.
- As a result of the 2012-2013 Annual Tariff Review Proceeding (ARP), customers were reclassified to reflect how they utilize electricity.
- Customers experienced a 14 per cent reduction in the duration of service interruptions compared to 2011. Work on the transmission and distribution system throughout the country assisted in reducing outages, minimizing system losses, improving voltage quality, and meeting load growth.
- An 81.3 per cent Customer Satisfaction Rating was achieved, with cashiering and field services receiving the highest rankings.
- A newly established Service Delivery Committee focused on developing and implementing new processes and using technology to improve customer service and respond quicker to customer requests.
- A new cashiering software application was launched which significantly expanded the number of existing collection agents at which customers can make payments that are immediately recorded on BEL's system.
- Cost of power increased by 27.6 per cent to \$164.2 million in 2012, as related cost soared to a record high due to challenges faced by local suppliers, which forced the Company to purchase more power from Mexico than planned at a much higher rate than what would have been paid to local suppliers.
- The Company issued a \$25 million Series 5 Fixed Rate 12-year Debenture Offer to refinance the maturing Series 1 Debentures. The additional \$8.1 million raised was used to finance working capital. A short-term \$10 million debt from the Social Security Board was used to meet the increased cost of power.
- Various development and training programs were implemented to build capacity for the Company's 279 employees in areas of technical skills, strategic management and leadership.

YEAR ENDED **DECEMBER 31, 2012**

Earnings

As a result of the transition of its financial reporting to IFRS from Canadian GAAP, the Company restated its 2011 financial statements for comparative purposes with the 2012 financial statements.

In 2012, a loss of \$16 million is reported in the financial statements before adjustments and earnings of \$14.3 million after adjustments of \$30.3 million based on PUC's tariff decisions.

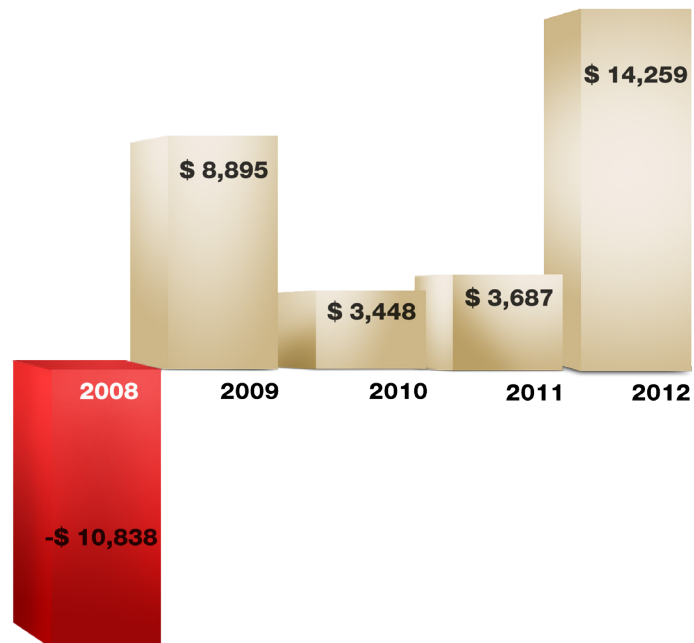
The PUC's 2012 FTRP Final Decision led to the recognition of the Annual Correction of \$30.3 million as a deferred liability at the end of 2011 in the Company's financial statements. This meant that BEL owed customers \$30.3 million to be repaid over the Full Tariff Period (FTP) 2012 to 2016. The Company made a decision, with the PUC's approval, to completely pay down this liability in 2012 by absorbing the significant increase in the cost of power between July and December 2012.

In an amendment to the ARP under SI 116 of 2009, the PUC ordered the recovery of this excess cost of power amounting to \$37.3 million, by netting it against the Annual Correction balance in 2012. The PUC adjusted the MER for the period January 1 to June 30, 2013 from \$0.418 per kWh to \$0.489 per kWh. The netting of the excess cost of power resulted in an adjustment to Company earnings in 2012 to reflect the write down to zero of the deferred liability.

If the Company was able to record the deferred liability to customers in the Statement of Financial Position (Balance Sheet) and the rebate/write down in its Statement of Comprehensive Income (Income Statement), this would have resulted in the Company reporting net earnings of \$14.3 million and an earning per share of \$0.21 as presented in the Company's 2012 forecast based on independent advice as to a prior interpretation of the treatment of a regulated liability under IFRS.

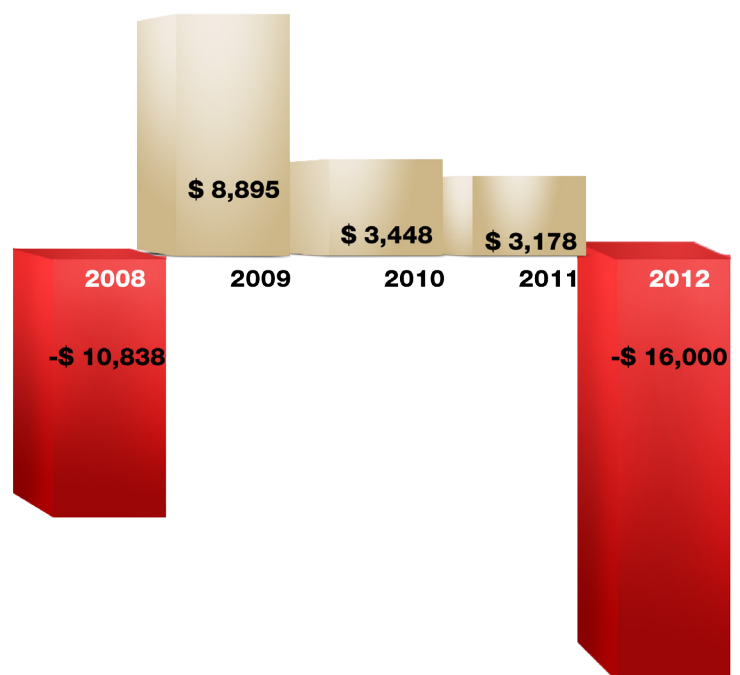
Earnings with Adjustment

(In Belize thousands of dollars)



Earnings without Adjustment

(In Belize thousands of dollars)

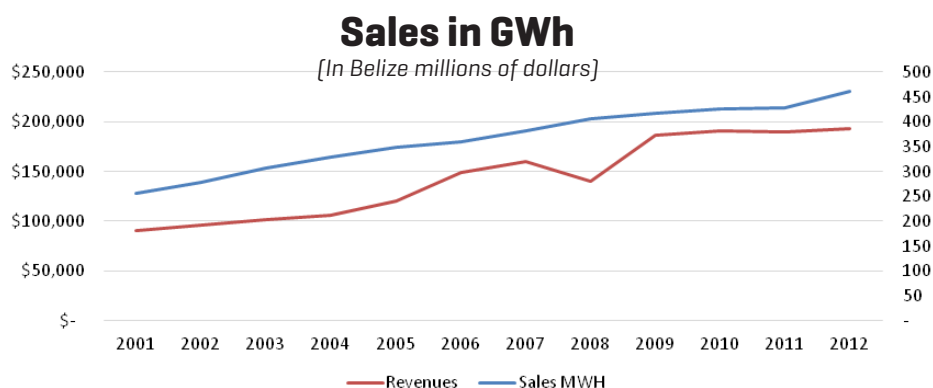


Instead, the Company is reporting a net loss of \$16 million for the year and negative earnings per share of \$0.23 attributed to the higher than projected cost of power while at the same time reporting an increase in retained earnings of \$14.3 million in 2012 and \$23.5 million after adjustments in 2011.

While the escalating cost of power in the second half of 2012 negatively affected earnings, all other expenditures were lower than budget.

Revenues and Sales

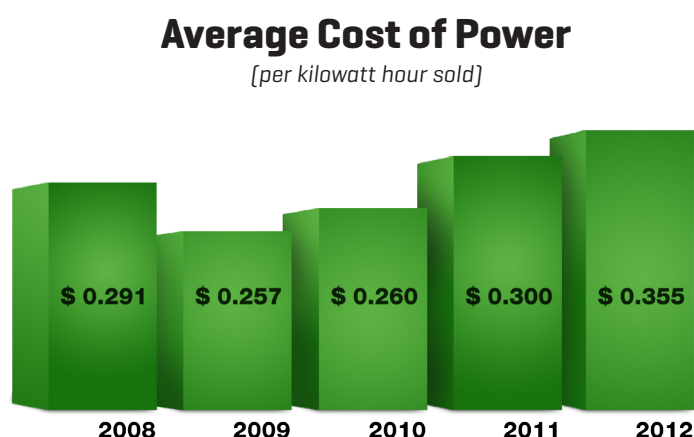
Energy sales grew by 7.9 per cent to 462.2 GWh compared to 2011. This increase was primarily driven by a 93 per cent growth in industrial sales compared to 2011, following the reconnection of industrial customer, Belize Aquaculture Limited, to BEL's system. With the 2.1 per cent increase in the customer base to 80,363 accounts, residential and commercial sales increased by 4.7 and 3.5 per cent, respectively. The lowering of the electricity rates in February 2012 appears to have resulted in a 4 per cent average increase in consumption per customer in the commercial and residential segments.



Electricity revenues for the year grew by 1.6 per cent to \$193.3 million. Electricity revenues grew at a slower rate than energy sales, mainly due to the decrease in approved MER from \$0.441 to \$0.418 per kWh effective February 1, 2012. In reality, the actual MER since February 2012 was \$0.415 per kWh. This \$0.003 per kWh variance is as a result of an increase in the per cent of industrial sales at a rate of \$0.049 per kWh lower than the MER.

Cost of Power

Cost of Power for the year increased by \$35.5 million or 27.6 per cent to \$164.2 million in 2012. This is the result of record high cost of power during the months of July through to December 2012. Variances between actual and the referenced Cost of Power were, in previous years, deferred to the CPRSA. This account has now been eliminated to comply with the requirements of the PUC and the transition to IFRS.



The actual unit cost of power in 2012 was \$0.355 per kWh compared to the PUC's reference Cost of Power of \$0.262 per kWh. In 2011 the actual cost of power was \$0.30 per kWh.

This 18 per cent increase in unit cost of power is mainly the result of lower energy production from hydroelectric and biomass facilities.

Operating Expenses

As a result of the Company's efforts to control expenditures and improve financial performance, there was continued and heavy emphasis on cost saving initiatives. Excluding cost of power, operating cost per MWh sold was reduced to \$112 compared to \$152 [restated] in 2011.

Depreciation expense decreased by 12.2 per cent, as a result of the net effect of new assets placed into service and the removal of the amortization of capital contribution which is now being recorded in other revenues as compared to 2011.

Finance charges for both 2012 and 2011 [restated] were \$6 million and do not reflect any interest on the CPRSA balance.

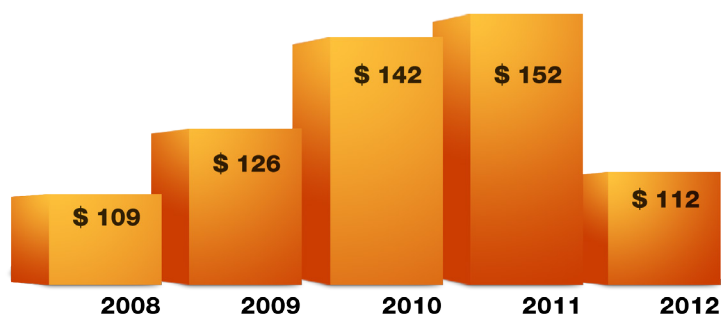
On July 1, 2012, the business tax rate on the revenues of the Company was reduced from 6.5 per cent to 1.75 per cent in accordance with the Income and Business Tax [Amendment] Act of 2012. Business tax for 2012 was \$7.9 million as compared to \$12.6 million [restated] in 2011. For 2011, business tax was adjusted to reflect 1.75 per cent in expenses and the remaining 4.75 per cent was deferred to the CPRSA after the full amount was paid. The decrease in tax rate resulted in some \$4.8 million in savings for business tax expense in 2012.

Capital Expenditure

In 2012, the Company invested \$17.7 million in improving and reinforcing its property, plant and equipment. The need for continuous system improvements drove capital expenditures during the year. Transmission line maintenance and upgrades continued to remain a key focus. Work done on substations throughout the country are to assist in reducing outages, minimizing system losses, improving voltage quality, and meeting load growth demand. Distribution system improvements accounted for some \$4.1 million to include work done in the Belize, Corozal and Orange Walk Districts as well as in the San Pedro and Caye Caulker municipalities. These improvements included replacement of deteriorated poles and stringing of 14 miles of shield wire along the end of the Southern Highway into Punta Gorda Town.

Operating Cost

[\$ per megawatt hour sold]
[exclude Cost of Wholesale Power]



Investments

[In Belize thousands of dollars]



In 2012 capital expenditure reduced by 43.6 per cent due mainly to the Company's improved decision making process in relation to capital projects. This decision making approach was implemented in mid-2011. The reduction in capital expenditure is also attributed to the need to redirect financing, originally scheduled for capital works, to meet the significant increase in the cost of power.

Expansion initiatives, following specific requests from customers, included distribution line extensions and new service installations. Under an expansion project being funded by the European Union and the Government of Belize, the Company is electrifying several rural and peri-urban communities. In 2012, communities to benefit from this project were in the Corozal, Orange Walk, Cayo, Stann Creek, and Toledo Districts.

Financing

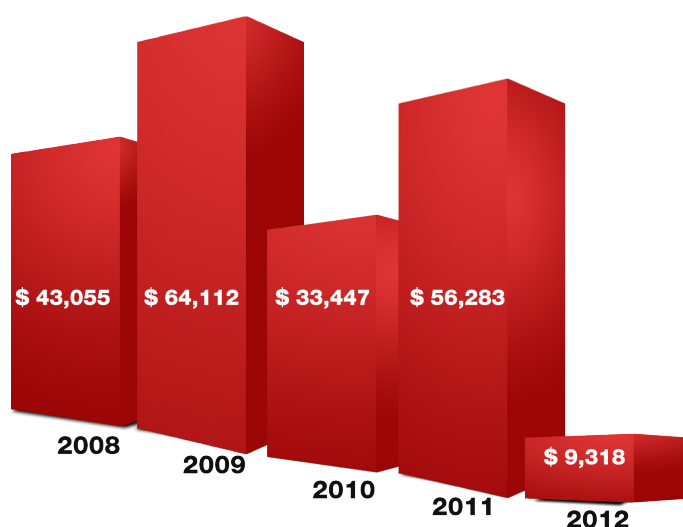
The Company continued to finance its operating and capital expenditure programs, as well as repayment of loan commitments for 2012 primarily from internally generated cash flows.

Due to the high cost of power, capital expenditure was reduced from original plan by 30 per cent.

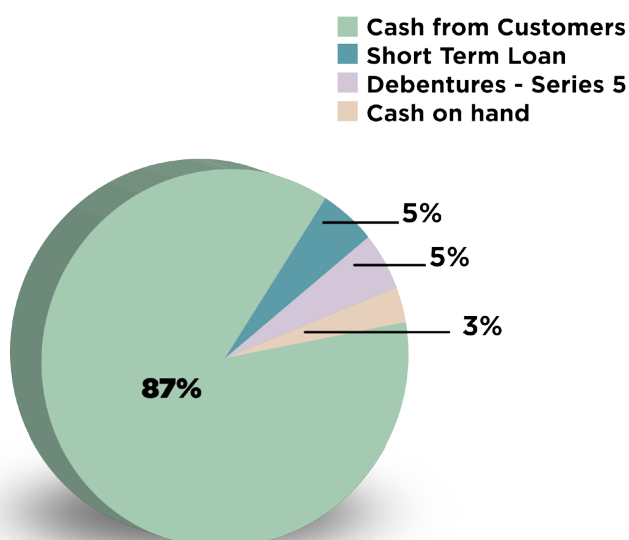
The \$16.9 million Series 1 Debentures matured on December 31, 2012. A \$25 million Series 5 Fixed Rate 12-year Debenture offer was issued to refinance the matured debentures at a more competitive rate of 7 per cent. The additional \$8.1 million, was used to finance working capital. A short-term debt of \$10 million from the Social Security Board was used to finance the increase in the cost of power. Interest on the short-term debt is 5 per cent and will be invested in three-year redeemable preference shares in 2013.

Cash from Operations

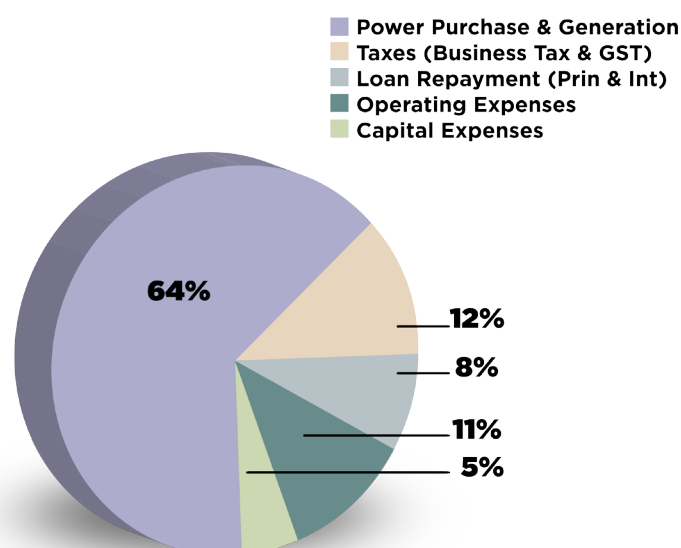
[In Belize thousands of dollars]



2012 Source of Funds



2012 Use of Funds



The Board of Directors approved the payment of dividends declared in March 2008 to all shareholders on record as at April 25, 2008. The former Board of Directors, under the previously Fortis controlled BEL, had suspended the declared dividends in April 2008, citing incompliance with loan covenants. In 2012, the new Board of Directors ordered the payment of these dividends to small shareholders as a priority. All payments were made to these shareholders by the end of the year. Payments were made to the Social Security Board in installments and in 2013 the Company plans to make similar installment payments to the former majority shareholder, Fortis Inc.

Regulation

The Company is regulated under the amended 1992 Electricity Act, the amended 1999 Public Utilities Commission Act, and the Electricity (Tariffs, Charges and Quality of Service) Byelaws 2005.

The Company's license to generate, transmit, distribute and supply electricity in Belize expires in 2015. Under the terms of the license, the Company has the right of first refusal on any subsequent license grant. The Company notes that there are opportunities to increase sales demand by connecting several other communities to the national grid. However, issues relating to unlicensed electricity operators in some communities will need to be addressed. BEL is prepared to work with all stakeholders involved in efforts to resolve this matter.

Under the Tariff Byelaws, the average electricity tariff is divided into three main components: a fixed component to cover overhead expenses and provide the Company with a reasonable return on investment (Value Added of Delivery), a variable component that reflects the cost of electricity (Cost of Power) and a deferred cost of power recovery or rebate component.

On December 1, 2011, the Company filed a FTRP application for the FTP July 1, 2012 to June 30, 2016, requesting a reduction in the MER comprising of a decrease in the Cost of Power component of the tariff, a proposed increase in the VAD component, and a recovery / [rebate] component adjustment. The PUC approved a reduction in the rates to \$0.418 per kWh from \$0.441 per kWh; as well as an increase in the VAD, net of CPRSA recovery and corrections, to \$0.140 per kWh from \$0.129 per kWh. The effective date of these approvals was set at February 1, 2012, pursuant to SI 21 of 2012.

On April 2, 2012, the Company filed its ARP application for the Annual Tariff Period (ATP) July 1, 2012 to June 30, 2013. On June 26, 2012, the PUC issued its Final Decision in which it ordered interest charges to late payments for customers classified as Commercial 2 and Industrial. The PUC also ordered the reclassification of customer accounts to reflect how customers use electricity. This will allow the Company to better meet the required level of service to customers and also ensure the price customers pay reflects their category of usage. Other fees and charges were also adjusted to match actual costs of services provided.

On December 10, 2012, the Company submitted information to the PUC in accordance with SI 116 of 2009, on the actual cost of power compared to the reference Cost of Power approved under the 2012-2013 ARP. On January 11, 2013, the PUC ordered an increase in the MER for the period January 1 to June 30, 2013 to \$0.488 per kWh from \$0.418 per kWh.

2012 Outlook

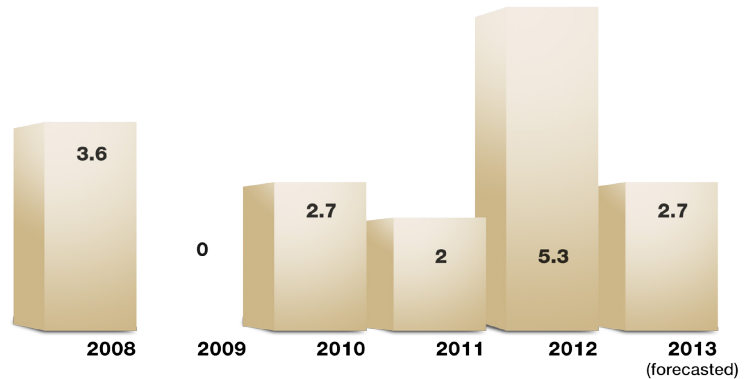
In 2012, the growth in Gross Domestic Product (GDP) is estimated at 5.3 per cent, driven by agriculture, agro-processing and the tertiary sector. The estimated projected growth in GDP for 2013 is 2.7 per cent.

The recovery in the Belizean economy in recent years has been driven by expansion in renewable energy in 2010 and the recovery in tourism, as well as increase in commodity export earnings.

The steep decline in petroleum production has a negative impact on the Belizean economy, while there are good prospects for revitalization of farmed shrimp production.

With the recent increase in electricity rates, electricity demand in 2013 is therefore forecasted to lag slightly behind GDP growth at a rate of 2 per cent. However, it is expected to increase to an average rate of 3.6 per cent over the next five years.

Real GDP Growth (%)



Energy Supply

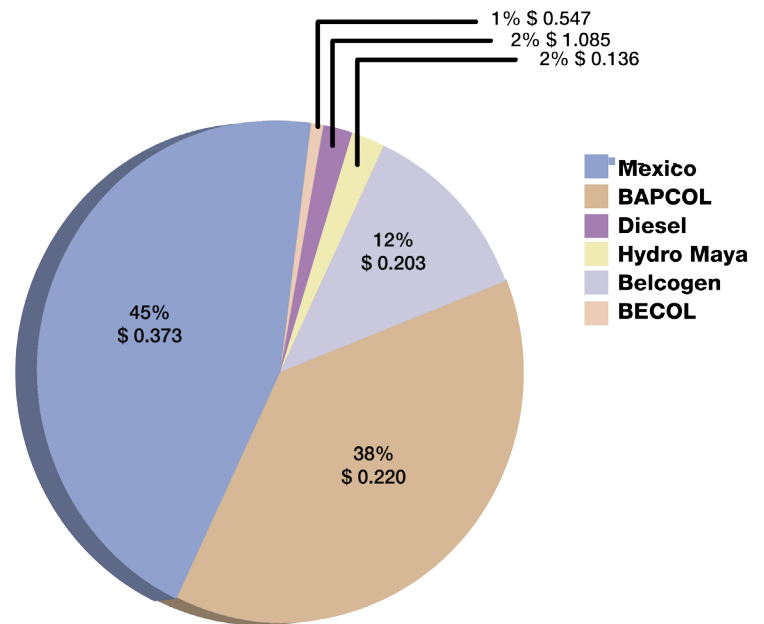
Sourcing reliable and cost effective energy supply options was a major challenge facing BEL in 2012 as the cost of power soared to a record high.

In 2012 BEL imported 45 per cent of its energy supply from Mexico, while 40 per cent was supplied by hydroelectricity, 12 per cent by biomass and the balance from diesel generation.

Uncharacteristically low rainfall levels during the year resulted in considerably low hydroelectric production. This, coupled with production problems at Belcogen and Hydro Maya Limited, forced BEL to purchase more power from Mexico, at an incremental cost of \$0.429 per kWh compared to the PUC's regulated cost of \$0.262 per kWh.

To prepare for future energy supply challenges which are expected to continue in 2013, the Company will continue to explore opportunities to lower and further stabilize cost of power by encouraging more generation of electricity from renewable and cheaper sources. To formally commence this process, BEL requested that the PUC release a Request for Proposals for approximately 200 to 250 GWh of energy per annum.

Energy Production by Source



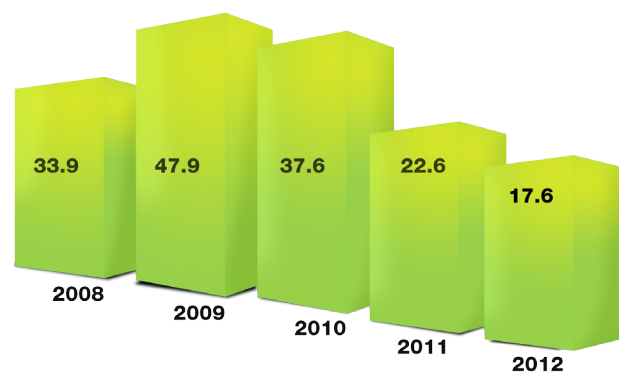
Reliability Initiatives

The development of the country hinges closely on the quality and reliability of its energy supply. Reliability therefore remains the primary aim of BEL's ongoing maintenance and upgrade initiatives on the Company's transmission and distribution system. In 2012, the average duration of service interruptions was reduced by 14 per cent compared to 2011. While this is an improvement, the Company remains tireless in its efforts to achieve continuous improvement so as to keep the lights on.

BEL has reduced its response time for the evaluation of faults and also to rectify service interruptions. Power can now be restored faster following these events through the use of communications equipment that allow operators at the Company's Control Center to perform quicker and better analysis of faults in the field.

Average Frequency of Power Outages

[Experienced Per Customer]



Customers in Belize City, Ladyville and rural Belize District are direct beneficiaries of upgrades to the West Lake Substation. In the event of faults at this substation, the Company can now supply customers in these areas using its mobile substation. Alternative supply is also now available to the Belmopan municipality with upgrades at that location.

Placencia and San Pedro are two major tourism destinations in Belize with a rapidly growing power demand. Therefore, it was essential for BEL to complete upgrades to the distribution system in these areas to facilitate this growth in demand. Along with infrastructure upgrades, isolation and protection devices were installed on the distribution system in these areas to ensure continuous power supply. Similarly, an aging power transformer was replaced at the Corozal Substation. In addition, the replacement of the transformer, which supplies the major commercial hub of the Corozal Free Zone, was completed during the year.

BEL also implemented a more sophisticated monitoring program for its substation equipment in order to ensure their continued availability and the expected asset longevity by performing more testing of the devices and monitoring of their performance. In 2012, the thermoscanning program continued, under which the distribution system is routinely scanned to detect hazards not easily visible by identifying temperature differences on power line devices. Being able to monitor and identify these hazards allows the Company to take proactive measures and mitigate future preventable system interruptions.

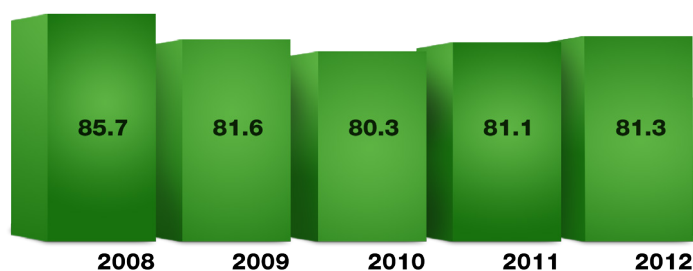
Customer Service Initiatives

The newly established Service Delivery Committee features a cross-functional team with representatives from the Customer Care and Transmission & Distribution Departments. This committee is tasked with the proactive monitoring of the quality of service to customers, identifying service gaps, and exploring and implementing more efficient processes using technology and in so doing improve response time to customer requests. A specific accomplishment of the committee's collaborative efforts was a reduction in the time it takes to connect a new customer to the Company's system from three days in 2011 to two days in 2012. Promotion of the Company's improved requirements for service standards and quality also played a key role in this accomplishment.

Overall Customer Satisfaction Rating in 2012 was 81.3 per cent. Customers were especially pleased with the Company's cashiering and field services.

Another service area of importance is ensuring the Company provides customers with convenient options for paying their bills. During the year, the Company launched a new cashiering software application and significantly expanded the number of existing collection agents at which customers can make payments that are immediately recorded on BEL's system. In 2013, with full rollout of the application, customers will be able to pay both their electricity and water bills at all BWS branches, BEL headquarters and BEL agents countrywide.

Customer Satisfaction Ratings



More customers are using the Company's E-Service to view and manage their electricity accounts online, arrange for paperless billing and SMS notifications on account, power outage updates and other service information.

As a result of the 2012-2013 ARP, customer accounts were reclassified to reflect how customers utilize electricity. The Company is cognizant that different types of customers require different types of service from BEL. Therefore, this reclassification ensures customers receive their required level of service.

System Expansion

BEL recognizes and appreciates that electricity is a key element to improve the quality of life in Belize. During the year, the Company worked to fulfill its commitment to a joint \$5.5 million project funded by the European Union and the Government of Belize, to connect thirty-four urban and peri-urban communities throughout the country with electricity supply. By the end of 2012, twenty-two of these communities in the Corozal, Orange Walk, Cayo, Stann Creek and Toledo Districts had been connected to the national grid under the two-year project, which began in 2011. The remaining communities will be connected in 2013.

BEL also partnered with the Government of Belize, the Japan International Cooperation Agency (JICA) and the University of Belize (UB) to introduce solar electricity generation on the university's Belmopan campus. Power generated by this project provides 480 kilowatts (kW) of capacity and about 1.4 per cent of the supply in the Belmopan load center.

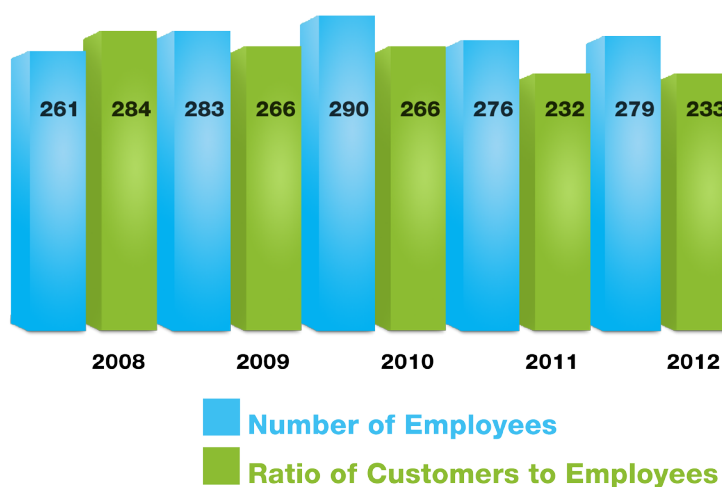
Human Resources

In keeping with the Company's mandate and strategic direction to ensure the workforce is capable, qualified and committed, various training and team building opportunities were done for employees across the board.

The objective of the various training was to build capacity for employees in areas of technical skills, strategic management, and leadership. Managers participated in a Strategic Planning Workshop and Implementation Planning session early in the year which set the stage for development of the Company's five-year business plan. Fostering leadership skills and effective implementation of the Company's strategic plan was the primary focus of an ongoing Comprehensive Supervisory Leadership Training which continued in 2012. Linemen completed training in Pole Top Rescue to learn the process of rescuing fellow employees in distress on a utility pole. Transformer Connection and Underground Connection training was also done to equip the linemen with the skills needed to properly install transformers and troubleshoot underground power systems. Under the Company's Apprenticeship Program, aspiring linemen are provided on-the-job training with related classroom instructions. Twenty-five employees were enrolled in the program at the end of 2012.

In 2012, there were 1,456 training days compared to 519 in 2011.

Customer to Employee Ratio



During the year, some industrial related matters with the BEWU came to the forefront which required a resolution. The Company is keen on resolving these matters and therefore entered into mediation with the Labor Commissioner and the BEWU. While these sessions have not yet yielded a resolution, the Company remains committed to this process in the best interest of customers, employees and all other stakeholders.

Understanding that the personal wellbeing of staff directly impacts their interaction and performance on the job, the Company's Employee Assistance Program was promoted, which provides access to support services such as free voluntary counseling and referral for various issues affecting mental and emotional wellbeing.

Social activities such as Family Fun Day, End of Year Party and Recognition & Awards Program were also organized to provide opportunities for staff interaction outside of the daily work setting and, more importantly, develop a higher sense of teamwork in the process.

Safety, Health and Environment

The importance BEL places on safety, health and the environment, is reflected in the numerous activities and initiatives carried out on a yearly basis.

During the year, the Company celebrated its Health & Safety Week, under the theme "Safety Starts with Me". This week was filled with activities to promote awareness amongst staff. These activities included: blood pressure and glucose testing of employees, monitoring for proper seatbelt usage, fire drills at the Company's Belize City office compounds, and Lunch & Learn sessions on tips for good housekeeping and healthy living.

With a highly mobile workforce, one of the highest areas of risk for BEL is vehicular accidents. In 2012, there were nine vehicle accidents, comparable to the result in 2011. However, lost work days due to injuries and vehicle accidents have doubled compared to 2011. The Company therefore continues to provide training in defensive driving and is investigating new initiatives to effectively address this area of growing concern.

The Company's Annual Management Review of its Environmental Management System [EMS] was conducted and a workshop was also held for the Company's management team. Potential environmental hazards were identified and ranked in order of significance, new targets were set and recycling programs developed to prevent pollution, improve environmental performance and maintain compliance with the ISO 14001 management system standard.

In BEL's aim to become fully compliant with the Occupational Health & Safety Assessment Series [OHSAS] 18001 standard, a gap analysis was conducted to review BEL's Safe Work Management System against the OHSAS 18001 Standard. The gap analysis featured interviews with employees, reviews of related documentation and inspections of worksites. Consequently, an action plan was prepared and will be implemented in 2013.

Community Involvement

As a proud corporate citizen, BEL strives to participate and contribute in a meaningful way to the communities it serves. In 2012, BEL launched its first ever Golden Citizens Electricity Bill Pay Program which provides one year of free electricity supply to 50 senior citizens who are registered as Golden Citizens with the Social Security Board and are also registered as a social rate customer with BEL.

For the 14th consecutive year, BEL employees made monetary contributions towards their Christmas Hamper Drive and Christmas Morning Breakfast initiatives, which are also funded by the Company. Employees distributed thirty-four hampers containing the main ingredients for a traditional Christmas meal to families across the country and on Christmas morning, served breakfast to residents of Sister Cecilia Home, Raymond Parks Shelter and homeless persons in Belize City, and distributed toys to disadvantaged children.

The Company also provided financial and in-kind contributions to various organizations and individuals towards improving their quality of life in Belize. The Company sponsored Belize Band Fest, which provides a musical outlet for talented youth under the Governor General's Music in Schools Program, and high school athletes who participated in the King James AAU Tournament in Ohio, U.S.A. under the stewardship of the National Sports Council.

BEL also supported the efforts of the Envoy for Women & Children with a contribution to the National Inspiration Telethon Project which will enable the construction of an Inspiration Center for children with special needs. As well, the Company supported the Ministry of Energy, Science & Technology and Public Utilities with the launch of a 5-year Strategic Plan to encourage the development of more local renewable energy supply sources.

Audited Financial Statements

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INDEPENDENT AUDITORS' REPORT

Accountants &
business advisers

**To the Board of Directors and Shareholders of
Belize Electricity Limited**

Report on the Financial Statements

We have audited the accompanying financial statements of Belize Electricity Limited, which comprise the statement of financial position as at December 31, 2012, and the statements of comprehensive income, changes in equity and cash flows for the period 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 the financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

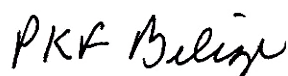
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the financial statement presents fairly, in all material respects, the financial position of Belize Electricity Limited as at December 31, 2012 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The financial statements of Belize Electricity Limited for the year ended December 31, 2011 were audited by another auditor who expressed an unmodified opinion on those statements on February 3, 2012.



PKF Belize
Chartered Accountants
April 29, 2013

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PKF Belize | 35 Regent Street | P.O. Box 280 | Belize City, Belize
Partners: D. Erskine | J.A. Bautista

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2012 AND 2011 AND JANUARY 1, 2011
(In Belize thousands of dollars)

	Notes	December 31, 2012	December 31, 2011	January 1, 2011*
Assets				
Current assets				
Cash and cash equivalents	3c, 9	8,636	9,174	5,340
Trade and other receivables	5	17,863	17,350	18,846
Inventories	3f, 6	15,870	17,615	6,162
		42,369	44,139	30,348
Non-current assets				
Property, plant and equipment	3g, 7	445,012	445,143	444,683
Intangible assets	3h, 8	452	715	1,872
Total assets		487,833	489,997	476,903
Liabilities				
Current liabilities				
Trade and other payables	10	51,511	51,724	27,778
Current portion of long-term debt	12	6,077	6,653	12,347
Current portion of debentures	13	-	16,948	-
Corporate tax payable	23	268	814	774
		57,856	76,139	40,899
Non-current liabilities				
Other liabilities	11	10,000	-	-
Capital Contributions	17	36,708	33,190	31,722
Long-term debts	3l, 12	6,518	12,139	18,435
Debentures & debenture subscriptions	13	76,458	52,363	69,311
Consumer deposits	14	7,500	7,373	7,125
Total liabilities		195,040	181,204	167,492
Equity				
Share capital	3o, 15	138,046	138,046	138,046
Additional paid in capital	16	5,741	5,741	5,741
Insurance reserve	18	5,000	5,000	5,000
Rate reserve	19	-	30,258	30,258
Retained earnings		144,006	129,748	130,366
Total equity		292,793	308,793	309,411
Total liabilities and equity		487,833	489,997	476,903

* First time adoption of IFRS requiring reconciled opening balances to be reported.


Rodwell Williams

Chairman of the Board


Jeffrey Locke

Chief Executive Officer

The notes on pages 24 - 49 form an integral part of these financial statements.

STATEMENT OF

COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2012 | 2011

(In Belize thousands of dollars)

	Notes	December 31, 2012	December 31, 2011
Revenues	3m, 20	\$ 193,294	\$ 190,245
Cost of power	3n, 21	(164,187)	(128,692)
Gross profit		29,107	61,553
Other income	22	6,828	6,883
Gain on foreign exchange		2	19
Operating expenses		(22,408)	(28,896)
Depreciation and amortization	7, 8	(15,692)	(17,874)
(Loss) Income before interest income, interest expenses and taxes		(2,163)	21,685
Interest income		40	43
Interest expense		(5,970)	(5,986)
Net interest expense		(5,930)	(5,943)
Net (Loss) Income before corporate taxes		(8,093)	15,742
Corporate tax	3k, 23	(7,907)	(12,564)
Net (Loss) income for the year		\$ (16,000)	\$ 3,178
(Loss) Earnings per share (expressed in \$ per share)	24	\$ (0.23)	\$ 0.05

The notes on pages 24 – 49 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

	Share Capital	Additional Paid-in Capital	Insurance Reserve	Rate Reserve	Retained Earnings	Total
Balance, January 1, 2011 as previously reported	\$ 138,046	\$ 5,741	\$ 5,000	\$ -	\$ 106,254	\$ 255,041
Change in accounting policy	-	-	-	-	27,226	27,226
Appropriation to rate reserve	-	-	-	30,258	-	30,258
Prior year adjustment business tax [Note 29]	-	-	-	-	(3,114)	(3,114)
Balance at January 1, 2011, restated	138,046	5,741	5,000	30,258	130,366	309,411
Dividends [Note 3p]	-	-	-	-	(3,796)	(3,796)
Net income for the year	-	-	-	-	3,178	3,178
Balance, December 31, 2011, restated	138,046	5,741	5,000	30,258	129,748	308,793
Transfer to retained earnings	-	-	-	(30,258)	30,258	-
Net income [loss] for the year	-	-	-	-	(16,000)	(16,000)
Balance, December 31, 2012	\$ 138,046	\$ 5,741	\$ 5,000	\$ -	\$ 144,006	\$ 292,793

The notes on pages 24 – 49 form an integral part of these financial statements.

STATEMENT OF

CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 | 2011

(In Belize thousands of dollars)

	Notes	December 31, 2012	December 31, 2011
Cash flow provided by (used in)			
Operating activities			
Net (Loss) income for the year		(16,000)	3,178
Adjustments for:			
Depreciation and amortization	7, 8	15,692	17,874
Depreciation in cost of power	21	2,293	2,263
Reclassification of property, plant and equipment	7	-	11,643
Unrealized foreign exchange gain on long-term debt		(2)	[19]
Amortization of capital contribution	17	(1,021)	[947]
Corporate tax		7,907	12,564
Interest expense		5,970	5,986
Changes in items of working capital:			
(Increase) Decrease in trade and other receivables		(513)	1,497
Decrease (Increase) in inventories		1,745	[11,453]
Increase in trade and other payables		1,700	23,909
		17,771	66,495
Corporate tax paid		(8,453)	[10,212]
Net cash generated from operating activities		9,318	56,283
Investing activities			
Purchase of property, plant and equipment	7	(17,673)	[31,331]
Proceeds from sale of property plant and equipment		91	389
Acquisition of intangible assets	8	(9)	[140]
Net cash used in investing activities		(17,591)	[31,082]
Financing activities			
Repayment of long-term debts		(6,194)	[11,971]
Proceeds from Short Term Debt	11	10,000	-
Debentures Redeemed	13	(4,585)	-
Series 5 debenture subscription	13	11,731	-
Interest paid		(7,883)	[8,263]
Dividends paid		-	[3,796]
Consumer deposits		127	248
Capital contributions	17	4,539	2,415
Net cash provided by (used in) financing activities		7,735	[21,367]
Net (decrease) increase in cash and cash equivalents		(538)	3,834
Cash and cash equivalents, beginning of the year		9,174	5,340
Cash and cash equivalents, end of the year		8,636	9,174

The notes on pages 24 – 49 form an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

(In Belize thousands of dollars)

1. **General information**

Belize Electricity Limited (the 'Company') generates and supplies electricity to consumers throughout the country of Belize. The Company is a public limited liability company incorporated and domiciled in Belize. The address of its registered office is 2¹/₂ miles Philip S. W. Goldson Highway, Belize City.

The Company was a majority-owned subsidiary of Fortis Inc. of Canada until June 20, 2011 when the Government of Belize acquired the majority shares from Fortis Inc. via Statutory Instrument No. 67 of 2011 as provided by the Electricity [Amendment] Act No. 4 of 2011 of the Substantive Laws of Belize. The major shareholders of the Company currently are the Government of Belize and the Belize Social Security Board. There are also some 1,500 small shareholders.

Regulation

The Electricity Act, Chapter 221 and Statutory Instrument No. 145 of 2005, Electricity [Tariffs, Charges and Quality of Service] Byelaws 2005 of the Laws of Belize regulates and makes provision for electricity services in Belize and provides specific powers to the Public Utilities Commission (PUC) to enforce specific regulations in respect to tariffs, charges, and quality of service standards. The Statutory Instrument governs the tariffs, rates, charges and fees for the transmission and supply of electricity and for existing and new services to be charged by the Company to consumers in Belize and the mechanisms, formulas, and procedures whereby such tariffs, rates, charges and fees are calculated and determined. The PUC is authorized under the Public Utilities Commission Act to act as the regulator of utilities in Belize. The primary duty of the PUC is to ensure that the services rendered by the Company are satisfactory and that the charges imposed in respect of those services are fair and reasonable. The PUC has the power to set the rates that may be charged in respect of utility services and the standards that must be maintained in relation to such services. In addition, the PUC is responsible for the award of licenses and for monitoring and enforcing compliance with license conditions.

In determining basic electricity rates, the PUC considers mainly three component cost of electricity. The first component is Value Added of Delivery ("VAD"), the second is cost of fuel and purchase cost of power ("COP") which includes the variable cost of generation and is a flow through in customer rates and the third is the deferred cost of power recovery/rebate component.

The VAD component of the tariff allows the Company to recover its operating expenses, transmission and distribution expenses, taxes and depreciation, and assumes a rate of return on regulated asset base, in the range of 10 per cent to 15 per cent. The Company undergoes annual rate proceedings and full rate proceedings, every four years, to determine Mean Electricity Rate (MER), Tariff and Fees based on estimated VAD and COP components of electricity rates and any annual correction component. A rate review proceeding can occur when there is a material difference between the actual and reference cost of power.

The Company's tariffs are approved by the PUC based on certain forecasts and assumptions with respect to cost of service, sales and quality of service. At the completion of annual and full tariff period reviews, the Company's rates are adjusted based on the latest forecasts and assumptions. These rate adjustments also incorporate corrections for differences between the actual results and the last set of assumptions/forecasts laid out in the previous rate order approved.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

2. **Basis of preparation and adoption of IFRS**

Up to and until December 31, 2011, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles [Canadian GAAP]. On January 1, 2012, the Company adopted International Financial Reporting Standards [IFRS] as issued by the International Accounting Standards Board [IASB]. Accordingly, these are the Company's first annual financial statements prepared in accordance with IFRS as issued by the IASB.

These financial statements have been prepared in compliance with IFRS. Subject to certain transition elections and exceptions disclosed in Note 29, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2011 throughout all periods presented, as if these policies had always been in effect. Note 29 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended December 31, 2011 prepared under Canadian GAAP.

These financial statements were approved by the Board of Directors on April 23, 2013.

3. **Summary of significant accounting policies**

The significant accounting policies used in the preparation of these financial statements are as follows:

a. Basis of measurement - The financial statements have been prepared under the historical cost convention, except for intangibles which are measured at fair value.

b. Foreign currency translation -

(i) **Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates [the 'functional currency']. The Company's functional and presentation currency is Belize dollars. The official exchange rate for the Belize dollar is fixed at BZ\$2 to US\$1.

(ii) **Transactions and balances**

Foreign currency transactions are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions are recognized in the statement of comprehensive income in "other gains and losses [net]".

Foreign currency balances at year-end are translated into Belize dollars at the closing rates at the date of the statement of financial position.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

3. **Summary of significant accounting policies (continued)**

c. *Cash and cash equivalents* - Cash and cash equivalents include cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

d. *Financial instruments* - Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) Financial assets and liabilities at fair value through profit or loss:

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of comprehensive income. Gains and losses arising from changes in fair value are presented in the statement of comprehensive income. Non-derivative financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the date of the statement of financial position, which are classified as long-term.

(ii) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received.

(iii) Financial liabilities at amortized cost:

Financial liabilities at amortized cost include trade payables, bank debt and long-term debt. Trade payables are initially recognized at the amount required to be paid. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

3. Summary of significant accounting policies [continued]

- e. Impairment of financial assets** - At each reporting date, the Company assesses whether there is objective evidence that a financial asset [other than a financial asset classified as fair value through profit or loss] is impaired.

The criteria used to determine if there is objective evidence of an impairment loss include:

- (i) significant financial difficulty of the debtor;
- (ii) the customer has been disconnected and a balance remains even after applying the consumer's security deposit;
- (iii) delinquencies in principal payments; and
- (iv) it becomes probable that the debtor will enter bankruptcy or other financial reorganization.

If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost:

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate.

The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets:

The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of comprehensive income. This amount represents the loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

- f. Inventories** - Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average cost method. The cost of inventories comprise acquisition cost, insurance, freight, duties and all other costs incurred in placing the inventories in the warehouse, ready for use. Net realizable value is the estimated selling price less applicable selling expenses.

- g. Property, plant and equipment** - Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized 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 can be measured reliably. Repairs and maintenance costs are charged to the statement of comprehensive

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

3. **Summary of significant accounting policies (continued)**

income during the period in which they are incurred.

Land and assets under construction are not depreciated and are carried at cost.

The major categories of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives which, for the major classes of assets, are as follows:

Buildings	20 - 40 years
Plant and equipment	5 - 40 years

The carrying amount of a replaced part is derecognized when replaced. Residual values, method of amortization and useful lives of assets are reviewed annually and adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals of property, plant and equipment are determined by comparing sales proceeds with the carrying amount of assets and are recognized in the statement of comprehensive income.

During the construction or development stage of assets under construction, overhead costs and interest on loans specifically sourced to finance long-term construction and expansion projects are capitalized and included in the cost of the appropriate asset.

h. Intangible assets - The Company's intangible assets are stated at cost less accumulated amortization and include acquired computer software with finite useful lives and transmission rights. These assets are capitalized and amortized on a straight-line basis in the statement of comprehensive income over the period of their expected useful lives as follows:

Software costs are amortized over the estimated useful life of the software, five to ten years.

Transmission rights are amortized over the fifteen-year life of the power purchase contract, which commenced in 1998.

i. Impairment of non-financial assets - Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows [cash-generating units or 'CGUs']. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use [being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management].

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

3. **Summary of significant accounting policies [continued]**

j. Employee benefits

(i) Post-employment benefits obligations:

Employees of the Company included in these financial statements have entitlements under the Company's defined contribution pension plan. The pension plan is financially separate from the Company, is managed by a Board of Trustees and is funded by contributions from both employees and the Company.

The cost of defined contribution pension plans is charged to expense as the contributions become payable.

While in pensionable service, each participant pays contributions at the rate of 4 per cent per annum of his pensionable salary with the option to increase his/her contributions to a maximum of 10 per cent, in increments of 1 per cent. The Company matches the participant's contributions at the regular rate of 4 per cent or at such higher rate as the member may have opted for, up to a maximum of 6 per cent. The Trust Deed was amended, effective January 17, 2012, to require that the Company match senior managers' contributions up to a maximum of 10 per cent per annum.

(ii) Termination benefits

The Company recognizes termination benefits in accordance with the labour laws of Belize, union agreements and Company policy. Employees with at least three years or more of continuous employment are entitled to a minimum of one week's pay for each year of service.

k. Corporate tax - The tax expense for the period comprises current tax. The tax charge is calculated on the basis of the tax laws enacted at the statement of financial position date. Management evaluates situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of the amounts expected to be paid to the tax authorities.

Taxes are based on monthly gross revenues and are payable within the following month.

Complying with deferred taxation accounting pursuant to International Accounting Standard 12 [IAS 12] is not applicable.

l. Long-term debts - Long-term debts are recognized initially at the transaction price, that is, the present value of cash payable to the lender. Long-term debts are subsequently stated at amortized cost. Interest expense is recognized on the basis of the effective interest method and is included in finance costs.

Interest expenses incurred on long-term debts to finance long-term construction or development projects are capitalized.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

3. **Summary of significant accounting policies [continued]**

m. Revenue - Revenue comprises the fair value of the consideration received or receivable for the sale of electricity in the ordinary course of the Company's activities. Revenue is shown net of any tax, rebates and discounts.

The Company recognizes revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the Company's activities, as follow:

(i) Sales of electricity

The Company produces for sale and purchases for resale electricity to consumers throughout the country of Belize. Sales are recognized when the significant risks and rewards of ownership have been transferred to the customer, the sales price and costs can be measured reliably, and it is probable that economic benefits will flow to the Company. These criteria are generally met at the time the Company provides the electricity to customers.

Revenue is measured based on the price per KWH determined and authorized by the PUC in its rate-setting exercise.

(ii) Interest income

Interest income is recognized using the effective interest method.

n. Cost of power - Cost of power includes the cost of power purchased from the Company's suppliers of power, namely Comision Federal Electricidad [CFE from Mexico], from the hydroelectric power plants and biomass electric power plants in Belize, and power generated from the Company's own diesel generated power plant facilities.

o. Share capital - Ordinary shares are classified as equity.

Equity instruments are measured at the nominal value of the share and any excess of the fair value of the cash or other resources received or receivable over the nominal value is recognized as equity in a share premium or additional paid-in capital account.

p. Dividends - Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are declared by the Company's Board of Directors.

q. Accounting standards and amendments issued but not yet adopted - Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

(i) IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

3. **Summary of significant accounting policies [continued]**

measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses [including impairments] associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

[ii] IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

- r. **Exceptional items** - Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Company. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

4. **Critical accounting estimates and judgments**

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The most significant accounting judgments and estimates made in the preparation of the financial statements would be management's assessment as to the estimated useful lives of property, plant and equipment. [See Note 28]

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

(In Belize thousands of dollars)

5. Trade and other receivables

	<u>2012</u>	<u>2011</u>
Consumers	\$ 17,026	\$ 15,171
Government of Belize (GOB)	1,908	2,780
Others	1,761	2,078
	<hr/> 20,695	<hr/> 20,029
Less: provision for doubtful debts	(4,004)	[3,994]
	<hr/> 16,691	<hr/> 16,035
Prepayments and deferred expenses	1,172	1,315
	<hr/> \$ 17,863	<hr/> \$ 17,350

6. Inventories

	<u>2012</u>	<u>2011</u>
Bulkstores	\$ 17,196	\$ 18,712
Fuel and oil	856	1,089
	<hr/> 18,052	<hr/> 19,801
Less: provision for damaged and obsolete spares	(2,182)	[2,186]
	<hr/> \$ 15,870	<hr/> \$ 17,615

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

7. Property, Plant and Equipment

Year Ended December 31, 2011

	Land & Buildings	Plant, Machinery and Equipment	Assets Under Construction	Total
Cost				
January 1, 2011	\$ 18,200	\$ 498,226	\$ 38,588	\$ 555,014
Additions	-	-	31,331	31,331
Transfers	1,773	28,296	(30,069)	-
Disposals	-	(15,649)	-	(15,649)
Reclassifications	-	(5,094)	(6,549)	(11,643)
December 31, 2011	<u>19,973</u>	<u>505,779</u>	<u>33,301</u>	<u>559,053</u>
Accumulated Depreciation				
January 1, 2011	6,120	104,211	-	110,331
Additions	515	18,324	-	18,839
Disposals	-	(15,260)	-	(15,260)
December 31, 2011	<u>6,635</u>	<u>107,275</u>	<u>-</u>	<u>113,910</u>
Net Book Value				
December 31, 2011	<u>\$ 13,338</u>	<u>\$ 398,504</u>	<u>\$ 33,301</u>	<u>\$ 445,143</u>

The depreciation charge reported in the statement of comprehensive income for 2011 excludes \$2,263 representing depreciation expenses allocated to cost of power. [See Note 21]

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

7. Property, Plant and Equipment *(continued)*

Year Ended December 31, 2012

	Land & Buildings	Plant, Machinery and Equipment	Assets Under Construction	Total
Cost				
January 1, 2012	\$ 19,973	\$ 505,779	\$ 33,301	\$ 559,053
Additions	-	-	17,673	17,673
Transfers	119	17,190	(17,309)	-
Disposals	-	(2,472)	-	(2,472)
December 31, 2012	20,092	520,497	33,665	574,254
Accumulated Depreciation				
January 1, 2012	6,635	107,275	-	113,910
Additions	482	17,231	-	17,713
Disposals	-	(2,381)	-	(2,381)
December 31, 2012	7,117	122,125	-	129,242
Net Book Value				
December 31, 2012	\$ 12,975	\$ 398,372	\$ 33,665	\$ 445,012

The depreciation charge reported in the statement of comprehensive income for 2012 excludes \$2,293 representing depreciation expenses allocated to cost of power. [See Note 21]

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

8. Intangible Assets

Year Ended December 31, 2011

	Computer software	Transmission rights	Total
Cost			
January 1, 2011	5,980	2,757	8,737
Additions	140	-	140
December 31, 2011	6,120	2,757	8,877
Accumulated Amortization			
January 1, 2011	4,651	2,214	6,865
Additions	1,152	145	1,297
December 31, 2011	5,803	2,359	8,162
Net Book Value December 31, 2011	317	398	715

Year Ended December 31, 2012

	Computer software	Transmission rights	Total
Cost			
January 1, 2012	6,120	2,757	8,877
Additions	9	-	9
December 31, 2012	6,129	2,757	8,886
Accumulated Amortization			
January 1, 2012	5,803	2,359	8,162
Additions	127	145	272
December 31, 2012	5,930	2,504	8,434
Net Book Value December 31, 2012	199	253	452

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

9. Bank Overdraft

The Company has a BZ\$1.0 million 8.5 per cent unsecured overdraft facility with Heritage Bank Limited in 2012. The Company also had an overdraft facility of \$1.0 million with the Belize Bank Limited which expired on December 31, 2012. This facility is renewable annually.

10. Trade and other payables

	<u>2012</u>	<u>2011</u>
Trade payables	\$ 37,895	\$ 37,181
Accrued interest	152	180
Dividends Payable	2,673	3,796
GST Payable	1,391	1,388
Other	9,400	9,179
	<u>\$ 51,511</u>	<u>\$ 51,724</u>

11. Other liability

On November 27, 2012, the Social Security Board (SSB) subscribed for \$10 million in Preference Shares to be issued by the Company. Until such time that the preference shares are issued, SSB has stipulated that the proceeds be treated as a loan with interest at 5 per cent per annum.

SSB holds a lien over two of the Company's properties as collateral until such time that the preference shares are issued.

12. Long - Term Debt

2012

2011

1. Government of Belize:

a. Loan No. 7.0971/2

\$ 1,479 \$ 2,159

Unsecured loan no.7.0971/2 to Government of Belize amounting to EURO 3,700,000 from European Investment Bank for on-lending to the Company, approved as part of the Power II Project. Repayment is by 15 annual installments, commencing May 31, 2000. The loan bears interest at 5 per cent per annum.

b. Loan No. 14/OR-BZ

4,749 6,473

Unsecured loan no. 14/OR-BZ to Government of Belize amounting to US\$12,706,210 from the Caribbean Development Bank for on-lending to the Company, approved as part of the Power II Project. Repayment is by 60 quarterly installments of US\$193,935 and

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

(In Belize thousands of dollars)

12. Long - Term Debt *[continued]*

2012

2011

1. Government of Belize *[continued]*:

b. CDN\$39,318, commencing February 5, 2000. At end of 2008, the entire loan balance was converted to US dollars. Repayment of US\$127,984 and US\$86,812 are done quarterly since December 2008. The loan bears interest at 3.61 per cent (2011 – 3.66 per cent) per annum.

2. RBTT Merchant Bank Limited:

a. Loan facility from RBTT Merchant Bank Limited received on October 1, 2002 for US\$14,031,358 to finance the Gas Turbine Generator Project. The loan comprised two tranches – Tranche A for US\$9,003,087 repayable in 14 semi-annual installments commencing October 2003 at 5.75 per cent interest per annum and Tranche B for US\$5,028,271 repayable in 18 semi-annual installments commencing October 2003 at 8.15 Per cent per annum. The loan is secured by a debenture over the project assets. Tranche A of the loan has been repaid in full.

\$ - \$ 603

3. The Bank of Nova Scotia (Canada):

a. Loan from The Bank of Nova Scotia (Canada) amounting to US\$10,152,591 guaranteed by the Export-Import Bank of the United States for the upgrade/refurbishment of the existing electrical grid in Belize. Loan was fully drawn-down in 2008. Repayment is by 14 equal semi-annual installments commencing February 25, 2008. The loan bears interest at the prevailing six-month LIBOR plus 0.50 per cent margin per annum.

\$ 6,367 \$ 9,557

	12,595	18,792
Less Current portion [repayable in 12 months]	(6,077)	(6,653)
	\$ 6,518	\$ 12,139

The loans are repayable as follows:

2012	\$ -	\$ 6,653
2013	6,077	5,633
2014	5,647	5,635
2015	697	697
2016	174	174
	\$ 12,595	\$ 18,792

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

(In Belize thousands of dollars)

13. Debentures and debenture subscriptions

	<u>2012</u>	<u>2011</u>
<u>Series 1:</u>	\$ -	\$ 16,948
12,391 unsecured debentures of \$76 each and 160,065 unsecured debentures of \$100 each to mature December 31, 2012 with interest payable quarterly at 12 per cent per annum.		
<u>Series 2:</u>	19,372	19,372
193,718 unsecured debentures of \$100 each to mature March 31, 2021 with interest payable quarterly at 9.5 per cent per annum.		
<u>Series 3:</u>	24,788	24,788
247,890 unsecured debentures of \$100 each to mature July 31, 2022 with interest payable quarterly at 10 per cent per annum.		
<u>Series 4:</u>	8,203	8,203
82,026 unsecured debentures of \$100 each to mature September 30, 2027 with interest payable quarterly at 10 per cent per annum.		
<u>Series 5 subscriptions:</u>	24,095	-
240,950 unsecured Series 5 debentures subscriptions of \$100 each to be effective on January 1, 2013		
	<u>76,458</u>	<u>69,311</u>
Less current maturities [repayable in 12 months]	-	[16,948]
	<u>\$ 76,458</u>	<u>\$ 52,363</u>

The Series 1 debentures could have been called by the Company at any time after June 30, 2003 until maturity by giving holders not more than 60 days or not less than 30 days written notice, and was repayable at the option of the holders at any time on or after June 30, 2002 by giving 12 months written notice to the Company. Redemption by agreement between the Company and the Debenture holder at any time was also allowed.

The Series 1 debentures which matured in December 2012 were refinanced by the issue of Series 5 fixed rate [7.0 per cent] 12-year debentures for a total amount of BZ\$25 million. The debentures were fully subscribed as at closing on December 6, 2012. Of the \$16.9 million Series 1 debentures, \$12.3 million was rolled over to Series 5. Allotment will be effective on January 1, 2013.

The Series 2 debentures can be called by the Company at any time after April 30, 2008 until maturity by giving holders not more than 60 days or not less than 30 days written notice, and are repayable at the option of the holders at any time on or after April 30, 2008 after giving 12 months written notice to the Company. Redemption by agreement between the Company and the Debenture holder at any time is also allowed.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

The Series 3 debentures can be called by the Company at any time after August 31, 2009 until maturity by giving holders not more than 60 days or not less than 30 days written notice, and are repayable at the option of the holders at any time on or after August 31, 2009 after giving 12 months written notice to the Company. Redemption by agreement between the Company and the Debenture holder at any time is also allowed.

The Series 4 debentures can be called by the Company at any time after September 30, 2014 until maturity by giving holders not more than 60 days or not less than 30 days written notice, and are repayable at the option of the holders at any time on or after September 30, 2014 after giving 12 months written notice to the Company. Redemption by agreement between the Company and the Debenture holder at any time is also allowed.

The Indentures to the Debentures contain covenants, which must be complied with by the Company. In the event of a default as defined in the Indentures, the Company through the Fiscal Agent or via a Trustee appointed by the Debenture holders may be required to purchase the Debentures at their face value.

The offer of 250,000 Series 5 debentures at \$100 each with annual interest of 7 per cent was opened on November 15, 2012 and was fully subscribed by December 6, 2012. The Series 5 subscription balance includes \$12.3 million Series 1 debenture holders rolling over the redemption value of their Series 1 debentures to Series 5 and cash subscriptions of \$11.7 million collected at December 31, 2012.

The allotment of the Series 5 Debentures will be effective on January 1, 2013.

14. Consumer Deposits

The Company has a policy whereby consumers are required to make a security deposit when they first request that the Company provides them with electricity. The deposit is refundable on discontinuance of services.

15. Share capital

	<u>2012</u>	<u>2011</u>
<u>Ordinary shares:</u>		
Authorized 100,000,000 shares of \$2.00 each	<u>\$ 200,000</u>	<u>\$ 200,000</u>
Issued and fully paid 69,023,009 shares of \$2.00 each	<u>\$ 138,046</u>	<u>\$ 138,046</u>
<u>Convertible redeemable preference shares:</u>		
Authorized 12,000,000 shares of \$2.00 each	<u>\$ 24,000</u>	<u>\$ 24,000</u>
Issued and fully paid	<u>NIL</u>	<u>NIL</u>
<u>Special share:</u>		
Authorized, issued and fully paid 1 share of \$1.		

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

15. **Share capital [continued]**

The rights attached to the Special Share are as follows.

Income - The Special Share is not entitled to participate in any income distributed by the Company.

Voting - the holder of the Special Share is entitled to receive notice of, and to attend and speak at, any general meeting or any meeting of any class of shareholders of the Company, but the Special Share does not carry a right to vote or any other rights at any such meeting.

Redemption - The holder of the Special Share may require the Company to redeem the Special Share at par at any time by serving written notice upon the Company and delivering the relevant share certificate to the Company. Any redemption is subject to the provisions of the statutes and the Articles of the Company.

Capital - The Special Share confers on the holder thereof the right, on a winding-up or other return of capital but not on a redemption, to repayment in priority to any payment to the holders of Ordinary Shares and at least in parity with the holders of the Preference Shares and the holders of any other preference shares of the Company from time to time, of the amount paid up on the Special Share.

Purchase and transfer - The Company shall not purchase, but may redeem the Special Share. The Special Share may be transferred only to a Minister of the Government of Belize or any person acting on the written authority of the Government of Belize

Right to appoint Chairman - Article 4[B] of The Articles of Association of the Company states that “when determining the rights attaching to any shares, the shares held by the Government of Belize shall be deemed to include shares held by the Social Security Board or any other Public Statutory Corporation.” The holder of the special share is entitled to appoint two directors to the Board of Directors of the Company, one of whom is to serve as the chairman at any time during which the holder of the special share is the holder of Ordinary shares amounting to 25 per cent or more of the issued share capital of the Company.

16. **Additional paid-in capital**

In March 2003, the Company implemented a Dividend Reinvestment Program allowing shareholders to reinvest their dividends into additional ordinary shares of the Company at \$2.75 per share. The excess \$0.75 per share over par value is recorded as Additional paid in capital. The Dividend Reinvestment Program was closed on August 2, 2006.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

17. Capital contributions

Capital contributions are contributions by customers towards capital installation costs. They include Government of Belize's contributions towards rural electrification programs. Capital contributions are amortized over the useful life of the relevant asset.

	<u>2012</u>	<u>2011</u>
Capital contributions brought forward	\$ 42,561	\$ 40,146
Additions	4,539	2,415
Capital contributions carried forward	<u>47,100</u>	<u>42,561</u>
Amortization brought forward	9,371	8,424
Additions	1,021	947
Amortization carried forward	<u>10,392</u>	<u>9,371</u>
Capital contributions – net	<u>\$ 36,708</u>	<u>\$ 33,190</u>

18. Insurance reserve

The insurance coverage of the Company's transmission and distribution assets was discontinued in 1994 due to the limited availability of coverage and a significant increase in the cost of this insurance. In 1995, the directors approved a self-insurance plan for transmission and distribution assets for a total of BZ\$5 million and resolved to set aside BZ\$0.5 million per annum from retained earnings. As at December 31, 2004, BZ\$5 million of retained earnings has been appropriated.

19. Rate reserve

The Rate Reserve Account was established to recognize the Company's liability to customers, as determined by the PUC in its rate review proceedings, in the Statement of Changes in Equity. Since regulatory liability is not allowed in the Statement of Financial Position under IFRS, the Board of Directors made the decision to differentiate these movements in the Rate Reserve Account until earned. Movement of funds will solely be between Rate Reserve and Retained Earnings to reflect PUC's decisions on the Annual Corrections Balance.

This decision by the Board allowed for the \$30.3 million that the PUC ruled BEL owed to customers as of December 31, 2011 in the 2012 FTRP Final Decision to be recorded in the Company's Financial Statements. The Board approved the appropriation of this amount to be credited to the Rate Reserve Account in 2011.

The PUC ruled in its Adjustment to the 2012 Annual Review Proceeding that this \$30.3 million liability to customers was fully paid off as of December 31, 2012. Therefore, the Board approved the drawdown of the full amount from the Rate Reserve Account in 2012 to Retained Earnings.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

20. Revenues

Following completion of the PUC's Full Tariff Review Proceedings in January 2012, the PUC mandated a decrease in the mean electricity rate from BZ\$0.441 to BZ\$0.4181 per KWH, effective as of February 1, 2012. The decrease in rates to be charged customers was determined after the PUC adjusted corrections of BZ\$30.3 million. The new approved rate is applicable for the period, February 1, 2012 to June 30, 2016.

21. Cost of power

	<u>2012</u>	<u>2011</u>
Power purchased	\$ 149,670	\$ 117,897
Power generation costs:		
Fuel	8,287	4,265
Gas turbines	3,115	3,117
Operations and maintenance	822	1,150
Depreciation [Note 7]	2,293	2,263
	<u>\$ 164,187</u>	<u>\$ 128,692</u>

22. Other income

	<u>2012</u>	<u>2011</u>
Service installations	\$ 13	\$ 13
Rent income	1,742	1,733
Capacity charges	2,883	2,809
Amortization of capital contributions	1,021	947
Sundry income	1,169	1,381
	<u>\$ 6,828</u>	<u>\$ 6,883</u>

23. Corporate tax

As provided by the Income and Business Tax Act of Belize, the Company is chargeable to tax on its gross revenues. On April 1, 2010, the Company's business tax rate on gross revenues was increased from 1.75 per cent to 6.50 per cent. On July 1, 2012, the business tax rate was reverted back to 1.75 per cent.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

(In Belize thousands of dollars)

24. (Loss) Earnings per share

The calculation of earnings per share is based on the net (loss) profit after tax and the weighted average number of common shares outstanding for the year.

With the transition to IFRS, the 2011 financial statements were restated to reflect the new treatment of the 2012 FTRP final decision. In this decision, the PUC ruled to eliminate the RSA effective June 30, 2009 and maintain all further adjustments in the Annual Correction account. Based on the present interpretation of IFRS treatment of regulated liability to customers, this ruling resulted in the adjustment of the \$57.4 million balance in the RSA Account in the Statement of Financial Position to zero as of January 1, 2011 and the recognition of the Annual Correction of \$30.3 million in the Statement of the Change in Equity as of December 31, 2011. These adjustments to the RSA and Annual Correction account was treated retrospectively and recorded in Retained Earnings. All transactions previously recorded in the RSA during 2011 were reversed.

The PUC approved a projected unit COP of \$0.262 per kWh as a pass through to customers for 2012, versus an actual unit cost of \$0.355 per kWh for COP. This variance is equivalent to an additional \$33 million in COP expense. As a result of excess COP in 2012, the PUC ruled that in keeping with SI 116, electricity rates for the Tariff Period 2012 to 2013 had to be increased to allow the pass through of the full COP to customers. In determining the rate adjustment, the PUC allowed for the total liability to customers to be fully paid off in 2012 instead of by means of rebate to the electricity rates over the period 2012 to 2016 as it had initially prescribed. If the Company was able to record its liability to customers in the Statement of Financial Position (Balance Sheet) and the rebate/write down in its Statement of Comprehensive Income (Income Statement), this would have resulted in the Company reporting a net earnings of \$14.3 million and an earnings per share of \$0.21 as presented in the Company's 2012 Forecast based on independent advice as to a prior interpretation of the treatment of a regulated liability under IFRS.

Instead, the Company is reporting a net loss of \$16 million for the year ended 2012 and negative earnings per share of \$0.23 attributed by the higher than projected cost of power (COP) while at the same time reporting an increase in retained earnings of \$14.3 million in 2012 and \$23.5 million after adjustments in 2011.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

25. Related party transactions

The Company is controlled by the Government of Belize who owns 70.2 per cent of the shares. A statutory board of the Government of Belize, the Social Security Board owns 26.9 per cent and about 1,500 other shareholders own 2.9 per cent.

The following transactions were carried out with related parties:

	<u>2012</u>	<u>2011</u>
a. <u>Sale of power</u>		
Government of Belize	\$ 27,053	\$ 27,093
Belize Social Security Board	384	417
b. <u>Purchases of goods and services</u>		
Belize Social Security payments	\$ 375	\$380
c. <u>Key management compensation</u>		
Key management includes directors, members of the Executive, the Company Secretary and the Head of Internal Audit. The compensation paid to key management for services is shown below:		
Salaries and other short-term benefits	\$ 486	\$ 908
d. <u>Year-end balances</u>		
Receivable from related parties:		
Government of Belize	\$ 1,908	\$ 2,780
Social Security Board	21	NIL
Entities controlled by key management personnel	NIL	NIL
Payable to related parties:		
Government of Belize	814	519
Social Security Board	10,036	28
Entities controlled by key management personnel	NIL	NIL
The receivable from and payable to related parties are due one month after date of sale or purchase. The receivables are unsecured and bear no interest. No provisions are held against receivables from related parties [2011 - NIL].		
e. <u>Loans to related parties</u>	NIL	NIL

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

26. Commitments and contingencies

Compliance with covenants

The indenture to the debentures and other loan agreements contain numerous covenants that must be complied with by the Company. As at December 31, 2011, the Company was in compliance with these covenants except for Caribbean Development Bank return on net fixed assets financial loan covenant and Section 6.06 [d] of the CDB loan agreement, which requires CDB's no objection prior to new appointments to key positions in the Company. In a letter dated May 14, 2012, CDB noted that it has "no objection" to the new appointments by the Company.

Since 2009, the Company had filed injunctions in the Courts prohibiting the PUC from setting any new tariffs. This action prohibited the Company from seeking an increase in the VAD to offset any increase in expenditure, thereby resulting in an erosion of its net income. On the other hand, the Company has more than doubled its net fixed assets since the signing of the CDB Loan in 2000. The financial impact of these actions cause the Company not to meet the financial loan covenant noted above. In September 2011, the Company successfully applied to the Courts to lift the injunction on the PUC and has since applied to the PUC for adjustments in the Tariff that will allow for an increase in VAD. In June and December 2011, the Company requested a waiver from CDB; and on May 14, 2012 CDB responded and concluded that "BEL can seek external financing to support its planned service improvements and expansion programmes." The Company has informally notified the local banks of its intention to reopen discussions about new borrowing.

Legal issues

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business operations. Management believes that the amount of liability, if any, from these actions would not have a material effect on the Company's financial position or results of operations. However, these legal matters continue to require keen attention and consultation with the Company's attorneys in order to minimize exposure.

Summary of Contractual Obligations:

[In Belize thousands of dollars]

	Total	2013	2014 - 2017
Long-term debt	12.6	6.1	6.5
Purchase obligations – energy [BECOL]	261.9	50.5	211.4
Purchase obligations – energy [BELCOGEN]	88.0	17.0	71.0
Purchase obligations – energy [Hydro Maya]	7.8	1.6	6.2
Purchase obligations – energy [BAPCOL]	204.4	36.7	167.7
Interest obligations on LTD and Debentures	25.9	5.3	20.6
Total Obligations	600.6	117.2	483.4

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

27. Financial risk management

The Company's activities expose it to a variety of financial risks. Risk management is carried out by management under the supervision of the Board of Directors. The Company's overall risk management objective is to minimize potential adverse effects on the Company's financial performance.

a. **Foreign exchange risk**

Foreign exchange risk arises when future recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

This risk is mitigated by the fact that the Belize dollar is tied to the US dollar at BZ\$2 to US\$1. However where the rate of exchange of the US dollar fluctuates against other currencies, for example, the Euro, the Company is susceptible to foreign exchange risks.

Foreign exchange risk is minimized when the Company's transactions with foreign entities are denominated in US dollars.

At December 31, 2012, the Company had only one material liability denominated in EURO. See Note 12.

b. **Credit risk**

The Company has a large and diversified customer base, which minimizes the concentration of this risk. The Company's credit risk is concentrated as follows:

Government of Belize	12%
Residential customers	49%
Commercial customers	32%
Industrial customers	7%

Management mitigates this type of risk by regularly enforcing a customer deposit policy based on the level of risk exposure.

c. **Interest Rate Risk**

The Company is exposed to interest rate risk associated with short-term borrowings and floating-rate debt. The Company mitigates these risks by continuously monitoring the interest rates and ensuring that the optimum interest rates are received at all times.

d. **Liquidity Risk**

The Company's financial position could be adversely affected if it fails to arrange sufficient financing to fund its capital expenditures and repayment of maturing debt. To mitigate liquidity risk, cash flow forecasting is performed which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Such forecasting takes into consideration the Company's debt financing plans and compliance with balance sheet.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

28. Capital 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 and benefits for other stakeholders and to 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, issue new shares or debentures or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (long-term debts and debentures including 'current and non-current portions as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

(In Belize thousands of dollars)

29. Transition to IFRS

The effect of the Company's transition to IFRS, described in Note 2, is summarized as follows:

(i) Transition elections - The Company has elected to defer applying any of the exemptions from IFRS allowed under IFRS 1, 'First-time Adoption of International Financial Reporting Standards.

(ii) Reconciliation of net income as previously reported under Canadian GAAP.

Net income for the previous year as reported under Canadian GAAP	\$ <u>1,882</u>
IFRS adjustments increase (decrease):	
- Change in accounting policy – derecognizing regulated liability (RSA account)	
Revenues adjustment	(1,290)
Cost of power adjustment	5,102
Finance charges	7,824
Corporate tax	<u>(7,518)</u>
	4,118
- Reclassification of capital contributions	
Other revenue	947
Depreciation and amortization	(947)
- Business tax adjustment	(2,311)
- Overstatement of inventory	(105)
- Writeoff of uncollectible legal fees	<u>(406)</u>
Total adjustment to comprehensive income	<u>1,296</u>
Net income for the previous year as reported under IFRS	\$ <u>3,178</u>

(iii) Reconciliation of retained earnings as previously reported under Canadian GAAP.

Retained earnings for the previous year as reported under Canadian GAAP	\$ 106,254
IFRS adjustments increase (decrease):	
Change in accounting policy – derecognizing regulated liability (RSA account)	
Eliminating the RSA Account accumulated during prior periods	57,484
Appropriation to rate reserve	(30,258)
Business tax adjustment	(3,114)
Total adjustment to retained earnings	<u>\$ 24,112</u>
Total retained earnings as reported under Canadian GAAP with adjustments made	\$ 130,366
Dividends paid for previous year	(3,796)
Net income for the previous year as reported under IFRS	3,178
Retained earnings for the previous year as reported under IFRS	<u>\$ 129,748</u>

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 | 2011

[In Belize thousands of dollars]

30. Subsequent Events

On January 11, 2013, the PUC issued its revised tariff decision for the Full Tariff Period (FTP) July 1, 2009 to June 30, 2016. This decision resulted in a new average tariff effective January 1, 2013 which increases the mean electricity rate from BZ\$0.418 to \$0.4886 to be revisited in the June 2013 ATP.

The Company has engaged in a complete fixed asset audit, both for the entire transmission and distribution system and other property, plant and equipment. This audit is on-going and should be completed in 2013. The outcome of this audit may have a material effect on the Company's financial reports for 2013.

FINANCIAL

AND OPERATING STATISTICS

In 2012, the Company converted to International Financial Reporting Standards (IFRS) and, as a result, restated the 2011 financials in this report.

YEARS ENDED DECEMBER 31

	2012	2011*	2010	2009	2008	2007	2006	2005	2004	2003	2002
FINANCIAL STATISTICS											
(Belize thousands of dollars except as noted)											
Energy Revenues	193,294	190,245	190,526	186,566	140,577	159,607	149,577	120,540	105,512	101,420	96,017
Net Profit (Loss)	(16,000)	3,178	3,448	8,895	(10,838)	29,864	26,084	18,883	15,822	14,079	13,045
Net Fixed Assets	445,012	445,143	444,683	418,704	393,831	372,834	340,737	322,163	310,536	296,609	252,658
Capital Expenditures	17,682	31,471	44,372	43,325	41,652	47,119	32,046	25,203	25,512	53,964	29,095
Total Assets	487,833	489,997	476,903	472,267	435,257	429,738	408,953	373,673	346,472	338,120	297,518
Long Term Debt	6,518	12,139	18,435	26,521	44,155	44,245	49,593	75,276	89,576	107,465	88,394
Debentures	76,458	69,311	69,311	69,473	69,570	66,829	60,317	56,016	53,062	49,346	38,394
Shareholders' Equity (excluding Contributed Capital)	292,793	308,792	255,041	251,593	242,698	257,333	242,654	154,721	136,096	120,546	108,040
Performance Indicators											
Rate of Return on Net Fixed Assets	-2.4%	2.2%	3.8%	4.9%	-1.1%	10.3%	10.5%	9.6%	8.3%	8.8%	9.1%
Rate of Return on Shareholders' Equity	-5.3%	1.1%	1.4%	3.6%	-4.3%	11.9%	13.1%	13.0%	12.3%	12.3%	12.5%
Earnings (Loss) per share (\$)	(0.23)	0.05	0.05	0.13	(0.16)	0.43	0.48	0.59	0.53	0.50	0.47
OPERATING STATISTICS											
Sales (MWh)											
Industrial & Commercial	186,504 ^a	152,239	159,921	158,452	158,992	143,118	132,553	123,701	116,075	109,075	98,509
Residential	250,884 ^a	251,764	241,777	234,596	224,030	214,925	203,361	202,419	189,498	175,817	159,229
Street Lighting	24,781	24,486	24,535	24,326	23,963	23,716	23,679	23,606	24,404	22,661	21,208
Total	462,169	428,490	426,233	417,374	406,985	381,759	359,593	349,726	329,977	307,553	278,946
Customer Accounts (numbers)											
Industrial, Commercial & Street Lighting	15,658 ¹	720	730	724	725	699	678	594	537	532	453
Residential	64,705 ¹	78,007	76,316	74,819	73,492	71,992	70,279	68,041	65,544	62,544	59,362
Total	80,363	78,727	77,046	75,543	74,217	72,691	70,957	68,635	66,081	63,076	59,815
Net Generation (MWh)											
Net Diesel Generation	13,632	6,910	7,608	18,760	10,704	36,078	30,136	81,553	78,850	97,889	46,491
Purchased Power - BECOL	199,039	232,081	249,564	179,949	191,589	166,727	177,733	68,275	63,215	61,154	88,243
Purchased Power - HydroMaya	9,553	12,518	13,586	7,760	12,898	10,676	-	-	-	-	-
Purchased Power - BAL	3,578	-	4,461	48,781	-	-	-	-	-	-	-
Purchased Power - Belcogen	64,506	70,720	48,175	1,330	-	-	-	-	-	-	-
Purchase Power - CFE	237,864	170,612	159,876	216,233	248,396	225,227	209,814	253,995	235,796	188,714	180,510
Total	528,172	492,841	483,270	472,813	463,587	438,708	417,683	403,823	377,861	347,757	315,244
Other											
Losses	12.2%	13.1%	11.8%	11.7%	12.2%	13.0%	13.9%	13.4%	12.7%	11.5%	11.5%
Peak Demand[MW]	82.0	79.3	80.6	76.2	74.3	70.0	66.6	63.5	61.1	57.4	53.7
Installed Capacity (Diesel Plant)[MW]	25.0	28.3	32.3	33.7	37.0	36.2	36.9	43.5	43.6	49.3	27.0
Employees (number)	279	276	290	283	261	260	243	244	248	242	237

*Restated

¹ Adjusted to reflect reclassification of Residential to Commercial Customers. Numbers presented in 2011 and prior years does not reflect the reclassification done in 2012.

² Adjusted to reflect reclassification of Residential to Commercial sales base on customer reclassification. Sales amount presented in 2011 and prior years does not reflect the reclassification done in 2012. Certain comparative figures may have been reclassified to confirm with the current year's presentation.

CORPORATE DIRECTORY

INVESTOR INFORMATION

BOARD OF DIRECTORS

Mr. Rodwell Williams	Chairman
Mr. Alan Slusher	Deputy Chairman
Mr. Anuar Flores	
Mr. Jeffrey Locke	
Mr. Louis Lue	
Mr. Eden Martinez	
Mr. John Mencias	
Mr. Anthony Michael	
Mr. Ariel Mitchell	
H.E. Ambassador James Murphy	

TOP MANAGEMENT

Mr. Jeffrey Locke	Chief Executive Officer
Mr. Sean Fuller	Senior Manager, Information Systems and Customer Care
Mr. Ernesto Gomez	Senior Manager, Energy & Materials Supply
Mr. Jose Moreno	Senior Manager, Transmission & Distribution
Mr. Rolando Santos	Senior Manager, System Planning & Engineering
Ms. Betty Tam	Senior Manager, Finance & Human Resources

COMPANY SECRETARY

Dawn Sampson Nuñez

CORPORATE ADDRESS

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P.O. Box 327
Belize City, Belize
Central America

FISCAL AGENT

Platinum Trust Corporation Limited
28 Regent Street
Belize City, Belize
Central America

SHAREHOLDER SERVICES

For general information, shareholder publications and other requests, please contact:

Manager, Corporate Services & Company Secretary
BEL Corporate Headquarters

Telephone: 501-227-0954
Email: info@bel.com.bz

DIRECT DEPOSIT

Shareholders may obtain automatic electronic deposit of dividends to their designated Belizean financial institution by contacting the Securities Officer at the Corporate Headquarters.

