

**Schedule 2
FORM ECSRC - Q**

(Select One)

Quarterly Report For the period ended March 31, 2014

or

TRANSITION REPORT _____
(Applicable where there is a change in reporting issuer's financial year)

For the transition period from _____ to _____

Issuer Registration Number: 350360

Grenada Electricity Services Ltd.

(Exact name of reporting issuer as specified in its charter)

Grenada W.I.

(Territory or jurisdiction of incorporation)

Dusty Highway, Grand Anse, St. George's, P.O. Box 381

(Address of principal executive Offices)

(Reporting issuer's:

Telephone number (including area code): (473) 440-3391

Fax number: (473) 440-4106

Email address: mail@grenlec.com

(Former name, former address and former financial year, if changed since last report)

(Provide information stipulated in paragraphs 1 to 8 hereunder)

Indicate the number of outstanding shares of each of the reporting issuer's classes of common stock, as of the date of completion of this report. _____

CLASS	NUMBER
Ordinary Shares	19,000,000

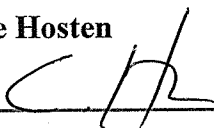
SIGNATURES

A Director, the Chief Executive Officer and Chief Financial Officer of the company shall sign this Quarterly Report on behalf of the company. By so doing each certifies that he has made diligent efforts to verify the material accuracy and completeness of the information herein contained.

The Chief Financial Officer by signing this form is hereby certifying that the financial statements submitted fairly state the company's financial position and results of operations, or receipts and disbursements, as of the dates and period(s) indicated. The Chief Financial Officer further certifies that all financial statements submitted herewith are prepared in accordance with International Accounting Standards consistently applied (except as stated in the notes thereto) and (with respect to year-end figures) including all adjustments necessary for fair presentation under the circumstances.

Name of Interim Chief Executive Officer:

Clive Hosten

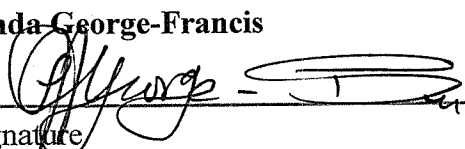


Signature

23/4/14
Date

Name of Director:

Linda George-Francis




Signature

23/4/14
Date

Name of Chief Financial Officer:

Benedict Brathwaite



Signature

23.4.14
Date

INFORMATION TO BE INCLUDED IN THE REPORT

1. Financial Statements

(a) Included herewith are the following unaudited Financial Statements:

1. Statement of Financial Position at March 31, 2014.
2. Statement of Comprehensive Income for the three months to March 31, 2014.
3. Statement of Cash Flow for the three months to March 31, 2014.

2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(a) Liquidity

The Company has managed its liquidity needs without a requirement for financing activities while maintaining a current ratio of 2.12:1 at the end of the first quarter of 2014 well above the benchmark of 1.50:1 established by lender institutions.

The average rate of electricity over the first three months of 2014 was \$1.14 which is a marginal decrease compared to the \$1.15 for 2013. Over the same period trade receivables increased by \$1.25M, or 3.91%. The trade receivables increase is primarily due to the Government of Grenada's (GoG) outstanding balances which rose by \$1.31M. Receivables in the domestic (1.08%), hotel (1.79%) sectors and statutory bodies (25.65%) experienced decreases. On the other hand the commercial (1.43%), industrial (0.34%) and government (17.87%) sectors experienced increases in their receivables. The Company continues to pay special attention to its receivables, particularly as we are aware of the negative impact of the economic recession on our customers.

Cash provided by operating activities to March 31, 2014 of \$6.43M which is 35.77% of that for the entire year of 2013. Overall, during the first three months of the year, the cash position grew by \$5.54M after making principal payments on borrowings of \$1.65M and paying dividends of \$2.28M at twelve cents per share. Additionally, in this period instalments of company tax totalling \$0.37M were made. The cash balance at the end of the quarter was \$4.63M.

The Company met all of its obligations in the quarter and, based on its current cash flow projections, will be able to maintain this for the foreseeable future. These projections are inclusive of an amount of \$6.08M which is expected to be paid to the Trustees of the unionized Trust in the third quarter of 2014 to fully fund that Retirement Trust which is in the process of being finalized.

(b) **Capital Resources**

Capital expenditure of \$0.92M in the first three months of 2014 was funded from internal operations. This is expected to be the same with the balance of the 2014 capital budget of \$4.20M, as it is not subject to any agreement that would require capital expenditures on a designated schedule. Over the years the Company has only utilized external funding for major capital projects. As part of its renewable energy drive the Company along with the European Union (EU) and the GoG had taken initial steps on a project to install one to two MW on a wind farm in Carriacou. The funding for the project of €3.89M was to be done jointly, with the EU meeting €2.50M or 64.20% and GRENLEC €1.39M or 35.80%. This project was delayed in 2013 as the new administration took time to consider it. After the Company received an advisory in December 2013 this project has been reactivated. It is now envisaged that the bulk of the Company's expenditure for this project will be incurred in the second half of 2014. As far as major generation expansion which will require external financing is concerned, the Company does not foresee that this is likely to occur before the end of 2014.

c) **Changes in Financial Condition**

The following table provides information as at March 31, 2014 with comparatives at March 31, 2013 and December 31, 2013 of GRENLEC's compliance with various financial loan covenants. All the covenants have easily been exceeded with a widening variance in most cases.

Covenant Table

	Covenant Ratio	March 2014	March 2013	December 2013
Current Ratio	$\geq 1.50:1$	2.12:1	4.05:1	1.99:1
Interest Coverage Ratio	$\geq 2:1$	17.62:1	10.73:1	13.43:1
Debt Service Coverage Ratio	$\geq 1.50:1$	5.12:1	3.67:1	3.96:1
Bank Borrowing to Equity Ratio	$\leq 1.25:1$	0.33:1	0.60:1	0.37:1
Equity to Assets	$\geq 30\%$	38.39%	32.24%	52.54%

In the first quarter of 2014 the Company's net assets increased from \$83.47M to \$86.30M. Property plant and equipment decreased from \$81.91M to \$79.40M principally due to depreciation of \$2.67M. Capital work in progress increased from \$2.90M to \$3.82M as the Company continued to make routine non expansion capital expenditures financed from internal operations.

Trade and other receivables saw an increase of \$1.82M from \$35.35M as the GoG missed a monthly payment in the first quarter. We are hopeful of seeing the GoG debt position improve in the second half of the year from support from international financial institutions such as the IMF for the structural adjustment program that impacts the country's finances.

In January of 2014 the Company transferred \$3.84M to the MAPSA Trust thus completing the movement of funds under the control of the Company for that Trust in compliance with the Insurance Act No. 5 of 2010. The non-unionized trust remains incomplete at the end of March and, once established it will require the transfer of the remaining retirement liability and asset from the Company's financial statements.

d) Results of Operation

The Company's financial performance in the first three months of 2014 was substantially better than for the comparative period in 2013. Profit after interest of \$9.51M represented an increase of 57.21% over the \$5.67M of the prior year. The main factors that have driven this financial performance are primarily: the fuel cost recovery rate, lower operating and financing expenses of 5.65% primarily resulting from reduced depreciation and decreased interest costs as borrowings have been repaid.

The quarter ended March 31, 2014 saw kWh sales increasing by 3.02% over the same period in 2013. This is important as the equivalent quarters of the previous three years all showed contraction ranging from 0.16% in 2012 to 3.90% in 2013. This growth of 1.29M kWh is almost totally accounted for by sales to Sandals La Source which opened in December 2013. Naturally, the commercial sector saw growth of 5.11% while the domestic saw a marginal increase of 0.18%. The relatively small industrial sector decreased by 0.74%.

Grenada's economy is still severely challenged with a fiscal imbalance and high unemployment and it is unlikely that there will be a sudden recovery. Importantly, the Government of Grenada has begun the introduction of a three year structural adjustment programme which needs the support of the IMF and other international financial institutions. The success of this programme is likely to have a significant impact on the likelihood of growth in kWh sales in future years.

The growth in kWh sales, a marginally lower fuel charge and a non-fuel rate increase of 0.77% from February 1, 2014 combined to produce an increase in non-fuel revenue of 3.45% to March over the first quarter of 2013. Total revenue of \$47.56M experienced a 1.69% increase in comparison to the equivalent three months of 2013.

During the first quarter fuel prices were generally stable averaging \$10.25 per imperial gallon. This represents a 0.68% decline compared to fuel prices for the year 2013. The impact of this along with efficiency performance resulted in a fuel cost recovery rate in the quarter of 108.42% which is substantially above the rate of 100.42% for the equivalent period of 2013. The gross benefit of this fuel cost recovery rate versus that of 2013 was \$2M which accounts for 52.16% of the improved profit after interest of \$3.83M.

Operating and administrative expenses, net of fuel, decreased by 4.86% (\$0.61M) in the first quarter of 2014 compared to the equivalent period in 2013. Both technical and administrative expenses experienced favourable variances during this period. A significant factor in this reduction was depreciation expenses which were lower by \$0.21M or 34.42% of the overall decrease. Additionally, the Company has continued to successfully employ cost containment mechanisms.

Interest costs continue to decrease as expected, with no new borrowings and repayments being made as scheduled. In the first quarter of 2014 interest costs of \$0.63M were 18.49% lower than the \$0.77M of the equivalent period of 2013.

System losses twelve months rolling average of 7.06% as at March 31, 2014 represents a decrease of 1.14% compared to that as at the end of the first quarter of 2013. However, system losses in the first quarter of 2014 of 6.18% and 2013 of 8.64% is even more relevant with a positive variance in 2014 of 2.46% being more substantial. This has a positive impact on the fuel cost recovery rate and the financial performance in the period. It is imperative that low system losses continue to be a major focus of Management considering the sluggish economy in which the Company is currently operating.

Fuel efficiency of 19.25kWh per imperial gallon in the first three months of 2014 was marginally behind the 19.35kWh/IG for the same period in 2013. Fuel efficiency in 2013 was 19.19kWh/IG which we expect to continue to exceed. This, like system losses, is very important as it is a key performance indicator for the Company and has a marked impact on its financial performance.

3. Disclosure of Risk Factors.

With each passing period the Hurricane Reserve improves and presently stands at \$16.50M which reduces the main risk exposure associated with post-hurricane recovery. The major risk factors facing the Company continue to be as follows:

- Hurricanes - as clearly established after Hurricane Ivan in 2004 when approximately 90% of our distribution system was affected. This continues to be the most immediate and significant risk being faced. This has been partially offset by the strengthening of the distribution system which has been made more robust in the rebuilding period after hurricanes Ivan and Emily. Additionally, the Hurricane Fund of \$16.20M is now more than the pre Ivan level of \$14M.
- A New Electricity Supply Act –Any change to existing legislation can change the landscape in which the Company operates if competition is introduced into the market. There is no information that indicates this is a likely occurrence presently. A new regional regulatory body Eastern Caribbean Energy Regulatory Authority (ECERA) is being established by the governments of the Organization of Eastern Caribbean States (OECS) although only St Lucia and Grenada have signed onto the program. As of now it is still uncertain whether the introduction of a regulatory body will have any impact on the existing operations.
- An amendment to the Electricity Supply Act No, 39 of 2013 was enacted as of December 31, 2013. This amendment adjusted the concessions of all customs and other import duties on the importation of all plant, machinery, equipment, meters, instruments, fuel, lubricants and materials to which the Company was entitled from 100% to 50%. While this amendment by itself does not pose a risk, it increases the possibility that further unilateral amendments which may be inconsistent with the majority shareholders Grenada Private Power Ltd (GPP) Share Purchase Agreement (SPA) might be pursued. Should that be the case and the rights or economic interests of GPP are damaged, the

matter may have to be addressed with ICSID as the body nominated for dispute resolution as per the SPA. In the meantime GRENLEC's operations could be negatively impacted.

- Sharply increasing fuel prices will over the short run impact negatively on the Company's cash flow and profitability.

4. Legal Proceedings.

There were no pending legal proceedings outstanding as at March 31, 2014 that could materially impact on the Company's position.

5. Changes in Securities and Use of Proceeds.

There were no changes in securities during the quarter ended March 31, 2014.

6. Defaults Upon Senior Securities.

- (a) Payments of principal and interest to the Eastern Caribbean Securities Exchange (ECSE) on the Grenlec Bond and the National Insurance Board (NIB) on their respective loans have been made during the quarter ended March 31, 2014 as per existing agreements.
- (b) No arrears in the payment of dividends have occurred and there are no restrictions.

7. Submission of Matters to a Vote of Security Holders.

- (a) None

8. Other Information.

None.

GRENADA ELECTRICITY SERVICES

Balance Sheet as at March 31st, 2014 and December 31st, 2013

	March 2014 EC \$	December 2013 EC \$
ASSETS		
Non Current Assets		
Property Plant and Equipment	79,397,766.22	81,907,855.00
Suspense Jobs in Progress	1,788,353.94	1,682,618.00
Capital Work in Progress	3,820,064.03	2,902,314.00
Deferred Exchange Loss	1,207,245.79	1,207,246.00
Available-for-sale financial assets	836,223.61	872,388.00
	<u>87,049,653.59</u>	<u>88,572,421.00</u>
 CURRENT ASSETS		
Inventories	14,462,100.59	15,197,303.00
Trade and Other Receivables	37,171,749.94	35,346,510.00
Segregated Retirement Investments	6,169,507.24	9,993,896.00
Income Tax Prepaid	-	908,592.00
Loans and receivables financial assets	31,051,058.15	30,910,203.00
Cash and cash equivalents	5,911,947.36	2,103,515.00
	<u>94,766,363.28</u>	<u>94,460,019.00</u>
 TOTAL ASSETS	<u>181,816,016.87</u>	<u>183,032,440.00</u>
 SHAREHOLDERS EQUITY AND LIABILITIES		
SHAREHOLDERS EQUITY		
Stated Capital	32,339,840.00	32,339,840.00
Other Reserve	8,308.00	8,308.00
Retained Earnings	51,126,250.61	44,189,174.00
Profit / (Loss) to Date after Dividends	2,829,485.81	6,937,076.00
	<u>86,303,884.42</u>	<u>83,474,398.00</u>
 Non Current Liabilities		
Consumers' Deposits	11,347,646.60	11,428,931.00
Long-term Borrowings	23,030,489.10	24,676,158.00
Provision for Hurricane Insurance Reserve	16,500,000.01	16,000,000.00
	<u>50,878,135.71</u>	<u>52,105,089.00</u>
 Current Liabilities		
Amount Due to Related Company	89,797.96	91,971.00
Short- term borrowings	8,897,578.53	10,630,726.00
Trade and other payables	15,340,596.73	15,077,082.00
Consumers' Advances for Construction	986,177.63	1,003,906.00
Current portion of provision for retirement benefits	12,150,142.21	16,120,574.00
Provision for Profit Sharing	6,263,023.41	4,528,694.00
Income Tax payable	906,680.27	-
	<u>44,633,996.74</u>	<u>47,452,953.00</u>
 TOTAL LIABILITIES	<u>95,512,132.45</u>	<u>99,558,042.00</u>
 TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	<u>181,816,016.87</u>	<u>183,032,440.00</u>

**GRENADA ELECTRICITY SERVICES
COMBINED TRADING SUMMARY**

For the three months ended March 31st, 2014 and 2013 and year ended December 31st, 2013

	March 2014	March 2013	December 2013
<u>INCOME</u>			
Sales - Non Fuel Charge	19,480,287.62	18,833,317.87	78,004,472.27
- Fuel Charge	27,678,793.06	27,982,786.45	112,360,800.57
Unbilled Sales Adjustments	(33,915.49)	(584,525.25)	(244,236.15)
Net Sales	<u>47,125,165.19</u>	<u>46,231,579.07</u>	<u>190,121,036.69</u>
Sundry Revenue	437,398.99	552,544.59	2,108,030.31
TOTAL INCOME	<u><u>47,562,564.18</u></u>	<u><u>46,784,123.66</u></u>	<u><u>192,229,067.00</u></u>
<u>OPERATING COSTS</u>			
Production less Diesel Consumed	2,985,827.47	3,661,078.87	16,236,401.89
Diesel Consumed	25,529,240.50	27,834,483.13	105,680,363.43
Hurricane Provision	500,000.01	500,000.01	2,000,000.00
Planning & Engineering	672,146.18	640,416.98	2,413,261.25
Distribution	3,882,035.73	3,740,599.46	16,884,546.37
TOTAL OPERATING COSTS	<u><u>33,569,249.89</u></u>	<u><u>36,376,578.45</u></u>	<u><u>143,214,572.94</u></u>
CORPORATE SERVICES	<u>3,856,846.15</u>	<u>3,962,542.19</u>	<u>16,476,246.02</u>
PROFIT BEFORE INTEREST	<u>10,136,468.14</u>	<u>6,445,003.02</u>	<u>32,538,248.04</u>
<u>INTEREST</u>			
Bank Loan Interest	521,204.45	645,865.52	2,390,963.17
Other Bank Interest	-	34,437.07	52,713.43
Consumer Deposit Interest	108,779.45	92,628.25	417,695.96
TOTAL INTEREST COSTS	<u>629,983.90</u>	<u>772,930.84</u>	<u>2,861,372.56</u>
PROFIT AFTER INTEREST	<u>9,506,484.24</u>	<u>5,672,072.18</u>	<u>29,676,875.48</u>
<u>OTHER CHARGES</u>			
Disposal of Fixed Assets	(2,500.00)	-	(82,734.14)
Donations	475,442.98	283,547.17	1,487,980.48
Profit Sharing	1,734,329.32	1,248,733.81	5,853,542.39
TOTAL OTHER CHARGES	<u>2,207,272.30</u>	<u>1,532,280.98</u>	<u>7,258,788.73</u>
PROFIT BEFORE TAXES	7,299,211.94	4,139,791.20	22,418,086.75
Corporation Tax @ 30%	2,189,726.13	1,241,598.71	6,361,010.60
PROFIT AFTER TAXES	<u>5,109,485.81</u>	<u>2,898,192.49</u>	<u>16,057,076.15</u>
Dividends	2,280,000.00	2,280,000.00	9,120,000.00
RETAINED PROFIT to date	<u><u>2,829,485.81</u></u>	<u><u>618,192.49</u></u>	<u><u>6,937,076.15</u></u>

GRENADA ELECTRICITY SERVICES LIMITED

Statement of Cash Flows

For the three months ended March 31st, 2014 and year ended December 31st, 2013

	March 2014	December 2013
Operating Activities		
Profit before Income Tax	7,299,211.94	22,418,087.00
Adjustments for:		
Depreciation	2,670,041.27	11,155,792.00
Profit on disposal of fixed assets	<u>(2,500.00)</u>	<u>(82,734.00)</u>
	9,966,753.21	33,491,145.00
 Changes in Operating Assets / Liabilities		
(Increase)/ (decrease) in receivables and prepayments	(1,825,239.12)	857,666.00
Decrease/ (increase) in accounts payable and accrued charges	164,501.96	(1,401,579.00)
Increase in provision for retirement benefits	(3,970,431.79)	(8,412,980.00)
Decrease in inventory	735,202.41	310,585.00
Decrease in related company balance	(2,173.04)	(48,248.00)
Payment of income tax	(374,453.86)	(7,074,501.00)
Increase in provision for profit sharing	<u>1,734,329.41</u>	<u>247,485.00</u>
	6,428,489.18	17,969,573.00
Cash provided by operating activities	<u>6,428,489.18</u>	<u>17,969,573.00</u>
Investing Activities		
Decrease in available for sale financial assets	36,164.39	3,752.00
Disposal of fixed assets	2,500.00	109,057.00
Suspense jobs in progress (increase) / decrease	(105,735.94)	(275,037.00)
Increase in Capital Work in Progress	(917,750.03)	610,222.00
Increase in loans and receivables financial assets	(140,855.15)	(4,534,486.00)
Increase in segregated investment	3,824,388.76	9,620,035.00
Decrease in consumer contribution to line extension	(159,952.49)	(244,876.00)
Purchase of fixed assets	-	(6,802,161.00)
Increase in other reserves	<u>-</u>	<u>(3,752.00)</u>
	2,538,759.54	(1,517,246.00)
Cash used in investing activities	<u>2,538,759.54</u>	<u>(1,517,246.00)</u>
Financing Activities		
Provision for hurricane insurance reserve	500,000.01	2,000,000.00
Repayment of Loan	(1,645,668.90)	(7,311,435.00)
Dividends paid	<u>(2,280,000.00)</u>	<u>(9,120,000.00)</u>
Cash used in financing activities	<u>(3,425,668.89)</u>	<u>(14,431,435.00)</u>
 Net Increase in cash and cash equivalents	5,541,579.83	2,020,892.00
Net cash - at the beginning of year	<u>(909,102.00)</u>	<u>(2,929,994.00)</u>
	4,632,477.83	(909,102.00)
- at the end of period	<u>4,632,477.83</u>	<u>(909,102.00)</u>
Represented by		
Cash and due from banks	5,911,947.36	2,103,515.00