



May 3, 2016

## **CUC Announces First Quarter Results for the Period Ended March 31 2016**

Caribbean Utilities Company, Ltd. is listed for trading in United States dollars on the Toronto Stock Exchange.

**Grand Cayman, Cayman Islands-** Caribbean Utilities Company, Ltd. (TSX: CUP.U) (“CUC” or “the Company”) announced today its unaudited results for the First Quarter ended March 31 2016 (all figures in United States dollars).

Sales for the three months ended March 31, 2016 (“First Quarter 2016”) totalled 135.6 million kilowatt-hour (“kWh”), an increase of 6.6 million kWh in comparison to 129.0 million kWh for the three months ended March 31, 2015 (“First Quarter 2015”). This 5% sales growth was driven by warmer weather conditions and an increase in customer numbers.

Operating income for First Quarter 2016 totalled \$5.1 million, an increase of \$0.6 million when compared to operating income of \$4.5 million for First Quarter 2015. The increase is attributable to the 5% kWh sales growth and lower general and administration costs. These items were partially offset by higher depreciation, maintenance and amortization costs.

In addition to the factors positively impacting operating income, net earnings increased as a result of higher capitalization of interest expenses through the Allowance for Funds Used During Construction (“AFUDC”) of \$1.9 million in First Quarter 2016 when compared to \$0.9 million in First Quarter 2015. The increase in AFUDC, and resulting reduction in Finance Charges, is due primarily to the Company’s ongoing 39.7 MW Generation Project. AFUDC is the capitalisation of Financing Cost which is calculated by multiplying the Company’s Cost of Capital rate by the average construction work in progress for each month.

Net Earnings for the First Quarter 2016 totalled \$5.0 million, an increase of \$1.7 million when compared to net earnings of \$3.3 million for the First Quarter 2015.

**Caribbean Utilities Company, Ltd.**

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After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2016 were \$4.9 million, or \$0.15 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$3.2 million or \$0.11 per Class A Ordinary Share for the First Quarter 2015.

The average monthly temperature for the First Quarter 2016 was 80.2 degrees Fahrenheit as compared to an average monthly temperature of 79.5 degrees for First Quarter 2015. Warmer temperatures increase air conditioning load which can positively impact the Company's sales.

During the First Quarter 2016, there was an increase in the number of customers connected to the CUC grid. The total number of customers as at March 31, 2016 was 28,332, an increase of 459 customers, or 2%, compared to 27,873 customers as at March 31, 2015.

Capital expenditures for the three months ended March 31, 2016 were \$10.6 million, a \$3.5 million, or 49% increase from \$7.1 million in capital expenditures for the three months ended March 31, 2015. This increase in capital expenditures is driven by costs associated with the Company's 39.7 MW generation project.

The Company is currently in the commissioning phase of the two new engines for the Generation Project and it is expected that the units will be fully commissioned in June 2016. The new engine room houses two 18.5 megawatts ("MW") diesel generating units, one 2.7 MW waste heat recovery steam turbine and associated auxiliary equipment. The project cost is estimated at \$85 million and will be the most efficient fuel plant of its kind in the region when completed.

President and CEO, Mr. Richard Hew, says, "The First Quarter of 2016 has been a good one for the Company. We remained focused on becoming a more efficient company and on meeting the future energy needs of Grand Cayman. During this Quarter our customers continued to benefit from lower electricity bills, our new generating plant has progressed to the commissioning stage and significant progress has been made to increase our renewable energy options."



Reliability of service to our customers is a key objective for our Company and it is critical to the continuing growth of Grand Cayman. The Company remains committed to meeting the challenges which come with providing a highly reliable service on a small island system such as what we have in Grand Cayman. The CUC system Average Availability Index was 99.90% during First Quarter 2016.

With the reduction in world fuel market prices and the 30 cents Government reduction in fuel duty, customers benefited from significantly reduced electricity costs during the First Quarter 2016. The residential consumer who used 1,000 kWh per month would have seen their monthly bills decline by approximately CI\$68 during the First Quarter 2016 when compared to the same period in 2015.

While current fuel prices are low historically, the world fuel market has been volatile therefore the Company's efforts to connect other stable and competitively priced energy options to the grid have not been deterred.

The 5 MW Solar Project at Bodden Town is progressing as planned with ground-breaking by the developer, Entropy Cayman Solar Limited, scheduled for early May and planned commercial operation by the end of 2016. The Company anticipates further renewable energy sources will be connected to the grid, with a Request for Proposal ("RFP") for renewable energy being conducted by the Electricity Regulatory Authority ("ERA") in the near future.

The Company remains committed to using the latest technologies to increase efficiencies within the business. At the end of First Quarter 2016, the Company had installed over 15,000 meters as part of the Advanced Metering Infrastructure ("AMI") project.



The AMI project is expected to be completed in July 2016 and provides real-time consumption information, and brings efficiencies to meter reading as well as other services. It will also offer a pay- as- you-go payment option which will help customers to monitor and control their electricity consumption.

CUC's First Quarter results and related Management's Discussion and Analysis ("MD&A") for the period ended March 31 2016 are attached to this release and incorporated by reference.

CUC provides electricity to Grand Cayman, Cayman Islands, under an Electricity Generation Licence expiring in 2039 and an exclusive Electricity Transmission and Distribution Licence expiring in 2028. Further information is available at [www.cuc-cayman.com](http://www.cuc-cayman.com).

*Certain statements in the MD&A, other than statements of historical fact, are forward-looking statements concerning anticipated future events, results, circumstances, performance or expectations with respect to the Company and its operations, including its strategy and financial performance and condition.*

*Forward looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plan", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedule", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward looking statements are based on underlying assumptions and management's beliefs, estimates and opinions, and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Some of the important risks and uncertainties that could affect forward looking statements are described in the MD&A in the section labeled "Business Risks" and include but are not limited to operational, general economic, market and business conditions, regulatory developments and weather. CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.*

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Informing



Expanding



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Training

Caribbean Utilities Company, Ltd.

# 2016 First Quarter Report

March 31, 2016



## General Data

### **About the Company**

Caribbean Utilities Company, Ltd., known locally as “CUC”, commenced operations as the only electric utility in Grand Cayman on May 10, 1966. The Company currently has an installed generating capacity of 133.35 megawatts (“MW”), in addition to 7.5 MW of temporary generation and the record peak load of 102.086 MW was experienced on June 3, 2010. CUC is committed to providing a safe and reliable supply of electricity to over 28,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman’s development for the past 50 years.

### **About the Cayman Islands**

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 54,000, are comprised of three islands: Grand Cayman, Cayman Brac and Little Cayman. Located approximately 150 miles south of Cuba, 460 miles south of Miami and 167 miles northwest of Jamaica, the largest island is Grand Cayman with an area of 76 square miles.

A Governor, presently Her Excellency Mrs. Helen Kilpatrick, is appointed by her Majesty the Queen. A democratic society, the Cayman Islands have a Legislative Assembly comprised of representatives elected from each of Grand Cayman’s five districts as well as representatives from the Sister Islands of Cayman Brac and Little Cayman.

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## **Fellow Shareholders,**

We are pleased to report that the Company has had a successful start to the year. During the first three months of 2016, we recorded a 5% increase in kilowatt-hour (“kWh”) sales and increased our customer numbers by 2%, when compared to the same period last year. The Company also celebrated 365 days without a Lost Time Injury during the period under review.

Sales for the three months ended March 31, 2016 (“First Quarter 2016”) totalled 135.6 million kilowatt-hour (“kWh”), an increase of 6.6 million kWh in comparison to 129.0 million kWh for the three months ended March 31, 2015 (“First Quarter 2015”). This 5% sales growth was driven by warmer weather conditions and an increase in customer numbers.

Operating income for First Quarter 2016 totalled \$5.1 million, an increase of \$0.6 million when compared to operating income of \$4.5 million for First Quarter 2015. The increase is attributable to the 5% increase in kWh sales and lower general and administration costs. These items were partially offset by higher depreciation, maintenance and amortization costs.

In addition to the factors positively impacting operating income, net earnings increased as a result of higher capitalization of interest expenses through the Allowance for Funds Used During Construction (“AFUDC”) of \$1.9 million in First Quarter 2016 when compared to \$0.9 million in First Quarter 2015. The increase in AFUDC, and resulting reduction in Finance Charges, is due primarily to the Company’s ongoing 39.7 MW Generation Project. AFUDC is the capitalisation of Financing Cost which is calculated by multiplying the Company’s Cost of Capital rate by the average construction work in progress for each month.

Net Earnings for the First Quarter 2016 totalled \$5.0 million, an increase of \$1.7 million when compared to net earnings of \$3.3 million for the First Quarter 2015.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2016 were \$4.9 million, or \$0.15 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$3.2 million or \$0.11 per Class A Ordinary Share for the First Quarter 2015.

During the First Quarter 2016, there was an increase in the number of customers connected to the CUC grid. The total number of customers as at March 31, 2016 was 28,332, an increase of 459 customers, or 2%, compared to 27,873 customers as at March 31, 2015.

With the reduction in world fuel market prices and the 30 cents Government reduction in fuel duty, customers benefited from significantly reduced electricity costs during the First Quarter 2016. The residential consumer who used 1,000 kWh per month would have seen their monthly bills decline by approximately CI\$68 during the First Quarter 2016 when compared to the same period in 2015.



The Company's average price per Imperial Gallon of fuel for the First Quarter 2016 decreased 34% to \$2.13, compared to \$3.24 for the First Quarter 2015. The Company's average price per IG of lubricating oil for the First Quarter 2016 decreased to \$11.49 when compared to \$12.88 for the First Quarter 2015.

While current fuel prices remain low today, historically, the world fuel market has been volatile and the Company's efforts to connect other stable and competitively priced energy options to the grid have not been deterred.

The 5 MW Solar Project at Bodden Town is progressing as planned with ground-breaking by the developer, Entropy Cayman Solar Limited scheduled for early May and planned commercial operation by the end of 2016. The Company anticipates further renewable energy sources connected to the grid with a Request for Proposal (RFP) for renewable energy being conducted by the Electricity Regulatory Authority (ERA) in the near future.

Reliability of service to our customers is a key objective of our Company as it is critical to the quality of life and growth of the economy of Grand Cayman. The Company remains committed to meeting the challenges which come with providing a highly reliable service on a small island system such as what we have in Grand Cayman. The CUC system Average Service Availability Index was 99.90% for the First Quarter 2016.

The 39.7 MW Generation Project is progressing as planned and it is expected that the units will be commissioned in June 2016. The new engine room houses two 18.5 MW diesel generating units, one 2.7 MW waste heat recovery steam turbine and associated auxiliary equipment which will replace retiring generators and provide firm capacity to meet anticipated load growth. The project cost is estimated at \$85 million and will be the most fuel efficient plant of its kind in the region when completed.

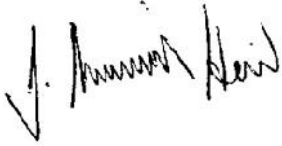
The Company will celebrate 50 years of operations on May 10, 2016, playing a vital role in the development of the island. Over the 50 years, CUC has developed from 650 connected customers to over 28,000 customers and from a peak demand of 0.9 MW to 102.1 MW.

As a result of the quality of the infrastructure, including a reliable and efficient electricity service, Grand Cayman has attracted investors and residents over the years.

The Company remains committed to using the latest technologies to increase efficiencies within the business. At the end of First Quarter 2016, the Company had installed over 15,000 meters as part of the Advanced Metering Infrastructure ("AMI") project. The AMI project is expected to be completed in mid-July 2016 and these new Smart Meters provide real-time consumption information, and bring efficiencies to meter reading as well as other services. It will also offer a pay-as-you-go payment option which will help customers to monitor and control their electricity consumption.

On January 27, 2016, the Company marked 365 days without a Lost Time Injury. We are extremely proud of this achievement which highlights the focus and commitment we have given to creating a safe environment for our employees. Our goal is to continue to reduce both the frequency and severity of work related injuries and to be an industry leader in this regard.

I am very pleased with the direction of the Company in this First Quarter 2016. We remain focused on controlling our operating expenditures, becoming a more efficient Company and on meeting the future energy needs of Grand Cayman. We will also continue to focus on improving our reliability, enhancing a safety culture, attaining excellence through the development of our employees and diversifying our energy sources with an emphasis on renewables.



J.F. Richard Hew  
President & Chief Executive Officer

May 3, 2016

## **Interim Management's Discussion and Analysis**

*The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or "the Company") consolidated financial statements for the twelve months ended December 31, 2015 ("Fiscal 2015"). The material has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to Management's Discussion and Analysis.*

*Additional information in this MD&A has been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, which are disclosed in the notes to the Company's 2015 annual financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation, the amount and timing of recovery or refund by the Company of costs of providing services, including a fair return on rate base assets, from customers through appropriate billing rates would not be subject to regulatory approval.*

*Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements concerning anticipated future events, results, circumstances, performance or expectations with respect to the Company and its operations, including its strategy and financial performance and condition. Forward looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plan", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedule", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward-looking statements are based on underlying assumptions and management's beliefs, estimates and opinions, and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Some of the important risks and uncertainties that could affect forward looking statements are described in the MD&A in the sections labelled "Business Risks", "Capital Resources" and "Corporate and Regulatory Overview" and include but are not limited to operational, general economic, market and business conditions, regulatory developments, weather and the Rights Offering. CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.*

*Financial information is presented in United States dollars unless otherwise specified. The consolidated financial statements and MD&A in this interim report were approved by the Audit Committee.*

May 3, 2016

## Financial and Operational Highlights

(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Change	% Change
Electricity Sales Revenues	18,061	17,044	1,017	6%
Fuel Factor Revenues	21,671	31,665	(9,994)	-32%
Operating Revenues	39,732	48,709	(8,977)	-18%
Fuel and Lube Costs	21,671	31,665	(9,994)	-32%
Other Operating Expenses	12,921	12,546	375	3%
Total Operating Expenses	34,592	44,211	(9,619)	-22%
Earnings for the Period	4,975	3,284	1,691	51%
Cash Flow from Operating Activities	16,935	15,400	1,535	10%
<i>Per Class A Ordinary Share:</i>				
Basic Earnings	0.15	0.11	0.04	37%
Dividends Paid	0.165	0.165	0	0%
Total Customers	28,332	27,873	459	2%
Total Employees*	201	198	3	2%
Customer per Employee (#)	141	140	1	1%
System Availability (%)	99.90	99.95	(0.05)	0%
Peak Load Gross (MW)	92.4	89.6	2.8	3%
<i>Millions of kWh:</i>				
Net Generation	145.3	138.2	7.1	5%
Kilowatt-Hour Sales	135.6	129.0	6.6	5%
Sales per employee	0.67	0.62	0.05	8%

\*Total full time CUC employees

## Corporate and Regulatory Overview

The principal activity of the Company is to generate, transmit and distribute electricity in its licence area of Grand Cayman, Cayman Islands pursuant to a 20-year exclusive Transmission & Distribution (“T&D”) Licence and a 25-year non-exclusive Generation Licence (the “Licences”) granted by the Cayman Islands Government (the “Government”), which expire in April 2028 and November 2039, respectively.

The Licences contain the provision for a rate cap and adjustment mechanism (“RCAM”) based on published consumer price indices. CUC’s return on rate base (“RORB”) for 2015 was 7.4% (2014: 7.4%). CUC’s RORB for 2016 is targeted in the 6.75% to 8.75% range (2015: 7.25% to 9.25%).

CUC’s base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour (“kWh”) electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2015, following review and approval by the Electricity Regulatory Authority (“ERA”), the Company increased its base rates by 0.9%. This increase was a result of the 2014 RORB and the increase in the applicable United States (“US”) and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2014. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80% based on the range of the RORB values. The required rate adjustment of 0.9% can be calculated by applying 80% to

the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 1.1%. All fuel and lubricating oil costs are passed through to customers without mark-up as a per kWh charge. Rate base is the value of capital upon which the Company is permitted an opportunity to earn a return. The value of this capital is the average of the beginning and ending values for the applicable financial year of: fixed assets less accumulated depreciation, plus the allowance for working capital, plus regulatory assets less regulatory liabilities.

The ERA has the overall responsibility for regulating the electricity industry in the Cayman Islands in accordance with the ERA Law. The ERA oversees all licencees, establishes and enforces licence standards, enforces applicable environmental and performance standards, reviews the proposed RCAM, and sets the rate adjustment factors as appropriate.

In December 2015 the ERA approved CUC's 2016-2020 Capital Investment Plan in the amount of \$204 million. Costs related to the competitive bid award to install 39.7 megawatts ("MW") of generation capacity are included in the approved CIP in the amount of CUC's competitive bid.

As a result of CUC's successful bid, the Company entered into a design-build contract agreement for the generation project with the consortium of Burmeister & Wain Scandinavian Contractor A/S ("BWSC") of Denmark and MAN Diesel & Turbo SE ("MAN") of Germany. The agreement covers the purchase and turnkey installation of a new 39.7 MW power plant which is comprised of two 18.5 MW V48/60 medium-speed diesel generating units, one 2.7 MW waste heat recovery steam turbine, and associated auxiliary equipment. This contract is valued at approximately \$55.4 million. On this contract a total of \$11.1 million was spent in 2014, an additional \$38.8 million was spent during the year ended December 31, 2015 and the remaining amount of \$5.5 million is expected to be spent during the first half of 2016.

The total project cost is estimated at \$85 million. A total of \$11.6 million was spent in 2014, an additional \$47.9 million was spent on the project during the year ended December 31, 2015 and \$2.8 million was spent during the three months ended March 31, 2016.

The Company successfully completed a Rights Offering (the "Offering") in May 2015. Under the Offering and related stand-by agreement, the Company raised gross proceeds of \$31,563,639 through the issue of 2,930,700 Class A Ordinary Shares at a price of \$10.77 per Class A Ordinary Share. The Company has used the proceeds of the Offering to finance a portion of the new power plant and other on-going capital expenditures.

In November 2014, CUC closed on a \$50 million private debt placement to provide initial funding for the Generation Project. The Company intends to use the proceeds of the Offering (after payment of the expenses of the Offering) to finance the remaining portion of the development of its new 39.7 MW diesel power plant and other on-going capital expenditures.

The generating units will be housed in a new purpose built power house at the Company's North Sound Road Power Plant and it is expected that these will be commissioned in June 2016.

CUC has also secured the supply of 7.5 MW of temporary mobile generation following the retirement of 17.5 MW of generation in early 2014. This retirement relates to units 14 and 16 which exhausted their useful lives in accordance with the Company's Generation Licence.

This temporary generation has ensured the continuity of supply until the installation of the firm capacity. CUC understands that reliability of service is critical to Grand Cayman's continued growth and development. The Company continues to focus on maintaining and improving the level of service we offer to our customers.

A licence fee of 1%, payable to the Government, is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge. In addition to the licence fee, a regulatory fee of ½ of 1% is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month.

In the event of a natural disaster as defined in the T&D Licence, the actual increase in base rates will be capped for the year at 60% of the change in the Price Level Index and the difference between the calculated rate increase and the actual increase expressed as a percentage, shall be carried over and applied in addition to the normal RCAM adjustment in either of the two following years if the Company's RORB is below the target range. In the event of a disaster the Company would also write-off destroyed assets over the remaining life of the asset that existed at time of destruction. Z Factor rate changes will be required for insurance deductibles and other extraordinary expenses. The Z Factor is the amount, expressed in cents per kWh, approved by the ERA to recover the costs of items deemed to be outside of the constraints of the RCAM.

Performance standards provide a balanced framework of potential penalties or rewards compared to historical performance in the areas of planning, reliability, operating and overall performance. Standards include "zones of acceptability" where no penalties or rewards would apply. In April 2015, the ERA approved a reward related to the Company's performance for 2013-2014 in accordance with the T&D Licence. The total performance reward of \$0.05 million was applied to customer billings as a per kWh charge on a one time-basis in June 2015.

CUC's wholly-owned subsidiary, DataLink, Ltd. ("DataLink"), was granted a licence in 2012 from the Information and Communications Technology Authority ("ICTA") permitting DataLink to provide fibre optic infrastructure and other information and communication technology ("ICT") services to the ICT industry. The term of the licence is 15 years and expires on March 27, 2027. CUC and DataLink have entered into three ERA-approved agreements:

1. The Management and Maintenance agreement;
2. The Pole Attachment agreement; and
3. The Fibre Optic agreement

## Consolidation Accounting Policy

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary DataLink. All significant intercompany balances and transactions have been eliminated on consolidation.

## Sales

Sales for the three months ended March 31, 2016 ("First Quarter 2016") totalled 135.6 million kWh, an increase of 6.6 million kWh in comparison to 129.0 million kWh for the three months ended March 31, 2015 ("First Quarter 2015"). The average monthly temperature for the First Quarter 2016 was 80.2 degrees Fahrenheit as compared to an average monthly temperature of 79.5 degrees for First Quarter 2015. Warmer temperatures increased air conditioning load which positively impacted the Company's sales.

Total customers as at March 31, 2016 were 28,332, an increase of 459 customers, or 2%, compared to 27,873 customers as at March 31, 2015.

The following tables present customer and sales highlights:

Customers (number)	March 31, 2016	March 31, 2015	Change %
Residential	24,090	23,757	1%
Commercial	<u>4,242</u>	<u>4,116</u>	3%
<b>Total Customers</b>	<b>28,332</b>	<b>27,873</b>	<b>2%</b>

Sales (thousands kWh)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Change	% Change
Residential	64,153	58,193	5,960	10%
Commercial	69,709	69,147	562	1%
Other (street lighting, etc.)	<u>1,697</u>	<u>1,681</u>	<u>16</u>	1%
<b>Total Sales</b>	<b>135,559</b>	<b>129,021</b>	<b>6,538</b>	<b>5%</b>

Average Monthly Consumption per Customer	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Change	% Change
Residential	888	819	69	8%
Commercial	55,260	54,437	823	2%

## Earnings

Operating income for First Quarter 2016 totalled \$5.1 million, an increase of \$0.6 million when compared to operating income of \$4.5 million for First Quarter 2015. The increase is attributable to the 5% increase in kWh sales and lower general and administration costs. These items were partially offset by higher depreciation, maintenance and amortization costs.



In addition to the factors positively impacting operating income, net earnings increased as a result of higher capitalization of interest expenses through the Allowance for Funds Used During Construction ("AFUDC") of \$1.9 million in First Quarter 2016 when compared to \$0.9 million in First Quarter 2015. The increase in AFUDC, and resulting reduction in Finance Charges, is due primarily to the Company's ongoing 39.7 MW Generation Project. AFUDC is the capitalisation of Financing Cost which is calculated by multiplying the Company's Cost of Capital rate by the average construction work in progress for each month.

Net Earnings for the First Quarter 2016 totalled \$5.0 million, an increase of \$1.7 million when compared to net earnings of \$3.3 million for the First Quarter 2015.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2016 were \$4.9 million, or \$0.15 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$3.2 million or \$0.11 per Class A Ordinary Share for the First Quarter 2015.

### Operating Revenues

Total operating revenues were as follows:

Revenues (\$ thousands)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Change	% Change
Residential	8,392	7,580	812	11%
Commercial	9,477	9,272	205	2%
Other (street lighting, etc.)	192	192	-	0%
<b>Electricity Sales Revenues</b>	<b>18,061</b>	17,044	<b>1,017</b>	6%
<b>Fuel Factor Revenues</b>	<b>21,671</b>	31,665	<b>(9,994)</b>	(32%)
<b>Total Operating Revenues</b>	<b>39,732</b>	48,709	<b>(8,977)</b>	(18%)

Operating revenues for the First Quarter 2016 were \$39.7 million, a decrease of \$9.0 million from \$48.7 million for the First Quarter 2015. The decrease in operating revenues for the three months ended March 31, 2016 was due primarily to lower fuel factor revenues.

Other (street lighting, etc.) revenue for the First Quarter 2016 totalled \$0.2 million, comparable to \$0.2 million for the First Quarter 2015. Street lighting rates were approved by the ERA with an effective date of January 1, 2015. Lighting rates are not subject to the RCAM, but the Company can apply to the ERA for adjustment to the lighting rates on an as-needed basis by submitting appropriate cost justifications. Lighting rates were last adjusted in June 2009.

Electricity sales revenues were \$18.1 million for the First Quarter 2016, an increase of \$1.1 million from \$17.0 million for the First Quarter 2015. Electricity sales revenues for the First Quarter 2016 increased when compared to electricity sales revenue for the First Quarter 2015 due to a 0.9% base rate increase effective June 1, 2015, and a 5% increase in kWh sales in the First Quarter 2016 when compared to the First Quarter 2015.

Fuel factor revenues for the First Quarter 2016 totalled \$21.7 million, compared to fuel factor revenues of \$31.7 million for the First Quarter 2015. Fuel factor revenues for the



First Quarter 2016 decreased due to a lower average fuel cost charge per kWh when compared to the First Quarter 2015. The average Fuel Cost Charge rate billed to consumers for the First Quarter 2016 was \$0.15 per kWh, compared to the average Fuel Cost Charge rate of \$0.23 per kWh for the First Quarter 2015. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

## Operating Expenses

Operating expenses were as follows:

Operating Expenses (\$ thousands)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Change	% Change
Power Generation Expenses	22,719	32,594	(9,875)	-30%
General and Administration	2,086	2,442	(356)	-15%
Consumer Service	630	641	(11)	-2%
Transmission and Distribution	757	726	31	4%
Depreciation	6,768	6,309	459	7%
Maintenance	1,481	1,376	105	8%
Amortization of Intangible Assets	151	123	28	23%
<b>Total Operating Expenses</b>	<b>34,592</b>	<b>44,211</b>	<b>(9,619)</b>	<b>-22%</b>

Operating expenses for the First Quarter 2016 totalled \$34.6 million, a \$9.6 million decrease from \$44.2 million for the First Quarter 2015. This decrease was due primarily to lower fuel factor revenues offset by higher electricity sales revenues for the First Quarter 2016 when compared to the First Quarter 2015.

## Power Generation

Power generation costs for the First Quarter 2016 decreased \$9.9 million to \$22.7 million when compared to \$32.6 million for the First Quarter 2015. This decrease is as a result of lower fuel costs and lower net generation.

Power generation expenses were as follows:

Power Generation (\$ thousands)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Change	% Change
Fuel costs (net of deferred fuel charges)	21,181	31,045	(9,864)	-32%
Lubricating Oil costs (net of deferred lubricating oil charges)	490	620	(130)	-21%
Temporary generation costs	215	113	102	90%
Other generation expenses	833	816	17	2%
<b>Total power generation expenses</b>	<b>22,719</b>	<b>32,594</b>	<b>(9,875)</b>	<b>-30%</b>

The Company's average price per Imperial Gallon ("IG") of fuel for the First Quarter 2016 decreased 34% to \$2.13, compared to \$3.24 for the First Quarter 2015.

Net generation was 145.3 million kWh for the First Quarter 2016, a 5% increase when compared to 138.2 million kWh for the First Quarter 2015. Net fuel efficiency for the First Quarter 2016 of 18.27 kWh per IG decreased when compared to net fuel efficiency for the

First Quarter 2015 of 18.35 kWh per IG. This decrease in net fuel efficiency is due primarily to the use of temporary mobile generation.

The Company's average price per IG of lubricating oil for the First Quarter 2016 decreased to \$11.49 when compared to \$12.88 for the First Quarter 2015.

The Fuel Tracker Account (see Note 6 of the consolidated financial statements) is comprised of total diesel fuel and lubricating oil costs to be recovered from consumers.

In March 2011 the ERA approved the Fuel Price Volatility Management Program. The objective of the program is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers for the fuel that the Company must purchase in order to provide electric service. Contracts initiated in 2015 utilize call options and call spreads to promote transparency in pricing. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

CUC has secured the supply of 7.5 MW of temporary mobile generation following the retirement of 17.5 MW of generation in early 2014 in accordance with the Generation Licence. Temporary generation expenses for the First Quarter 2016 totalled \$0.2 million, a \$0.1 million increase when compared to Temporary generation expenses of \$0.1 million for the First Quarter 2015.

Other generation expenses for the First Quarter 2016 totalled \$0.8 million, comparable to other generation expenses of \$0.8 million for the First Quarter 2015.

### **General and Administration ("G&A")**

G&A expenses for the First Quarter 2016 totalled \$2.1 million, a \$0.3 million decrease compared to \$2.4 million for the First Quarter 2015. This decrease is due mainly to the lower Performance Share Unit and insurance costs.

General Expenses Capitalised ("GEC") totalled \$1.0 million for the First Quarter 2016, a decrease of \$0.1 million when compared to \$1.1 million for the First Quarter 2015.

### **Consumer Services ("CS")**

CS expenses for the First Quarter 2016 totalled \$0.6 million, comparable to \$0.6 million for the First Quarter 2015.

In accordance with its AFDA policy, the Company maintains an accumulated provision for uncollectible customer accounts receivable that is estimated based on known accounts, historical experience and other currently available information, including the economic environment. The Company completed a full review of its outstanding Accounts Receivables balance and the reasonableness of its methodology of applying a flat percentage to total receivables in calculating AFDA. This review indicated an increase in days outstanding for receivable balances. Consequently, management determined the estimation process related to the AFDA would be refined to include a risk element for aging of accounts receivable.

Trade and other accounts receivable (\$ thousands)	As at March 31, 2016	As at December 31, 2015
Current	6,316	8,160
Past due 31-60 days	1,007	1,018
Past due 61-90 days	489	240
Past due over 90 days	<u>4,949</u>	<u>4,313</u>
<b>Total Accounts Receivable</b>	<b>12,761</b>	<b>13,731</b>
Less: Allowance for doubtful accounts	<b>(2,270)</b>	(1,964)
Less: Consumer Deposits	<b>(6,991)</b>	<b>(6,823)</b>
<b>Net Exposure</b>	<b>3,500</b>	4,944

Net Exposure as at March 31, 2016 totalled \$3.5 million, a decrease of \$1.4 million, or 29% when compared to the Net Exposure of \$4.9 million as at December 31, 2015. This decrease was primarily related to a decrease in receivables in the current and 31-60 day categories. The current and 31-60 day category of receivables decreased by \$1.8 million and \$0.01 million respectively, or 22% and 0.01% respectively due to lower fuel factor billings and improved efficiencies in the disconnection process due to the newly installed Advanced Metering Infrastructure (“AMI”) meters. At the end of December 2015, 57% of the planned AMI installations were completed. Customers who have had the AMI meters installed are benefiting from the ability to monitor their consumption and manage their usage.

### Transmission and Distribution (“T&D”)

T&D expenses for the First Quarter 2016 totalled \$0.8 million, an increase of \$0.1 million compared to T&D expenses for the First Quarter 2015 of \$0.7 million. T&D expenses for the First Quarter 2016 were impacted by an increase in various maintenance projects.

### Depreciation of Property, Plant and Equipment (PP&E)

Depreciation expenses for the First Quarter 2016 totalled \$6.8 million, an increase of \$0.5 million, from \$6.3 million for the First Quarter 2015. The increase in depreciation expenses is due to capital projects completed in prior periods.

### Maintenance

Maintenance expenses for the First Quarter 2016 totalled \$1.5 million, an increase of \$0.1 million when compared to \$1.4 million for the First Quarter 2015. This increase is due to ongoing maintenance projects of the generating units and an increase in maintenance costs for various information technology programmes.

### Amortization

Amortization of intangible assets for the First Quarter 2016 totalled \$0.2 million, an increase of \$0.1 million when compared to \$0.1 million for the First Quarter 2015.

Amortization represents the monthly recognition of the expense associated with software purchases as well as other intangible assets such as the costs associated with the licence negotiations. The negotiations for the Company’s electricity licence concluded in 2008 and the costs associated with the negotiations are being amortized over 20 years on a straight-line basis. The negotiations associated with DataLink’s ICT licence ceased in 2012 and these costs are being amortized over 15 years on a straight-line basis.

## Other Income and Expenses

Net Other Expenses for the First Quarter 2016 totalled \$0.2 million, a decrease of \$1.0 million from \$1.2 million for the First Quarter 2015.

Other Income & Expenses (\$ thousands)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Change	% Change
Total interest costs	<b>(3,055)</b>	(3,248)	<b>193</b>	-6%
AFUDC	<b><u>1,912</u></b>	<u>891</u>	<b><u>1,021</u></b>	115%
Total finance charges	<b>(1,143)</b>	(2,357)	<b>1,214</b>	-52%
Foreign exchange gain	<b>307</b>	340	<b>(33)</b>	-10%
Other income	<b><u>671</u></b>	<u>803</u>	<b><u>(132)</u></b>	-16%
<b>Total Net Other Expense</b>	<b>(165)</b>	(1,214)	<b>1,049</b>	-86%

Finance charges for the First Quarter 2016 totalled \$1.1 million, a \$1.3 million decrease from \$2.4 million for the First Quarter 2015. This decrease is as a result of higher AFUDC and lower interest costs in the First Quarter 2016.

Under the T&D Licence there is a provision for an Allowance for Funds Used During Construction ("AFUDC"). This capitalisation of the Financing Cost is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for 2016 was 7.75% (2015:8.25%) as agreed with the ERA, in accordance with the T&D Licence, and is reviewed annually.

The AFUDC amount for the First Quarter 2016 totalled \$1.9 million, an increase of \$1 million from \$0.9 million for the First Quarter 2015. This increase was attributable to higher capital expenditure, driven primarily by the generation project.

Foreign exchange gains and losses are the result of monetary assets and liabilities denominated in foreign currencies that are translated into United States dollars at the exchange rate prevailing on the Balance Sheet date. Revenue and expense items denominated in foreign currencies are translated into United States dollars at the exchange rate prevailing on the transaction date. Foreign exchange gains for the First Quarter 2016 totalled \$0.3 million, comparable to the First Quarter 2015.

Other income is comprised of income from the third party customers of DataLink, income from pipeline operations, sale of meter sockets, sale of recyclable materials, performance rewards as part of the T&D Licence and other miscellaneous income. Performance standards as prescribed by the T&D Licence provide a balanced framework of potential penalties or rewards compared to historical performance in the areas of planning, reliability, operating and overall performance. Standards include "zones of acceptability" where no penalties or rewards would apply.

Other income totalled \$0.7 million for the First Quarter 2016, a \$0.1 million decrease when compared to other income of \$0.8 million for the First Quarter 2015. This decrease is due to a decrease in various customer service fees such as the sale of meter sockets, connection fees and late fees on outstanding customer receivables.

Revenues from DataLink for the First Quarter 2016 are recorded in Other Income in the amount of \$0.1 million, comparable to the First Quarter 2015.

## The Economy

In February 2016, the Cayman Islands Government released the 2015 Consumer Price Index (“CPI”) Report. The average CPI for 2015 decreased 2.3% from the average CPI in 2014. This decrease was the result of decreasing inflation in all quarters of 2015, the highest being seen in the second quarter at 3.6%. Of the 12 divisions monitored in the CPI calculation, four divisions saw price declines in 2015: Housing & Utilities, Transport, Restaurant & Hotels and Miscellaneous Goods & Services. The divisions with the largest increases were Communication, Clothing & Footwear and Education.

According to the 2015 Third Quarter Economic Report from the Cayman Islands Economics and Statistics office (“ESO”) that was released in February 2016, overall economic activity in the Cayman Islands grew by an estimated 1.6% in the first nine months of 2015 compared to 2014. According to the report, financial and insurance services led the growth, and growth rates were indicated for a number of other sectors including real estate, renting and business activities, electricity and water supply, agriculture and fishing and other services. GDP growth for 2015 is forecasted at 1.7%. The ESO is forecasting Annual GDP growth of 2.0% for 2016. The Company’s annual sales growth and resource requirements, including number of employees, have historically been heavily influenced by changes in the level of economic activity in the country as illustrated by the GDP.

The table below itemises trends in some of the key financial areas:

	As at March 31, 2016	As at December 2015	As at December 2014	As at December 2013	As at December 2012
Bank Licences	179	184	198	213	222
Mutual Funds *	10,965	10,940	11,010	11,379	10,841
Mutual Fund Administrators	107	108	115	121	124
Registered Companies	101,564	98,838	99,459	95,530	93,612
Captive insurance companies	742	739	793	788	768

The tourism sector is the second main pillar of the Cayman Islands economy. The Cayman Islands tourism demographic is largely comprised of visitors from the United States of America (“US”). For 2015 76% of air arrivals to the country were citizens of the US. As such the US economy has a large impact on the economy of the Cayman Islands.

First Quarter 2016 air arrivals were down by 2.5% when compared to 2015 and cruise arrivals saw an increase of 12.5% when compared to 2015. Air arrivals have a direct impact on the Company’s sales growth as these visitors are stay-over visitors who occupy local accommodation services. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

The following table presents statistics for tourist arrivals in the Cayman Islands for the three months ending March 31:

Arrivals	2016	2015	2014	2013	2012
By Air	112,778	115,640	109,406	104,029	96,187
By Sea	<u>612,150</u>	<u>544,073</u>	<u>543,017</u>	<u>532,263</u>	<u>553,347</u>
Total	724,928	659,713	652,423	636,292	649,534

The tourism industry is expected to be positively impacted by the expansion of the Owen Roberts International Airport in Grand Cayman. The expansion is expected to be completed in 2018 and will accommodate the anticipated growth in air arrivals. The expanded airport is expected to provide vital access for long-haul flights and will also provide a vastly improved airlift service for Grand Cayman's tourists. In addition to the airport expansion, the tourism sector is expected to receive a boost by the completion of the Kimpton Seafire Resort and Spa. The luxury resort hotel will be completed in November 2016, and will host five restaurants and six beach front bungalows in addition to the 10 storey, 265 room ocean front complex. Both projects are expected to create additional employment opportunities and increase stay over tourism.

*All data is sourced from the Cayman Islands Government, Cayman Islands Economics & Statistics Office, Cayman Islands Monetary Authority, Cayman Financial Review, Cayman Islands Department of Tourism and Health City websites; [www.gov.ky](http://www.gov.ky) [www.ESO.ky](http://www.ESO.ky) [www.cimoney.com.ky](http://www.cimoney.com.ky) [www.caymanfinancialreview.com](http://www.caymanfinancialreview.com) [www.caymanislands.ky](http://www.caymanislands.ky) [www.healthcitycaymanislands.com](http://www.healthcitycaymanislands.com).*

## Liquidity

The following table outlines the summary of the Company's cash flows:

Cash Flows (\$ thousands)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Change	% Change
Beginning cash	<b>1,365</b>	21,815	<b>(20,450)</b>	-94%
Cash provided by/(used in):				
Operating activities	<b>16,935</b>	15,400	<b>1,535</b>	10%
Investing activities	<b>(10,668)</b>	(7,221)	<b>(3,447)</b>	48%
Financing activities	<b>(4,485)</b>	(4,833)	<b>348</b>	-7%
<b>Ending cash</b>	<b>3,147</b>	25,161	<b>(22,014)</b>	-87%

### *Operating Activities:*

Cash flow provided by operations, after working capital adjustments, for the First Quarter 2016, was \$16.9 million, a \$1.5 million increase when compared to \$15.4 million for the First Quarter 2015. This increase was primarily due to increased earnings and changes in regulatory deferrals.

*Investing Activities:*

Cash used in investing activities for the First Quarter 2016 totalled \$10.7 million, an increase of \$3.4 million from \$7.2 million for the First Quarter 2015. This increase is due to higher capital expenditures, driven primarily by the generation expansion project.

*Financing Activities:*

Cash used in financing activities for the First Quarter 2016 totalled \$4.5 million, a decrease of \$0.3 million compared to cash used in financing activities of \$4.8 million for the First Quarter 2015. The decrease in cash used in financing activities is attributable to the increase in the bank overdraft in First Quarter 2016 which was partially offset by the increase in dividends paid.

*Cash Flow Requirements:*

The Company expects that operating expenses and interest costs will generally be paid from the Company's operating cash flows, with residual cash flows available for capital expenditures and dividend payments. Borrowings under credit facilities may be required from time to time to support seasonal working capital requirements. Cash flows required to complete planned capital expenditures are expected to be financed from a combination of proceeds from operating cash, debt and equity transactions. The Company expects to be able to source the cash required to fund its 2016 capital expenditure programme (see the "Business Risks" section of this MD&A for Liquidity Risk details).

**Transactions with Related Parties**

Miscellaneous receivables were \$300 at March 31, 2016 (\$300 as at December 31, 2015). Miscellaneous payables to Fortis Turks & Caicos, a subsidiary of Fortis Inc., were \$nil at March 31, 2016 (\$11,017 as at December 31, 2015 for travel expenses). Miscellaneous payables to Fortis Inc., the Company's majority shareholder, were \$nil at March 31, 2016 (\$3,300 as at December 31, 2015 for labour, hurricane preparedness and travel expenses).

**Contractual Obligations**

The contractual obligations of the Company over the next five years and periods thereafter, as at March 31, 2016, are outlined in the following table:

<i>(\$ millions)</i>	<b>Total</b>	<b>&lt; 1 year</b>	<b>1 to 3 years</b>	<b>4 to 5 years</b>	<b>&gt; 5 years</b>
Total debt	238.0	14.0	27.7	27.6	168.7
Long-term debt interest	99.9	11.7	21.1	17.6	49.5
MAN/BWSC Generation Expansion Contract	5.5	5.5	-		
Defined benefit pension	<u>0.1</u>	<u>0.1</u>	-	-	-
<b>Total</b>	<b>343.5</b>	<b>31.3</b>	<b>48.8</b>	<b>45.2</b>	<b>218.2</b>

*Power Purchase Obligation*

During 2015, the Company entered into a Power Purchase Agreement ("PPA") with Entropy Cayman Solar Limited to purchase up to 2.1 MW per year of associated energy for a 25-year term. This 5 MW solar project, scheduled for completion by the end of 2016, is expected to generate energy by December 2016 and will significantly reduce emissions into the



atmosphere through the avoidance of diesel fuel consumption. The PPA will also provide renewable energy at a competitive initial price of \$0.17 cents per kWh. The PPA was approved by the ERA during the Fourth Quarter 2015. The PPA qualifies for the Normal Purchase Normal Sale exemption under ASC 815 and does not qualify as a derivative.

#### *Fuel Purchase Obligation*

The Company has a primary fuel supply contract with RUBiS Cayman Islands Limited ("RUBiS"). Under the agreement the Company is committed to purchase approximately 60% of its diesel fuel requirements for its generating plant from RUBiS. The Company also has a secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") and is committed to purchase approximately 40% of the Company's fuel requirements for its generating plant from Sol. Contracts with RUBiS and Sol were executed in September 2012. Both contracts expired on July 31, 2014 with the option to renew for two additional 18 month terms. The Company executed 18 month fuel supply contracts in September 2014 upon the expiration of its previous fuel supply contract with both RUBiS and Sol. The Company is currently negotiating the renewal terms with RUBiS for the final 18 month contract. The contract with Sol was renewed for a final 18 month term on March 1, 2016. The approximate remaining quantities per the fuel contract on an annual basis are, by fiscal year in millions of IGs: 2016 – 9.1 and 2017 – 9.3. Both contracts qualify for the Normal Purchase Normal Sale exemption under ASC 815 and do not qualify as derivatives.

#### **Financial Position**

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2015 to March 31, 2016:

Significant changes in Balance Sheets between December 31, 2015 and March 31, 2016 (\$ millions)	Increase/ (Decrease)	Explanation
Cash and Cash Equivalents	1.7	Increase due to cash provided by operating activities of \$16.9 million, partially offset by cash used in financing activities of \$4.5 million and cash used in investing activities of \$10.7 million.
Accounts Receivable	(1.3)	Lower fuel billings due to a decrease in fuel costs.
Regulatory Assets	(2.7)	Decrease attributable to lower fuel costs.
Prepayments	(0.5)	Decrease due to recognition of the expense associated with the Company's property and machinery breakdown insurance policy.
Property, Plant and Equipment	4.4	Net increase is comprised of capital expenditures of (1) \$10.7 million, (2) depreciation expense of \$6.8 million (3) \$0.5 million in accrued capital expenditure.
Accounts Payable and Accrued Expenses	0.2	Change mainly attributable to Generation Expansion progress invoice, partially offset by decreased payable related to lower fuel costs.
Share Premium	0.5	The Company issued 43,219 shares through its share purchase plans.



## Capital Resources

The Company's principal activity of generation, transmission and distribution of electricity in Grand Cayman requires CUC to have ongoing access to capital to build and maintain the electrical system for the community it serves.

To help ensure access to capital, the Company targets a long-term capital structure containing approximately 45% equity, including preference shares, and 55% debt. The Company's objective is to maintain investment-grade credit ratings. The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the Class A Ordinary Share rights offering that occurred in 2015 and the Company's Share Purchase Plans.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 60% of the Company's consolidated capital structure, as defined by short-term and long-term debt agreements. As at March 31, 2016, the Company was in compliance with all debt covenants.

The Company's capital structure is presented in the following table:

Capital Structure	March 31, 2016 (\$ millions)	%	December 31, 2015 (\$ millions)	%
Total debt	238.0	53	238.0	53
Shareholder's equity	214.5	47	214.4	47
<b>Total</b>	<b>452.5</b>	<b>100</b>	<b>452.4</b>	<b>100</b>

The change in the Company's capital structure between December 31, 2015 and March 31, 2016 was driven by an increase in equity resulting from the issuance of Class A Ordinary Shares through the Company's share purchase plans.

The Company's credit ratings under Standard & Poors ("S&P") and the Dominion Bond Rating System ("DBRS") are as follows:

S&P A-/Negative  
DBRS A (low)

The S&P rating is in relation to long-term corporate credit and unsecured debt while the DBRS rating relates to senior unsecured debt.

Following the February 9, 2016 announcement from Fortis Inc. of the proposed \$11.3 billion acquisition of ITC Holdings Corporation, a Michigan based Company that operates electricity transmission facilities in the United States, S&P affirmed the Company's A- rating and revised its outlook on the Company from stable to negative. The negative outlook on CUC reflects the application of S&P's group rating methodology and an expectation of the execution risks associated with the transaction including selling up to 19.9% of ITC to one or more infrastructure-focused minority investors. The A- rating reflects S&P's positive view of the Company's current position as the sole provider of generation services, and the Company's licenced position as the sole provider of T&D services. The rating also reflects S&P's positive view of regulatory support and stable cash flows offset by the economic uncertainty and the limited history of the regulator.

In March 2016, DBRS affirmed the Company's "A" credit rating while maintaining the categorisation of low with a Stable trend. Considerations for the rating were a supportive regulatory regime, solid credit metrics and a stable island economy and the demand for electricity. Impacting the rating were such factors as hurricane event risk and the small size of the Company's customer base.

### Credit Facilities

The Company currently has \$50.0 million of unsecured credit financing facilities with the Scotiabank & Trust (Cayman) Limited ("Scotia") and Royal Bank of Canada ("RBC"). The financing facilities are comprised of:

Credit Facilities	(\$ millions)
<b>Provided by Scotia:</b>	
Letters of Credit	\$1.0
Operating, Revolving Line of Credit	\$10.0
Catastrophe Standby Loan	\$7.5
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>\$31.0</u>
<b>Total</b>	<b>\$49.5</b>
<b>Provided by RBC:</b>	
Corporate Credit Card Line	<u>\$0.5</u>
<b>Total</b>	<b>\$0.5</b>

Of the total above, \$46.3 million was available at March 31, 2016.

### Capital Expenditures

Capital expenditures for the three months ended March 31, 2016 were \$10.6 million, a \$3.5 million, or 49% increase from \$7.1 million in capital expenditures for the three months ended March 31, 2015. The capital expenditures for the three months ended March 31, 2016 primarily relate to:

- Distribution system extension and upgrades - \$2.0 million.
- Generation Replacement Cost - \$3.1 million
- 39.7 MW Generation Project - \$2.7 million
- Purchase of AMI meters and meter equipment -\$1.3 Million
- AFUDC of \$1.9 million was capitalized in the three months ended March 31, 2016

Capital expenditures (\$ Millions)	Three months ended March 31, 2016	Three months Ended March 31, 2015
Transmission	0.4	0.1
Distribution	3.4	2.6
Generation	6.1	3.9
Other	<u>0.7</u>	<u>0.5</u>
<b>Total</b>	<b>10.6</b>	<b>7.1</b>

## **Off Balance-Sheet Arrangements**

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at March 31, 2016.

## **Business Risks**

The following is a summary of the Company's significant business risks:

### *Operational Risks*

Operational risks are those risks normally inherent in the operation of generating, transmission and distribution facilities. The Company's facilities are subject to the risk of equipment failure due to deterioration of the asset from use or age, latent defects and design or operator error, among other things. These risks could lead to longer-than-forecast equipment downtimes for maintenance and repair, disruptions of power generation, customer service interruptions, and could result in injury to employees and the public. Accordingly, to ensure the continued performance of the physical assets, the Company determines expenditures that must be made to maintain and replace the assets.

The Company continually develops capital expenditure, safety management and risk controls programmes and assesses current and future operating and maintenance expenses that will be incurred in the ongoing operation of its systems. The Company also has an insurance programme that provides coverage for business interruption, liability and property damage, although the coverage offered by this programme is limited (see the "Insurance" section for discussion of insurance terms and coverage). In the event of a large uninsurable loss, the Company would apply to the ERA for recovery of these costs through higher rates. However, there is no assurance that the ERA will approve any such application (see the "Regulation" section for discussion of regulatory risk).

### *Economic Conditions*

The general economic condition of CUC's service area, Grand Cayman, influences electricity sales as with most utility companies. Changes in consumer income, employment and housing are all factors in the amount of sales generated. As the Company supplies electricity to all hotels and large properties, its sales are therefore partially based on tourism and related industry fluctuations.

### *Regulation*

The Company operates within a regulated environment. As such, the operations of the Company are subject to the normal uncertainties faced by regulated companies. Such uncertainties include approval by the ERA of billing rates that allow a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on rate base assets. The Company's capital expenditure plan requires

regulatory approval. There is no assurance that capital projects perceived as required by the management of the Company will be approved by the ERA.

### *Weather*

CUC's facilities are subject to the effects of severe weather conditions principally during the hurricane season months of June through November. Despite preparations for disasters such as hurricanes, adverse conditions will always remain a risk. In order to mitigate some of this risk, the Company maintains insurance coverage which Management believes is appropriate and consistent with insurance policies obtained by similar companies.

### *Environmental Matters*

CUC's operations are subject to local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters, noise, land use activities, and the handling, storage, processing, use, and disposal of materials and waste products.

CUC's Environmental Management System ("EMS") is registered to the ISO 14001 Environmental Standard. The Company was initially registered in 2004, pursuant to an audit by a third party of the Company's EMS to ensure that the Company was meeting requirements put in place by the Government as well as self-imposed requirements. Under the ISO 14001 standard companies are required to establish, document, implement, maintain and continually improve their environmental performance with an aim of prevention of pollution. In order to maintain the Company's registration to this standard an external surveillance audit is conducted annually, and an external audit is conducted every three years for re-certification. Internal audits of the system must also be conducted on an annual basis. CUC has most recently conducted, and passed its re-certification audit in March 2016.

In May 2002, the United Kingdom ("UK") ratified the Kyoto Protocol, which sets targets and timetables for the reduction of greenhouse gas (GHG) emissions, which was later extended to the Cayman Islands in March 2007. Under the Kyoto Protocol, the UK is legally bound to reduce its GHG emissions, but Cayman has no emissions reduction target. As an overseas territory, the Cayman Islands are required to give available national statistics on an annual basis to the UK which will be added to its inventory and reported to the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat. Under the Convention governments are obligated to gather and report information on GHG emissions through the preparation of a national greenhouse gas inventory. The inventory primarily requires the Cayman Islands to quantify as best as possible the country's fuel consumption across a variety of sectors, production processes and distribution means. CUC continues to supply the Department of Environment with data for Cayman's GHG inventory.

Through the EMS, CUC has determined that its exposure to environmental risks is not significant and does not have an impact on CUC's financial reporting including the recording of any Asset Retirement Obligations ("ARO's").

### *Insurance - Terms and Coverage*

The Company renewed its insurance policy as at July 1, 2015 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include \$100.0 million in property and machinery breakdown insurance and business interruption insurance per annum with a 24-month indemnity period and a waiting period on Non-Named Wind, Quake and Flood of 60-days. Any named Wind, Quake and Flood deductible has a 45-day waiting period. All T&D assets outside of 1,000 feet from the boundaries of the main power plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$1.0 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1.0 million and maximum deductible of \$4.0 million for all interests combined.

In accordance with the T&D Licence, when an asset is impaired or disposed of within its original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with rate regulated accounting and differs from the GAAP treatment of a loss being recognised on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. Insurance proceeds are included within the criteria.

In addition to the coverage discussed above, the Company has also purchased an excess layer of an additional \$100.0 million limit on property and business interruption (excluding windstorm, earth movement and flood).

The Company's insurance policy includes business interruption which covers losses resulting from the necessary interruption of business caused by direct physical loss or damage to CUC's covered property and loss of revenues resulting from damage to customers' property.

### *Defined Benefit Pension Plan*

The Company maintains a defined benefit pension plan, which provides a specified monthly benefit on retirement irrespective of individual investment returns. The assumed long-term rate of return on pension plan assets for the purposes of estimating pension expense for 2016 is 5%. This compares to assumed long-term rates of return of 5% used during 2015. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The loss on pension plan assets during 2015 was 2% (2014: gain of 3%).

Market driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the assumed return on the assets causing material changes in consolidated pension expense and funding requirements. Net pension expense is impacted by, among other things, the amortization of experience

and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other pension assumptions, including the assumed discount rate, may also result in future consolidated contributions to pension plans that differ significantly from current estimates as well as causing material changes in consolidated pension expense. The

discount rate assumed for 2016 is 4.5% compared to the discount rate assumed during 2015 of 4.0%.

There is also measurement uncertainty associated with pension expense, future funding requirements, the accrued benefit asset, accrued benefit liability and benefit obligation due to measurement uncertainty inherent in the actuarial valuation process.

A discussion of the critical accounting estimates associated with pensions is provided in the “Critical Accounting Estimates” section of this MD&A.

### *Financial Instruments*

The Company is primarily exposed to credit risk, liquidity risk and interest rate risk as a result of holding financial instruments in the normal course of business. Financial instruments of the Company consist mainly of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, consumers’ deposits and advances for construction and long-term debt.

#### *Credit Risk*

The Company is exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments which include fuel option contracts. If a counterparty fails to perform on its contractual obligation to deliver payment when the market price of fuel is greater than the strike price, the Company may find it necessary to purchase diesel at the market price, which will be higher than the contract price. The Company manages this credit risk associated with counterparties by conducting business with high credit-quality institutions. The Company does not expect any counterparties to fail to meet their obligations.

There is risk that the Company may not be able to collect all of its accounts receivable and other assets. This does not represent a significant concentration of risk. The requirements for security deposits for certain customers, which are advance cash collections from customers to guarantee payment of electricity billings, reduces the exposure to credit risk. The Company manages credit risk primarily by executing its credit collection policy, including the requirement for security deposits, through the resources of its customer service department.

#### *Liquidity Risk*

The Company’s financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by the legal requirement under the Licences which requires rates be set to enable the Company to achieve and maintain a sound credit rating in the financial markets of the world. The Company has also secured committed credit facilities to support short-term financing of capital expenditures and seasonal working capital requirements. The cost of renewed and extended credit facilities could increase in the future; however, any increase in interest expense and fees is not

expected to materially impact the Company's consolidated financial results in 2016.

#### *Interest Rate Risk*

Long-term debt is issued at fixed interest rates, thereby minimising cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings is nil.

### **FUTURE ACCOUNTING POLICIES**

#### *Revenue from Contracts with Customers*

ASU No. 2014-09 was issued in May 2014 and the amendments in this update create ASC Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, including most industry specific revenue recognition guidance throughout the codification. This standard completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This standard was originally effective for annual and interim periods beginning after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. ASU No. 2015-14 was issued in August 2015 and the amendments in this update defer the effective date of ASU No. 2014-09 by one year to annual and interim periods beginning after December 15, 2017. Early adoption is permitted as of the original effective date. The majority of the Company's revenue is generated from energy sales to customers based on published tariff rates, as approved by the respective regulators, and is considered to be in the scope of ASU No. 2014-09. The Company and its subsidiary, Datalink Ltd., are assessing the impact that the adoption of this standard will have on the consolidated financial statements and plans to have this assessment complete in 2016.

#### *Recognition and Measurement of Financial Assets and Financial Liabilities*

ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, was issued in January 2016 and the amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Most notably, the amendments require the following: (i) equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) to be measured at fair value through earnings; however, entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes; and (ii) financial assets and financial liabilities to be presented separately in the notes to the consolidated financial statements, grouped by measurement category and form of financial asset. This update is effective for annual and interim periods beginning after December 15, 2017.



### *Leases*

ASU No. 2016-02 was issued in February 2016 and the amendments in this update create ASC Topic 842, Leases, and supersede lease requirements in ASC Topic 840, Leases. The main provision of Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. For operating leases, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; (ii) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and (iii) classify all cash payments within operating activities in the statement of cash flows. These amendments also require qualitative disclosures along with specific quantitative disclosures. This update is effective for annual and interim periods beginning after December 15, 2018 and is to be applied using a modified retrospective approach with practical expedients options. Early adoption is permitted. The Company is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

### *Improvements to Employee Share-Based Payment Accounting*

ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, was issued in March 2016 as part of FASB's simplification initiative. The areas for simplification in this update involve several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This update is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted, however, an entity that elects early adoption must adopt all the amendments in the same period. The Company is assessing the impact that the adoption of this update will have on its consolidated financial statements.

### **Changes in Accounting Policies**

#### *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period*

Effective January 1, 2015, the Company early adopted ASU No. 2014-12 that resolves diversity in practice for employee share-based payments with performance targets that can entitle an employee to benefit from an award regardless of if they are rendering services at the date the performance target is achieved. The adoption of this update did not have an impact on the Company's consolidated financial statements.

#### *Simplifying the Presentation of Debt Issuance Costs*

Effective December 1, 2015, the Company early adopted ASU No. 2015-03 that requires debt issuance costs to be presented on the consolidated balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The Company early adopted ASU No. 2015-15 that clarifies the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The update permits an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-



credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The adoption of this update was applied retrospectively and did not have a material impact on the Company's consolidated financial statements.

### **Critical Accounting Estimates**

The preparation of the Company's financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from the current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known. The Company's critical accounting estimates relate to:

#### *Revenue Recognition*

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at March 31, 2016, the amount of unbilled revenue recorded in Electricity Sales was \$2.3 million (March 31, 2015: \$2.5 million).

#### *Kilowatt Hour ("kWh") Sales*

KWh sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. The kWh accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for electricity consumption will result in adjustments of kWh sales statistics in the periods they become known when actual results differ from the estimates. As at March 31, 2016, the amount of estimated kWh sales was 17.5 million kWh (March 31, 2015: 20.2 million kWh).

#### *Employee Future Benefits*

The Company's defined benefit pension plan is subject to judgments utilized in the actuarial determination of the expense and related obligation. There are currently two participants in the Company's defined benefit pension plan. The main assumptions utilized by Management in determining pension expense and obligations were the discount rate for the accrued benefit obligation, pension commencement date, inflation and the expected rate of return on plan assets. As at March 31, 2016, the Company has a long term liability of \$1.1 million (December 31, 2015: \$1.2 million).

### *Property, Plant and Equipment Depreciation*

Depreciation is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at March 31, 2016, the net book value of the Company's PP&E was \$452.1 million compared to \$447.7 million as at December 31, 2015, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the First Quarter 2016 was \$6.8 million (\$6.3 million for the First Quarter 2015). Due to the value of the Company's property, plant and equipment, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

### **Quarterly Results**

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended June 30, 2014 through March 31, 2016. This information has been obtained from CUC's unaudited interim Financial Statements which, in the opinion of Management, have been prepared in accordance with US GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

<b>Quarterly results (\$ thousands, except basic and diluted earnings per ordinary share)</b>	<b>Operating Revenue</b>	<b>Net earnings</b>	<b>Income applicable to ordinary shares</b>	<b>Earnings per ordinary share</b>	<b>Diluted earnings per ordinary share</b>
March 31, 2016	39,732	4,975	4,862	0.15	0.15
December 31, 2015	45,882	6,151	5,560	0.18	0.18
September 30, 2015	50,242	7,893	7,780	0.25	0.25
June 30, 2015	44,048	5,514	5,401	0.17	0.17
March 31, 2015	48,709	3,284	3,171	0.11	0.11
December 31, 2014	58,192	5,397	4,806	0.16	0.16
September 30, 2014	63,437	6,221	6,108	0.21	0.21
June 30, 2014	56,571	5,749	5,636	0.20	0.20

### *March 2016/March 2015*

Operating income for First Quarter 2016 totalled \$5.1 million, an increase of \$0.6 million when compared to operating income of \$4.5 million for First Quarter 2015. The increase is attributable to the 5% increase in kWh sales and lower general and administration costs. These items were partially offset by higher depreciation, maintenance and amortization costs.

In addition to the factors positively impacting Operating income, net earnings increased as a result of higher capitalization of interest expenses through the Allowance for Funds Used During Construction ("AFUDC") of \$1.9 million in First Quarter 2016 when compared to \$0.9 million in First Quarter 2015. The increase in AFUDC, and resulting reduction in Finance Charges, is due primarily to the Company's ongoing 39.7 MW Generation Project. AFUDC is the capitalisation of Financing Cost which is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month.

Net Earnings for the First Quarter 2016 totalled \$5.0 million, an increase of \$1.7 million when compared to net earnings of \$3.3 million for the First Quarter 2015.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2016 were \$4.9 million, or \$0.15 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$3.2 million or \$0.11 per Class A Ordinary Share for the First Quarter 2015.

*December 2015/December 2014*

Net earnings for the three months ended December 31, 2015 (“Fourth Quarter 2015”) were \$6.2 million, a \$0.8 million increase when compared to \$5.4 million for the three months ended December 31, 2014 (“Fourth Quarter 2014”). This increase is attributable to an 8% increase in kWh sales and lower finance charges. These items were partially offset by higher consumer services, general and administration, depreciation and maintenance costs for the Fourth Quarter 2015 when compared to the Fourth Quarter 2014.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2015 were \$5.6 million, or \$0.18 per Class A Ordinary Share, as compared to \$4.8 million, or \$0.16 per Class A Ordinary Share for the Fourth Quarter 2014.

*September 2015/September 2014*

Net earnings for the three months ended September 30, 2015 (“Third Quarter 2015”) totalled \$7.9 million, an increase of \$1.7 million when compared to net earnings of \$6.2 million for the three months ended September 30, 2014 (“Third Quarter 2014”). This increase was due mainly to higher electricity sales revenues, and lower consumer services costs, lower finance charges, and lower transmission and distribution costs. These items were partially offset by higher depreciation and maintenance costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2015 were \$7.8 million, or \$0.25 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$6.1 million or \$0.21 per Class A Ordinary Share for the Third Quarter 2014.

*June 2015/June 2014*

Net earnings for the three months ended June 30, 2015 (“Second Quarter 2015”) totalled \$5.5 million, a decrease of \$0.2 million when compared to net earnings of \$5.7 million for the three months ended June 30, 2014 (“Second Quarter 2014”). This decrease was due mainly to higher depreciation and transmission and distribution costs. These items were partially offset by higher electricity sales revenues and other income.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2015 were \$5.4 million, or \$0.17 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$5.6 million or \$0.20 per Class A Ordinary Share for the Second Quarter 2014

### **Disclosure Controls and Procedures**

The President and Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), together with Management, have established and maintained the Company’s disclosure controls and procedures (DC&P), to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the year ending December 31, 2015; and information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Based on the evaluation performed over disclosure controls and procedures, it was concluded that the DC&P of CUC is adequately designed and operating effectively as of March 31, 2016.

### **Internal Controls over Financial Reporting (“ICFR”)**

The CEO and CFO of the Company, together with Management, have established and maintained the Company’s internal control over financial reporting (ICFR), as defined in National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP.

The design of CUC’s internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, it was concluded that CUC’s internal controls over financial reporting are adequately designed and operating effectively as of March 31, 2016.

### **Outlook**

On October 3, 2014 the ERA announced that CUC was the successful bidder for new generation capacity. CUC will develop and operate a new 39.7 MW diesel power plant including two 18.5 MW diesel generating units and a 2.7 MW waste heat recovery steam turbine. The generation project is scheduled for completion in June 2016. The project is estimated at \$85 million.

In December 2015 the ERA approved CUC’s 2016-2020 Capital Investment Plan in the amount of \$204 million. Approved projects for the upcoming period include completion of the generation project and ongoing generation and T&D system replacements and upgrades.

The Company continues to facilitate the connecting of renewable energy sources to the grid. During the Fourth Quarter 2015, the ERA approved a Power Purchase Agreement (PPA) for a 5 MW plant to be built by Entropy Cayman Solar Limited in the district of Bodden Town.

This 5 MW Solar project, scheduled for completion by the end of 2016, will provide energy to power approximately 800 homes with clean renewable solar energy and will significantly reduce emissions into the atmosphere through the avoidance of diesel fuel consumption.

### **Subsequent Events: Outstanding Share Data**

At May 3, 2016 the Company had issued and outstanding 32,424,850 Ordinary Shares and 250,000 9% cumulative Participating Class B Preference Shares.

The number of common shares of the Company that would be issued if all outstanding stock options were converted as at May 3, 2016 is as follows.

<b>Conversion of Securities into Common Shares</b>	<b>Number of</b>
<b>As at May 3, 2016 (Unaudited)</b>	<b>Common Shares</b>
Stock Options	282,720

Additional information, including CUC's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.cuc-cayman.com](http://www.cuc-cayman.com).

**Consolidated Balance Sheets***(expressed in thousands of United States Dollars)*

Unaudited	Note	As at March 31, 2016	As at December 31, 2015
<b>Assets</b>			
<i>Current Assets</i>			
Cash and Cash Equivalents		3,147	1,365
Accounts Receivable	5	10,491	11,767
Regulatory Assets	6	11,670	14,346
Inventories	7	2,254	2,237
Prepayments		<u>1,601</u>	<u>2,096</u>
		29,163	31,811
Property, Plant and Equipment	8	452,065	447,700
Other Assets	9	24	24
Intangible Assets	10	<u>3,162</u>	<u>3,271</u>
<b>Total Assets</b>		<u>484,414</u>	<u>482,806</u>
<b>Liabilities and Shareholders' Equity</b>			
<i>Current Liabilities</i>			
Bank Overdraft		2,662	1,735
Accounts Payable and Accrued Expenses	11	20,567	20,410
Related Party Payables	20	-	14
Regulatory Liabilities	6	1,419	863
Current Portion of Long-Term Debt		14,000	14,000
Consumers' Deposits and Advances for Construction		<u>6,991</u>	<u>6,823</u>
		45,639	43,845
Defined Benefit Pension Liability	18	1,247	1,242
Long-Term Debt	15	222,640	222,594
Other Long term Liabilities	13	<u>298</u>	<u>636</u>
<b>Total Liabilities</b>		269,824	268,317
<b>Shareholders' Equity</b>			
Share Capital		2,180	2,177
Share Premium		116,724	116,201
Additional Paid in Capital	13	467	467
Retained Earnings		96,341	96,822
Accumulated Other Comprehensive Loss		<u>(1,122)</u>	<u>(1,178)</u>
<b>Total Shareholders' Equity</b>		214,590	214,489
<b>Total Liabilities and Shareholders' Equity</b>		<u>484,414</u>	<u>482,806</u>

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements*

**Consolidated Statements of Earnings**

(expressed in thousands of United States Dollars, except basic and diluted earnings per ordinary share and the Weighted Average of Class A Ordinary Shares issued and fully paid)

Unaudited	Note	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
<b>Operating Revenues</b>			
Electricity Sales		18,061	17,044
Fuel Factor		<u>21,671</u>	<u>31,665</u>
<i>Total Operating Revenues</i>		<b>39,732</b>	<b>48,709</b>
<b>Operating Expenses</b>			
Power Generation		22,719	32,594
General and Administration		2,086	2,442
Consumer Services		630	641
Transmission and Distribution		757	726
Depreciation		6,768	6,309
Maintenance		1,481	1,376
Amortization of Intangible Assets		<u>151</u>	<u>123</u>
<i>Total Operating Expenses</i>		<b>34,592</b>	<b>44,211</b>
<b>Operating Income</b>		<b>5,140</b>	<b>4,498</b>
<b>Other (Expenses)/Income:</b>			
Finance Charges	17	(1,143)	(2,357)
Foreign Exchange Gain	19	307	340
Other Income		<u>671</u>	<u>803</u>
<i>Total Net Other (Expenses)/Income</i>		(165)	(1,214)
<b>Earnings for the Period</b>		<b>4,975</b>	<b>3,284</b>
<i>Preference Dividends Paid- Class B</i>		<u>(113)</u>	<u>(113)</u>
<i>Earnings on Class A Ordinary Shares</i>		<b>4,862</b>	<b>3,171</b>
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)	14	32,382	29,260
<i>Earnings per Class A Ordinary Share</i>	14	0.15	0.11
Diluted Earnings per Class A Ordinary Share	14	0.15	0.11
Dividends Declared per Class A Ordinary Share		0.165	0.165

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements*

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**Consolidated Statements of Comprehensive Income**

*(expressed in thousands of United States Dollars)*

Unaudited	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
<b>Earnings for the Period</b>	<b>4,975</b>	<b>3,284</b>
Other Comprehensive Income/(Loss):		
Amounts arising during the period		
Defined Benefit Pension plans:		
Amortization of net actuarial loss	56	51
Total Other Comprehensive Income	56	51
<b>Comprehensive Income</b>	<b>5,031</b>	<b>3,335</b>

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements*



**Consolidated Statements of Shareholders' Equity***(expressed in thousands of United States Dollars except Common Shares)*

<b>Unaudited</b>	<b>Class A Ordinary Shares (in thousands)</b>	<b>Class A Ordinary Shares Value (\$)</b>	<b>Preferenc e Shares (\$)</b>	<b>Share Premium (\$)</b>	<b>Additional Paid- in Capital (\$)</b>	<b>Accumulate d Other Comprehen sive Loss (\$)</b>	<b>Retained Earnings (\$)</b>	<b>Total Equity (\$)</b>
<b>As at January 1, 2016</b>	<b>32,382</b>	<b>1,927</b>	<b>250</b>	<b>116,201</b>	<b>467</b>	<b>(1,178)</b>	<b>96,822</b>	<b>214,489</b>
Net earnings	-	-	-	-	-	-	4,975	4,975
Common share issuance and stock options plans	43	3	-	523	-	-	-	526
Defined benefit plans	-	-	-	-	-	56	-	56
Dividends on common shares	-	-	-	-	-	-	(5,343)	(5,343)
Dividends on preference shares	-	-	-	-	-	-	(113)	(113)
<b>As at March 31, 2016</b>	<b>32,425</b>	<b>1,930</b>	<b>250</b>	<b>116,724</b>	<b>467</b>	<b>(1,122)</b>	<b>96,341</b>	<b>214,590</b>
<b>As at January 1, 2015</b>	<b>29,260</b>	<b>1,742</b>	<b>250</b>	<b>83,044</b>	<b>463</b>	<b>(1,386)</b>	<b>95,722</b>	<b>179,835</b>
Net earnings	-	-	-	-	-	-	3,284	3,284
Common share issuance and stock options plans	47	2	-	587	1	-	-	590
Defined benefit plans	-	-	-	-	-	51	-	51
Dividends on common shares	-	-	-	-	-	-	(4,829)	(4,829)
Dividends on preference shares	-	-	-	-	-	-	(113)	(113)
<b>As at March 31, 2015</b>	<b>29,307</b>	<b>1,744</b>	<b>250</b>	<b>83,631</b>	<b>464</b>	<b>(1,335)</b>	<b>94,064</b>	<b>178,818</b>

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements*

**Consolidated Statements of Cash Flows***(expressed in thousands of United States Dollars)*

Unaudited	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
<b><i>Operating Activities</i></b>		
Earnings for the period	4,975	3,284
Items not affecting cash:		
Depreciation	6,768	6,309
Amortization of Intangible Assets	151	123
Non-cash Pension Expenses	61	48
Amortization of Deferred Financing Costs	40	40
Stock-based compensation	<u>1</u>	<u>1</u>
	<b>11,996</b>	<b>9,805</b>
Net change in non-cash working capital balances related to operations	1,706	846
Net Change in Regulatory Deferrals	<u>3,233</u>	<u>4,749</u>
<i>Cash flow related to operating activities</i>	<b>16,935</b>	<b>15,400</b>
<b><i>Investing Activities</i></b>		
Purchase of property, plant and equipment	(10,640)	(7,107)
Costs related to intangible assets	<u>(28)</u>	<u>(114)</u>
<i>Cash flow related to investing activities</i>	<b>(10,668)</b>	<b>(7,221)</b>
<b><i>Financing Activities</i></b>		
Increase in bank overdraft	927	-
Dividends paid	(5,935)	(5,423)
Net proceeds from share issues	<u>523</u>	<u>590</u>
<i>Cash flow related to financing activities</i>	<b>(4,485)</b>	<b>(4,833)</b>
<b>Increase in net cash and cash equivalents</b>	1,782	3,346
Cash and cash equivalents - Beginning of period	<u>1,365</u>	<u>21,815</u>
<b>Cash and cash equivalents - End of period</b>	<b>3,147</b>	<b>25,161</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid during the period	14	5

*See Accompanying Notes to Unaudited Interim Consolidated Financial Statements*

## **Notes to Interim Consolidated Financial Statements**

*Unaudited – March 31, 2016 (expressed in thousands of United States dollars unless otherwise stated)*

### **1. Nature of Operations and Consolidated Financial Statement Presentation**

These consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (“US GAAP”) and reflect the decisions of the Electricity Regulatory Authority (“ERA”). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary DataLink, Ltd (“DataLink”). These decisions affect the timing of the recognition of certain transactions resulting in the recognition of regulatory assets and liabilities, which Caribbean Utilities Company, Ltd., (“CUC” or the “Company”) considers it is probable to recover or settle subsequently through the rate-setting process.

The principal activity of the Company is to generate and distribute electricity in its licence area of Grand Cayman, Cayman Islands, pursuant to a 20-year exclusive Transmission & Distribution (“T&D”) Licence and a 25 year non-exclusive Generation Licence (collectively the “Licences”) with the Cayman Islands Government (the “Government”), which expire in April 2028 and November 2039 respectively.

In March 2012 CUC’s wholly-owned subsidiary, DataLink, received its licence from the Information and Communications Technology Authority (“ICTA”) which permits DataLink to provide fibre optic infrastructure and other information and communication technology (ICT) services to the ICT industry.

The ICTA is an independent statutory Authority which was created by the enactment of the Information and Communications Technology Authority Law on May 17, 2002 and is responsible for the regulation and licensing of Telecommunications, Broadcasting, and all forms of radio. The ICTA sets the standards by which ICT networks must be developed and operated under.

All significant intercompany balances and transactions have been eliminated on consolidation.

#### *Rate Regulated Operations*

CUC’s base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour (“kWh”) electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the Rate Cap and Adjustment Mechanism (“RCAM”). In June 2015, following review and approval by the Electricity Regulatory Authority (“ERA”), the Company increased its base rates by 0.9%. This increase was a result of the 2014 Return on Rate Base (“RORB”) and the increase in the applicable United States (“US”) and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2014. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80% based on the range of the RORB values. The required rate adjustment of 0.9% can be calculated by applying 80% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 1.1%. All fuel and lubricating oil costs are passed through to customers without mark-up as a per kWh charge.

For regulatory purposes fixed assets comprise the completed Property, Plant and Equipment (“PP&E”) and intangible assets acquired or constructed by the Company as reported in the Company’s consolidated financial statements. The original book value of these fixed assets includes an Allowance for Funds Used During Construction (“AFUDC”) (Note 8) and an allowance for General Expenses Capitalised (“GEC”)(Note 8). GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity.

#### *Seasonality*

Interim results will fluctuate due to the seasonal nature of electricity consumption. In Grand Cayman, demand is highest in the summer months due to air-conditioning load. Consequently, interim results are not necessarily indicative of annual results.

## **2. Summary of Significant Accounting Policies**

The preparation of financial statements in conformity with US GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **3. Future Accounting Policies**

#### *Revenue from Contracts with Customers*

ASU No. 2014-09 was issued in May 2014 and the amendments in this update create ASC Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This standard was originally effective for annual and interim periods beginning after December 15, 2016 and is to be applied on a full retrospective or modified retrospective basis. ASU No. 2015-14 was issued in August 2015 and the amendments in this update defer the effective date of ASU No. 2014-09 by one year to annual and interim periods beginning after December 15, 2017. Early adoption is permitted as of the original effective date. The majority of the Company’s revenue is generated from energy sales to customers based on published tariff rates, as approved by the respective regulators, and is considered to be in the scope of ASU No. 2014-09. The Company and its subsidiary, DataLink Ltd., are assessing the impact that the adoption of this standard will have on the consolidated financial statements and plan to have this assessment complete in 2016.

#### *Recognition and Measurement of Financial Assets and Financial Liabilities*

ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, was issued in January 2016 and the amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Most notably, the amendments require the following: (i) equity investments in

unconsolidated entities (other than those accounted for using the equity method of accounting) to be measured at fair value through earnings; however, entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes; and (ii) financial assets and financial liabilities to be presented separately in the notes to the consolidated financial statements, grouped by measurement category and form of financial asset. This update is effective for annual and interim periods beginning after December 15, 2017.

#### *Leases*

ASU No. 2016-02 was issued in February 2016 and the amendments in this update create ASC Topic 842, Leases, and supersede lease requirements in ASC Topic 840, Leases. The main provision of Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. For operating leases, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; (ii) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and (iii) classify all cash payments within operating activities in the statement of cash flows. These amendments also require qualitative disclosures along with specific quantitative disclosures. This update is effective for annual and interim periods beginning after December 15, 2018 and is to be applied using a modified retrospective approach with practical expedients options. Early adoption is permitted. The Company is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

#### *Improvements to Employee Share-Based Payment Accounting*

ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, was issued in March 2016 as part of FASB's simplification initiative. The areas for simplification in this update involve several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This update is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted, however, an entity that elects early adoption must adopt all the amendments in the same period. The Company is assessing the impact that the adoption of this update will have on its consolidated financial statements.

#### 4. Changes in Accounting Policies

##### *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period*

Effective January 1, 2015, the Company early adopted ASU No. 2014-12 that resolves diversity in practice for employee share-based payments with performance targets that can entitle an employee to benefit from an award regardless of if they are rendering services at the date the performance target is achieved. The adoption of this update did not have an impact on the Company's consolidated financial statements.

##### *Simplifying the Presentation of Debt Issuance Costs*

Effective December 1, 2015, the Company early adopted ASU No. 2015-03 that requires debt issuance costs to be presented on the consolidated balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The Company early adopted ASU No. 2015-15 that clarifies the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The update permits an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The adoption of this update was applied retrospectively and did not have a material impact on the Company's consolidated financial statements.

#### 5. Accounts Receivable

Accounts Receivable (\$ thousands)	As at March 31, 2016	As at March 31, 2015
Billings to consumers	9,323	9,505
Unbilled revenues	2,327	2,529
Other receivables	1,111	1,137
Allowance for doubtful accounts	(2,270)	(1,527)
Total accounts receivable	<b>10,491</b>	<b>11,644</b>

##### *Unbilled Revenues*

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. Consumers are billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue.

*Other receivables*

Other receivables relate to amounts due outside of the normal course of operations. Items in other receivables include sale of inventory and machine break-down costs covered by warranties. Other receivables at March 31, 2016 also include billing adjustments for commercial customers.

**6. Regulatory Assets and Liabilities**

Asset/Liability		As at March 31, 2016	As at December 31, 2015
(\$ thousands)	Description		
Regulatory Assets	Fuel Tracker Account (a)	11,291	13,866
Regulatory Assets	Derivative contract (b)	113	208
Regulatory Assets	Miscellaneous Regulatory Assets (c)	<u>266</u>	<u>272</u>
<b>Total Regulatory Assets</b>		<b>11,670</b>	<b>14,346</b>
Regulatory Liabilities	Government & Regulatory Tracker Account (d)	(1,393)	(812)
Regulatory Liabilities	Miscellaneous Regulatory Liabilities (e)	<u>(26)</u>	<u>(51)</u>
<b>Total Regulatory Liabilities</b>		<b><u>(1,419)</u></b>	<b><u>(863)</u></b>

- a) Fuel Tracker Account - The 2008 T&D Licence established a fuel tracker mechanism to ensure the Company and the consumers neither gain nor lose from the pass through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from or reimbursed to the consumers. The receivable or payable value represents a regulatory asset or liability. The net position of the fuel tracker accounts fluctuates monthly and is affected by fuel prices and electricity consumption.
- b) Derivative contract - The Company's purpose of hedging is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers in the face of price volatility for the fuel that the Company must purchase in order to provide electric service. This account represents the fair value adjustments for the call options. The Company's current call option contracts will expire in March 2017.
- c) Miscellaneous regulatory assets represent costs incurred by the Company, other than fuel and the specifically itemised licence and regulatory fees, to be recovered through the Company's base rates on terms as agreed with the ERA.
- d) Government and Regulatory Tracker Account - A licence fee of 1% of gross revenues applies to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per kWh basis. Additionally, a regulatory fee of ½ of 1% is charged on gross revenues then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The government and regulatory tracker account is the actual fee incurred less the amount of funds received from consumers.



- e) Miscellaneous regulatory liabilities represent costs owed by the Company, other than licence and regulatory fees, to be recovered through the Company's base rates on terms as agreed with the ERA.

## 7. Inventories

The composition of inventories is shown in the table below:

Inventories (\$ thousands)	As at March 31, 2016	As at December 31, 2015
Fuel	1,492	1,392
Lubricating Oil	468	547
Line spares	80	76
Datalink, Ltd.	211	211
Other	<u>3</u>	<u>11</u>
<b>Total</b>	<b>2,254</b>	<b>2,237</b>

## 8. Property, Plant and Equipment ("PP&E")

Property, Plant and Equipment (\$ thousands)	Cost	Accumulated Depreciation	Net Book Value March 31, 2016
Transmission & Distribution (T&D)	314,947	114,195	200,752
Generation	385,455	154,940	230,515
Other:			
Land	5,304	-	5,304
Buildings	20,167	11,200	8,967
Equipment, motor vehicles and computers	<u>23,060</u>	<u>17,013</u>	<u>6,047</u>
<i>Total of T&amp;D, Generation and Other</i>	748,933	297,348	451,585
Datalink, Ltd.	<u>541</u>	<u>61</u>	<u>480</u>
<b>Property, plant and equipment</b>	<b><u>749,474</u></b>	<b><u>297,409</u></b>	<b><u>452,065</u></b>

Property, Plant and Equipment (\$ thousands)	Cost	Accumulated Depreciation	Net Book Value December 31, 2015
Transmission & Distribution (T&D)	310,299	111,750	198,549
Generation	379,354	151,065	228,289
Other:			
Land	5,304	-	5,304
Buildings	20,167	11,081	9,086
Equipment, motor vehicles and computers	<u>22,676</u>	<u>16,692</u>	<u>5,985</u>
<i>Total of T&amp;D, Generation and Other</i>	737,800	290,588	447,212
Datalink, Ltd.	<u>541</u>	<u>53</u>	<u>488</u>
<b>Property, plant and equipment</b>	<b><u>738,341</u></b>	<b><u>290,641</u></b>	<b><u>447,700</u></b>

Included in PP&E are a number of capital projects in progress with a total cost to date of \$93.8 million (December 31, 2015: \$83.1 million). These projects primarily relate to the 39.7 MW Generation project and various improvements to the Distribution System. The total cost incurred to date for the 39.7MW Generation Project is \$62.3 million. Included in the total cost is an amount of \$0.1 million that relates to fibre optic assets for DataLink.

Also included in Generation and T&D is freehold land with a cost of \$5.0 million (December 31, 2015: \$5.0 million). In addition, line inventory with a cost of \$4.3 million (December 31, 2015: \$4.3 million) is included in T&D. Engine spares with a net book value of \$13.2 million (December 31, 2015: \$13.7 million) are included in Generation.

The capitalisation of AFUDC is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for fiscal 2016 is 7.75% (2015: 8.25%) and will be adjusted annually. As a result, during the First Quarter 2016, the Company recognised \$1.9 million in AFUDC (First Quarter 2015: \$0.9 million).

GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity. GEC totalled \$1.0 million for the First Quarter 2016, a decrease of \$0.1 million when compared to \$1.1 million for the First Quarter 2015.

In accordance with the Licences, when an asset is impaired or disposed of before the original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with the rate regulation standard under US GAAP and differs from non-regulatory treatment of a loss being recognized on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. This amount within accumulated depreciation is to be depreciated as per the remaining life of the asset based on the original life when the unit was initially placed into service.

## 9. Other Assets

Other Assets (\$ thousands)	As at March 31, 2016	As at December 31, 2015
Miscellaneous other assets	24	24
<b>Total</b>	<b>24</b>	<b>24</b>

## 10. Intangible Assets

Intangible Assets (\$ thousands)	Cost	Accumulated Amortisation	Net Book Value March 31, 2016
Deferred licence renewal costs	1,890	749	1,141
Datalink Ltd. deferred licence renewal costs	200	53	147
Computer Software	6,242	4,570	1,672
Other Intangible Assets in progress	127	-	127
Trademark Costs	75	-	75
<b>Total</b>	<b>8,534</b>	<b>5,372</b>	<b>3,162</b>

Intangible Assets (\$ thousands)	Cost	Accumulated Amortisation	Net Book Value December 31, 2015
Deferred licence renewal costs	1,890	725	1,165
Datalink Ltd. deferred licence renewal costs	200	50	150
Computer Software	6,200	4,446	1,754
Other Intangible Assets in progress	127	-	127
Trademark Costs	75	-	75
<b>Total</b>	<b>8,492</b>	<b>5,221</b>	<b>3,271</b>

Deferred licence renewal costs relate to negotiations with the Government for licences for the Company. Amortization of deferred licence renewal costs commenced upon conclusion of licence negotiations in April 2008 and extends over the life of the T & D Licence. Amortization of DataLink's deferred licence renewal costs commenced upon conclusion of licence negotiations in March 2012 and extends over the life of its ICTA licence.

## 11. Accounts Payable and Accrued Expenses

Accounts Payable (\$ thousands)	As at March 31, 2016	As at December 31, 2015
Fuel Cost Payable	11,537	13,556
Trade Accounts Payable & Accrued expenses	2,748	3,252
Accrued Interest	3,992	991
Dividends Payable	112	592
Other Accounts Payable	<u>2,178</u>	<u>2,019</u>
<b>Total Accounts Payable</b>	<b>20,567</b>	<b>20,410</b>

Included in Other Accounts Payable is an amount related to the fuel option contracts (see Note 15) of \$0.1 million at March 31, 2016 (\$0.2 million at December 31, 2015).

## 12. Short-Term Financing

The Company has \$50.0 million of unsecured credit financing facilities with the Scotiabank & Trust (Cayman) Limited ("Scotia") and Royal Bank of Canada ("RBC"). The total available amount was \$46.3 million at March 31, 2016 (\$44.3 million at December 31, 2015).

(\$ thousands)	Total Credit Financing Facilities March 31, 2016	Total Utilized March 31, 2016	Total Available March 31, 2016
<b>Provided by Scotia:</b>			
Letter of Credit	1,000	500	500
Operating, Revolving Line of Credit	10,000	2,662	7,338
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>31,000</u>	-	<u>31,000</u>
<b>Total</b>	<b>49,500</b>	<b>3,162</b>	<b>46,338</b>
<b>Provided by RBC:</b>			
Corporate Credit Card Line*	<u>500</u>	<u>500</u>	-
<b>Total</b>	<b>500</b>	<b>500</b>	-

\*. Included in Accounts payable and accrued expenses

A stand-by fee of 0.10% per annum is applied to the daily unused portion of the Standby Loan and Demand Loan facilities. An annual review fee of 0.05% of the total credit facilities is payable upon confirmation that the Facility has been renewed for a further period, being the earlier of 12 months or the next annual review date.

### 13. Share Based Compensation Plans

#### Share Options

The shareholders of the Company approved an Executive Stock Option Plan on October 24, 1991, under which certain employees, officers and directors may be granted options to purchase Class A Ordinary Shares of the Company.

The exercise price per share in respect of options is equal to the fair market value of the Class A Ordinary Shares on the date of grant. Each option is for a term not exceeding ten years, and will become exercisable on a cumulative basis at the end of each year following the date of grant. The maximum number of Class A Ordinary Shares under option shall be fixed and approved by the shareholders of the Company from time to time and is currently set at 1,220,100. Options are forfeited if they are not exercised prior to their respective expiry date or upon termination of employment prior to the completion of the vesting period.

Share Options	Number of options	Weighted average exercise price per share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ millions)
Outstanding at beginning of period	282,720	10.53	-	-
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited/Cancelled	-	-	-	-
Expired	=	=	=	=
Outstanding, end of period	<u>282,720</u>	<u>10.53</u>	<u>4.13</u>	=
Vested, end of the period	282,720	10.53	4.13	-

Under the fair value method, the compensation expense was \$0.01 million for the three month period ended March 31, 2016 (March 31, 2015: \$0.01 million), resulting in a corresponding increase of Additional Paid in Capital.

#### **Performance Share Unit ("PSU") Plan:**

In September 2013, the Board of Directors approved a PSU plan under which officers and certain employees of the Company would receive PSUs. Each PSU represents a unit with an underlying value which is based on the value of one common share relative to the S&P/TSX Utilities Index.

In September 2013, 21,500 PSUs were granted, with additional grants occurring in March 2014 of 26,000, March 2015 of 27,500 and March 2016 of 25,000. The vesting period of the grant is three years, at which time a cash payment may be made to plan participants after evaluation by the Board of Directors of the achievement of certain payment criteria.

For the three month period ended March 31, 2016, a credit of \$0.1 million was recorded (March 31, 2015: \$0.1 million expense), resulting in a corresponding decrease to Other Long-Term Liabilities.

#### 14. Earnings per Share

The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average Class A Ordinary Shares outstanding were 32,381,631 and 29,260,121 for the three month periods ended March 31, 2016 and March 31, 2015 respectively.

The weighted average of Class A Ordinary Shares used for determining diluted earnings were 32,403,703 and 29,276,154 for the three month periods ended March 31, 2016 and March 31, 2015 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at March 31, 2016 the outstanding options are not materially dilutive as the market price of common shares is below or marginally higher than the exercise price.

	Earnings (\$ thousands)	Weighted average shares (thousands)	Earnings per common shares March 31, 2016
Net earnings applicable to common shares	4,862		
Weighted Average share outstanding		32,382	
<b>Basic Earnings Per Common Share</b>			0.15
Effect of potential dilutive securities:			
Stock Options	-	<u>22</u>	-
Diluted Earnings per Common Share	4,862	32,404	0.15
	Earnings (\$ thousands)	Weighted average shares (thousands)	Earnings per common shares March 31, 2015
Net earnings applicable to common shares	3,171		
Weighted Average share outstanding		29,260	
<b>Basic Earnings Per Common Share</b>			0.11
Effect of potential dilutive securities:			
Stock Options	-	<u>16</u>	-
Diluted Earnings per Common Share	3,171	29,276	0.11

#### 15. Fair Value Measurement

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists that prioritizes the inputs used to measure fair value. The Company is required to determine the fair value of all derivative instruments in accordance with the following hierarchy:

The three levels of the fair value hierarchy are defined as follows:

Level 1: Fair value determined using unadjusted quoted prices in active markets.

Level 2: Fair value determined using pricing inputs that are observable.

Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

The fair values of the Company's financial instruments, including derivatives, reflect a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Company's future earnings or cash flows.

The estimated fair values of the Company's financial instruments, including derivative financial instruments, are as follows:

(\$ thousands)	As at March 31, 2016		As at December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long term debt, including current portion	236,640	261,838	236,594	251,723
Fuel Option Contracts <sup>1</sup>	113	113	208	208

<sup>1</sup> Carrying value of fuel option contracts included in Accounts Payable and Accrued expenses

The fair value of long-term debt is determined by discounting the future cash flows of each debt instrument at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

The Company measures the fair value of commodity contracts on a daily basis using the closing values observed on commodities exchanges and in over-the-counter markets, or through the use of industry-standard valuation techniques, such as option modelling or discounted cash flow methods, incorporating observable valuation inputs. The resulting measurements are the best estimate of fair value as represented by the transfer of the asset or liability through an orderly transaction in the marketplace at the measurement date.

The fair value of the fuel option contract reflects only the value of the heating oil derivative and not the offsetting change in the value of the underlying future purchases of heating oil. The derivatives' fair value shown in the below table reflects the estimated amount the Company would pay to terminate the contract at the stated date. The fair value has been determined using published market prices for heating oil commodities. The Company's current option contracts will expire in March 2017.

The derivatives entered into by the Company relate to regulated operations and any resulting gains or losses and changes to fair value are recorded in the regulatory asset/regulatory liability accounts, subject to regulatory approval and passed through to customers in future rates.

The following table summarizes the fair value measurements of the Company's long term debt and fuel derivative contracts based on the three levels that distinguish the level of pricing observability utilized in measuring fair value.

Financial Liability (\$ thousands)	March 31, 2016 Total Fair Value	Level 1 - Quoted Prices in active markets for identical assets	Level 2 - Significant Other inputs	Level 3 - Significant unobservable inputs
Long term debt, including current portion	261,838	-	261,838	-
Fuel Option Contracts <sup>1</sup>	113	-	113	-

<sup>1</sup> Carrying value of fuel option contracts included in Accounts Payable and Accrued expenses

## 16. Financial Risk Management

The Company is primarily exposed to credit risk, liquidity risk and interest rate risk as a result of holding financial instruments in the normal course of business.

### *Credit Risk*

The Company is exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments which include fuel option contracts. If counterparty fails to perform on its contractual obligation to deliver payment when the market price of fuel is greater than the strike price, the Company may find it necessary to purchase diesel at the market price, which will be higher than the contract price. The Company manages this credit risk associated with counterparties by conducting business with high credit-quality institutions. The Company does not expect any counterparties to fail to meet their obligations.

There is risk that CUC may not be able to collect all of its accounts receivable and other assets. This does not represent a significant concentration of risk. The requirements for security deposits for certain customers, which are advance cash collections from customers to guarantee payment of electricity billings, reduces the exposure to credit risk. CUC manages credit risk primarily by executing its credit collection policy, including the requirement for security deposits, through the resources of its customer service department.

### *Liquidity Risk*

The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by the legal requirement per the Licences which requires rates be set to enable the Company to achieve and maintain a sound credit rating in the financial markets of the world.



<i>(\$millions)</i>	<b>Total</b>	<b>2016</b>	<b>2017- 2018</b>	<b>2019- 2020</b>	<b>2021 Onward</b>
Bank overdraft	2.7	2.7			
Accounts payable and accrued expenses	20.6	20.6	-	-	-
Consumer's deposits and advances for construction	7.0	7.0	-	-	-
Letter of credit	0.5	0.5	-	-	-
Long term debt	238.0	14.0	27.7	27.6	168.7
Long term debt interest	<u>99.9</u>	<u>11.7</u>	<u>21.1</u>	<u>17.6</u>	<u>49.5</u>
<b>Total</b>	<b>368.7</b>	<b>56.5</b>	<b>48.8</b>	<b>45.2</b>	<b>218.2</b>

### *Interest Rate Risk*

Long-term debt is issued at fixed interest rates, thereby minimising cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings is nil (nil: December 31, 2015).

### **17. Finance Charges**

The composition of finance charges were as follows:

<i>(\$ thousands)</i>	<b>Three Months Ended March 31, 2016</b>	<b>Three Months Ended March 31, 2015</b>
Interest costs - long-term debt	3,002	3,204
Other interest costs	53	44
AFUDC *	<u>(1,912)</u>	<u>(891)</u>
<b>Total</b>	<b>1,143</b>	<b>2,357</b>

\*Refer to PP&E with regards to AFUDC (Note 7) methodology.

### **18. Defined Benefit Pension Plan**

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. Compensation expense of \$0.06 million was recognised for the three months ended March 31, 2016 (\$0.05 million: three months ended March 31, 2015).

The composition of the expense was as follows:

<i>(\$ thousands)</i>	<b>Three Months Ended March 31, 2016</b>	<b>Three Months Ended March 31, 2015</b>
Interest cost	82	77
Expected return on plan assets	(77)	(80)
Amortisation of actuarial losses	<u>56</u>	<u>51</u>
<b>Total</b>	<b>61</b>	<b>48</b>

This expense has been recorded in general and administrative expenses.

## **19. Foreign Exchange**

The closing rate of exchange on March 31, 2016 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn \$1.2987 per US\$1.00. The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by the Cayman Islands Monetary Authority is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of March 31, 2016 for conversion of Cayman Islands dollars into Canadian dollars was Cdn \$1.5584 per CI\$1.00 (December 31, 2015: Cdn \$1.6608).

## **20. Related Party Transactions**

Miscellaneous receivables were nil at March 31, 2016 (nil as at December 31, 2015). Miscellaneous payables to Fortis Turks & Caicos, a subsidiary of Fortis Inc., were nil at March 31, 2016 (\$11,017 as at December 31, 2015 for travel expenses). Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totaling nil were outstanding at March 31, 2016 (\$3,300 as at December 31, 2015 for labor, hurricane preparedness and travel expenses).

## **21. Taxation**

Under current laws of the Cayman Islands, there are no income, estate, corporate, capital gains or other taxes payable by the Company.

The Company is levied custom duties of \$0.30 per IG of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports.

## **22. Commitments**

The Company has a primary fuel supply contract with RUBiS Cayman Islands Limited ("RUBiS"). Under the agreement the Company is committed to purchase approximately 60% of its diesel fuel requirements for its generating plant from RUBiS. The Company also has a secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") and is committed to purchase approximately 40% of the Company's fuel requirements for its generating plant from Sol. Contracts with RUBiS and Sol were executed in September 2012. Both contracts expired on July 31, 2014 with the option to renew for two additional 18 month terms. The Company executed 18 month fuel supply contracts in September 2014 upon the expiration of its previous fuel supply contracts with both RUBiS and Sol. The Company is currently negotiating the renewal terms with RUBiS for the final 18 month contract. The contract with Sol was renewed for a final 18 month term on March 1, 2016. The approximate remaining quantities per the fuel contract on an annual basis are, by fiscal year in millions of IGs: 2016 – 9.1 and 2017 – 9.3. Both contracts qualify for the Normal Purchase Normal Sale exemption under ASC 815 and do not qualify as derivatives.

As a result of the Company's bulk fuel inventory, the value of CUC's closing stock of fuel at March 31, 2016 was \$1.3 million (March 31, 2015: \$2.9 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Road Power Plant.

**23. Comparative Figures**

Certain comparative figures have been reclassified to conform with current year disclosure.

## Shareholder Information

### Shareholder Plans

CUC offers its Shareholders a Dividend Reinvestment Plan. Please contact one of CUC's Registrar and Transfer Agents or write to CUC's Assistant to the Company Secretary if you would like to receive information about the plan or obtain an enrolment form.

CUC also has a Customer Share Purchase Plan for customers resident in Grand Cayman. Please contact our Customer Service Department at (345) 949-5200 if you are interested in receiving details.

### Shareholder Information

#### Duplicate Annual Reports

While every effort is made to avoid duplications, some shareholders may receive extra reports as a result of multiple share registrations. Shareholders wishing to consolidate these accounts should contact the Registrar and Transfer Agents.

Our Registrar and Transfer Agents are as follows:

#### **CST Trust Company**

P.O. Box 700, Station B

Montreal, QC

H3B 3K3

North America toll free – 1-800-387-0825

Direct – 416-682-3860

Fax – 1-888-249-6189

E-mail: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

#### **Caribbean Utilities Company, Ltd.**

Company Secretary

P.O. Box 38

Grand Cayman KY1-1101

CAYMAN ISLANDS

Tel: (345) 949-5200

Fax: (345) 949-4621

E-mail: [investor@cuc.ky](mailto:investor@cuc.ky)

Website: [www.cuc-cayman.com](http://www.cuc-cayman.com)

If you require further information or have any questions regarding CUC's Class A Ordinary Shares (listed in U.S. funds on the Toronto Stock Exchange), please contact:

#### **Caribbean Utilities Company, Ltd.**

Assistant to the Company Secretary

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