



May 1, 2018

FOR IMMEDIATE RELEASE

**Caribbean Utilities Company, Ltd Announces Unaudited First Quarter Results for the Period ended March 31 2018**

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, 2018 (all dollar amounts are stated in United States dollars).

Results for the Company for the three months ending March 31, 2018 (“The First Quarter 2018”) were highlighted by a 2% increase in total customers, a 3% increase in electricity sales and a \$1.8 million decline in net earnings, when compared to the three months ending March 31, 2017 (“First Quarter 2017”). Renewable energy on the grid also grew by 250% from 1 million kilowatts to 3.5 million kilowatts.

Sales for the First Quarter 2018 totaled 140.4 million kilowatt hours (“kWh”), an increase of 3.8 million kWh in comparison to 136.6 million kWh for the First Quarter 2017. Sales were positively impacted by the 2% increase in residential customers in First Quarter 2018 when compared to First Quarter 2017. In First Quarter 2018, the average consumption of commercial customers increased by 4% which also positively impacted sales. However, revenues from large commercial customers declined due to the newly introduced demand billing rate.

During the First Quarter 2018, Electricity Sales Revenues for large commercial customers under the newly introduced demand rate were less than what would have been billed under the previous energy only rate. Management’s estimate of the shortfall of billings under the demand rate of large commercial customers is \$0.6 million or \$0.02 per Class A Ordinary Share. The

introduction of the demand rates for the large commercial customers, to be phased in over a three -year period, was intended to be revenue neutral and, with the early indications that they are not, the Company has written to the Utility Regulation and Competition Office (“OfReg”) to request a recovery of the shortfall and an adjustment in the rate going forward.

Net earnings decreased \$1.8 million from \$4.5 million in First Quarter 2017 to \$2.7 million in First Quarter 2018. This decrease was primarily due to the factors impacting Operating Income which were increases in depreciation driven by the Capital Investment Plan, higher transmission and distribution and maintenance costs as planned in First Quarter 2018 and lower revenues from the large commercial customers. These items were partially offset by a 3% increase in kWh sales and lower general and administration costs. Net earnings were also negatively impacted by a \$0.1 million increase in Finance charges in First Quarter 2018.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2018 were \$2.6 million, or \$0.08 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$4.3 million or \$0.13 per Class A Ordinary Share for the First Quarter 2017.

First Quarter 2018 saw an increase in our customer base. Total customers as at March 31, 2018 were 29,273, an increase of 509 customers, or 2%, compared to 28,764 customers as at March 31, 2017.

President and CEO, Mr. Richard Hew, stated, “Grand Cayman’s economy continues to grow and with the exception of the decline in revenues due to the newly introduced demand billing rate, the First Quarter 2018 was consistent with plan. The demand rate is intended to be revenue neutral and the shortfall is expected to be recovered in the future. The Company continues to execute on its five–year \$219 million Capital Investment Plan to increase the reliability of the electricity system and to meet the demands of the growing economy. Capital expenditures during First Quarter 2018 totaled \$8.3 million and included distribution system extension and upgrades, generation replacement costs and LED street lighting replacement. I am also pleased to see the growth in renewable energy as we strive towards our goal of 25% renewable energy on the grid by 2025. The Company remains focused on delivering a safe, sustainable and reliable service to its customers while at the same time improving efficiency and managing costs.”

CUC's First Quarter 2018 results and related Management's Discussion and Analysis ("MD&A") for the period ended March 31, 2018 are attached to this release and incorporated by reference.

The MD&A section of this report contains a discussion of CUC's unaudited 2018 First Quarter results, the Cayman Islands economy, liquidity and capital resources, capital expenditures and the business risks facing the Company. The release and First Quarter 2018 MD&A can be accessed at [www.cuc-cayman.com](http://www.cuc-cayman.com) (Investor Relations/Press Releases) and at [www.sedar.com](http://www.sedar.com).

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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Caribbean Utilities Company, Ltd.  
**2018 First Quarter Report**  
 March 31, 2018



## 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 161 megawatts (“MW”). The record peak load of 105.6 MW was experienced on August 29, 2017. CUC is committed to providing a safe and reliable supply of electricity to over 29,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman’s development for over the past 50 years.

### **About the Cayman Islands**

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 61,000, 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 His Excellency Mr. Anwar Choudhury, 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.

All dollar amounts in this Quarterly Report are stated in United States dollars unless otherwise indicated.

Readers should review the note in the Management Discussion and Analysis section, concerning the use of forward-looking statements, which applies to the entirety of this Quarterly Report.

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## **Fellow Shareholders,**

The period for the three months ending March 31, 2018 (“First Quarter 2018”) was consistent with plan with the exception of lower revenues from our large commercial customers due to the introduction of a new demand billing rate for this customer class.

Growth in Grand Cayman’s economy, in customer numbers and in energy sales were all positive and we continued to execute on our five-year \$219 million approved Capital Investment Plan to increase the reliability of service and meet the demands of the growing economy and customer base. We were also pleased to see significant growth in the amount of renewable energy on the grid.

The net earnings of the Company decreased \$1.8 million from \$4.5 million for the three months ended March 31, 2017 (“First Quarter 2017”) to \$2.7 million in First Quarter 2018. This decrease was due primarily to an increase in depreciation and interest related to assets installed under the Capital Investment Plan, planned increases in transmission and distribution and maintenance costs, and the shortfall in revenues from the large commercial customers due to the newly introduced demand rates. These items were partially offset by a 3% increase in kilowatt hour (“kWh”) sales and lower general and administration costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2018 were \$2.6 million, or \$0.08 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$4.3 million or \$0.13 per Class A Ordinary Share for the First Quarter 2017.

During the First Quarter 2018, Electricity Sales Revenues for large commercial customers under the newly introduced demand rate were less than what would have been billed under the previous energy only rate. Management’s estimate of the shortfall of billings under the demand rate of large commercial customers is \$0.6 million or \$0.02 per Class A Ordinary Share. The introduction of the demand rates for the large commercial customers, to be phased in over a three -year period, was intended to be revenue neutral and, with the early indications that they are not, the Company has written to the Utility Regulation and Competition Office (“OfReg”) to request a recovery of the shortfall and an adjustment in the rate going forward.

Sales for First Quarter 2018 totalled 140.4 million kWh an increase of 3.8 million kWh in comparison to 136.6 million kWh for First Quarter 2017. Sales were positively impacted by the 2% increase in residential customers and an increase in the average consumption of commercial customers by 4%.

Economic growth continues to be strong and our customer numbers grew by 2% to 29,273. According to the 2017 Third Quarter Economic Report from the Cayman Islands Economics and Statistics office (“ESO”) which was released in February 2018, overall economic activity in the Cayman Islands grew by an estimated 2.3 % in the first nine months of 2017 compared to 2016. According to the report, construction led the growth for this period with construction project approvals increasing in value to a record \$680.2 million. In January, 2018 the planned 456 room Pageant Beach hotel received approval to proceed from the Central Planning Authority and the developers are aiming to open the property in 2020.

The Company continues to execute its Capital Investment Plans with excellent progress being made on the construction of two new indoor substations that will increase capacity and improve reliability for the Seven Mile Beach and Prospect areas. Extensive work is also being carried out to upgrade the protection and controls in the existing substations to improve overall system reliability. A project to

replace and upgrade the central control system and control room is also on schedule for completion in 2019.

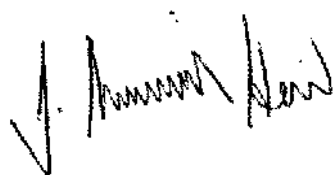
Under its Reliability 2.0 programme, the Company aims to increase the reliability of its service to North American standards despite the challenges of operating a small, isolated grid in a hurricane zone.

I am pleased to report the three-fold growth of renewable energy on the CUC grid with 3.5 million kilowatts ("kW's") in the First Quarter 2018 compared to 1.1 million kW's in First Quarter 2017, mostly attributable to the Entropy 5 MW solar farm which started production in May 2017. The Company's aim is to have 25% of renewable energy on the grid by 2025 and to meet the objectives and targets of the National Energy Policy over the longer term.

What we have achieved this quarter would not have been possible without the hard work, commitment and dedication of our employees. I am proud of the fact that during this period under review, our Company was recognized by the Cayman Islands Society of Human Resource Professionals for Excellence in Diversity, and the HR Young Talent of the Year award was awarded to a CUC employee Anika Conolly. The Company continues to attract highly skilled staff and this augurs well for the future.

I am most pleased to report also that there were no lost-time injuries recorded in the First Quarter 2018 as safety of our employees and the public remains our top priority.

Overall, I am pleased with the progress the Company is making and look forward to reporting continued progress in quarters to come.



J.F. Richard Hew  
President & Chief Executive Officer  
April 30, 2018



## **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, 2017 ("Fiscal 2017"). 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 2017 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.*

April 30, 2018

**Financial and Operational Highlights**

(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)

	Three Months Ending March 31, 2018	Three Months Ending March 31, 2017	Change	% Change
Electricity Sales Revenues	17,979	18,149	(170)	-1%
Fuel Factor Revenues	22,718	19,754	2,964	15%
Renewables Revenues	777	416	361	87%
Total Operating Revenues	41,474	38,319	3,155	8%
Fuel & Lube Costs	22,718	19,754	2,964	15%
Renewables Costs	777	416	361	87%
Other Operating Expenses	14,760	12,795	1,965	15%
Total Operating Expenses	38,255	32,965	5,290	16%
Net Earnings for the Period	2,665	4,461	(1,796)	-40%
Cash Flow related to Operating Activities	13,319	14,050	(731)	-5%
<i>Per Class A Ordinary Share:</i>				
Basic Earnings	0.08	0.13	(0.05)	-38%
Dividends Paid	0.170	0.170	-	-
Total Customers	29,273	28,764	509	2%
Total Employees*	222	207	15	7%
Customer per Employee (#)	132	139	(7)	-5%
System Availability (%)	99.94	99.92	0.02	0%
Peak Load Gross (MW)	95.8	92.7	3.1	3%
<i>Millions of kWh:</i>				
Net Generation	143.0	146.4	(3.4)	-2%
Total Energy Supplied	145.5	143.3	2.2	2%
Kilowatt-Hour Sales	140.4	136.6	3.8	3%
Sales per employee	0.63	0.66	(0.03)	-5%

\* 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 Company is regulated by the Cayman Islands Utility Regulation and Competition Office (“OfReg”), which has the overall responsibility of regulating the electricity, information and communications technology, and the petroleum industries in the Cayman Islands in accordance with the Utility Regulation and Competition Office Law (2016).

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 2017 was 6.9% (2016: 7.4%). CUC’s RORB for 2018 is targeted in the 7.00% to 9.00% range (2017: 6.75% to 8.75%).

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, lube and renewables 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 2017, following review and approval by the OfReg, the Company increased its base rates by 1.6%. This increase was a result of the 2016 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 2016. 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 1.6% 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 2%. All fuel, lubricating oil and renewable 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.

CUC submitted its 2018-2022 Capital Investment Plan in the amount of \$234 million to OfReg. It is expected that this plan will be approved in the first half of 2018.

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 OfReg 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.

CUC’s wholly owned subsidiary, DataLink, Ltd. (“DataLink”), was granted a licence in 2012 from the ICTA (now referred to as the OfReg) permitting DataLink to provide fibre optic infrastructure and other information and communication technology (“ICT”) services to the ICT industry. DataLink is subject to regulation by OfReg in accordance with the terms and conditions of its Licence which currently extends to March 27, 2027. CUC and DataLink have entered into three regulator approved agreements:

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

## Consolidation Accounting Policy

The condensed consolidated interim 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, 2018 (“First Quarter 2018”) totalled 140.4 million kilowatt hours (“kWh”), an increase of 3.8 million kWh in comparison to 136.6 million kWh for the three months ended March 31, 2017 (“First Quarter 2017”). Sales were positively impacted by the 2% increase in residential customers in First Quarter 2018 when compared to First Quarter 2017. In First Quarter 2018 the average consumption of commercial customers increased by 4% which has also positively impacted sales.

Total customers as at March 31, 2018 were 29,273, an increase of 509 customers, or 2%, compared to 28,764 customers as at March 31, 2017.

The following tables present customer and sales highlights:

Customers			
(numbers)	Ended March 31, 2018	Ended March 31, 2017	% Change
Residential	24,952	24,503	2%
Commercial	4,321	4,261	1%
<b>Total Customers</b>	<b>29,273</b>	<b>28,764</b>	<b>2%</b>

Sales				
(kWh)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Change	% Change
Residential	66,022	64,956	1,066	2%
Commercial	72,561	69,950	2,611	4%
Other (street lighting, etc.)	1,836	1,699	137	8%
Total Sales	140,419	136,605	3,814	3%

Average Monthly Consumption per Customer				
(kWh)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Change	% Change
Residential	883	885	-2	0%
Commercial	57,802	55,815	1,987	4%

## Earnings

Operating income for First Quarter 2018 totalled \$3.2 million, a decrease of \$2.2 million when compared to operating income of \$5.4 million for First Quarter 2017. The decrease is attributable to an increase in depreciation, transmission and distribution and maintenance costs in First Quarter 2018. Lower sales revenues due to the newly introduced large commercial demand billing rates also contributed to the decrease in operating income. Management's estimate of the shortfall of billings under the demand rate of large commercial customers is \$0.6 million. These items were partially offset by a 3% increase in kWh sales and lower general and administration costs.

Net earnings decreased \$1.8 million from \$4.5 million in First Quarter 2017 to \$2.7 million in First Quarter 2018 due primarily to the factors impacting Operating Income and a \$0.1 million increase in Finance charges in First Quarter 2018.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2018 were \$2.6 million, or \$0.08 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$4.3 million or \$0.13 per Class A Ordinary Share for the First Quarter 2017.

## Operating Revenues

Total operating revenues were as follows:

Revenues				
(\$ thousands)				
	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Change	% Change
Residential	8,793	8,507	286	3%
Commercial	9,029	9,474	(445)	-5%
Other (street lighting, etc.)	157	168	(11)	-7%
Electricity Sales Revenues	17,979	18,149	(170)	-1%
Fuel Factor Revenues	22,718	19,754	2,964	15%
Renewables Revenues	777	416	361	87%
<b>Total Operating Revenues</b>	<b>41,474</b>	<b>38,319</b>	<b>3,155</b>	<b>8%</b>

Operating revenues for the First Quarter 2018 were \$41.5 million, an increase of \$3.2 million from \$38.3 million for the First Quarter 2017. The increase in operating revenues for First Quarter 2018 was due primarily to increased fuel factor revenues.

Other (street lighting, etc.) revenue for the First Quarter 2018 totalled \$0.2 million, comparable to the First Quarter 2017. New street lighting rates were approved by the OfReg with an effective date of March 1, 2017. Lighting rates are not subject to the RCAM, but the Company can apply to the OfReg for adjustment to the lighting rates on an as-needed basis by submitting appropriate cost justifications.

Electricity sales revenues were \$18.0 million for the First Quarter 2018, a decrease of \$0.1 million when compared to electricity sales revenues of \$18.1 million for the First Quarter 2017. Electricity sales revenues for First Quarter 2018 increased when compared to the same period last year due to a 3% increase in kWh sales, a 1.6% base rate increase effective June 1, 2017.

Following OfReg approval, effective January 1, 2018 the Company implemented demand rate billing for its large commercial customer rate class to replace the pre-2018 energy charge rate component with a combination of energy and demand charges. Demand rate structures are typically used to better align billings with the costs to serve a particular rate class of customers.

In order to facilitate a smoother transition to the new rate structure, demand rates are being implemented over a three-year period. This phase-in plan is intended to gradually introduce demand rates to the entire large commercial customer class and provide a true-up mechanism to ensure the new rates are revenue-neutral compared to the existing rates.

During the First Quarter 2018, Electricity Sales Revenues for large commercial customers under the newly introduced demand rate were less than what would have been billed under the previous energy only rate. Management's estimate of the shortfall of billings under the demand rate of large commercial customers is \$0.6 million. The Company has applied to OfReg for a review of this shortfall to ensure revenue neutrality which would provide for the same revenues as if billed under the previous energy only rates. A decision on the adjustment of the rates going forward is expected to be made during the Second Quarter of 2018.

Fuel factor revenues for the First Quarter 2018 totalled \$22.7 million, an increase of \$2.9 million compared to fuel factor revenues of \$19.8 million for the First Quarter 2017. Fuel factor revenues for the First Quarter 2018 increased due to a higher average fuel cost charge per kWh when compared to the First Quarter 2017. The average Fuel Cost Charge rate billed to consumers for the First Quarter 2018 was \$0.16 per kWh, compared to the average Fuel Cost Charge rate of \$0.13 per kWh for the First Quarter 2017. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

Renewables revenues for First Quarter 2018 totalled \$0.8 million, an increase of \$0.4 million compared to renewables revenues of \$0.4 million for the First Quarter 2017. The renewables revenues are a combination of charges from the Customer Owned Renewable Energy ("CORE") programme and Entropy Cayman Solar Limited which are passed-through to consumers on a two-month lag basis with no mark-up. During 2015, the Company entered into a Power Purchase Agreement ("PPA") with Entropy Cayman Solar Limited for a 25-year term. This 5 MW solar project was completed in June 2017 and in July 2017 the solar farm launched production. Prior to the three months ending September 30, 2017, renewables revenues consisted of revenue from the CORE programme.

## Operating Expenses

Operating Expenses				
(\$ thousands)				
	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Change	% Change
Power Generation Expenses	24,414	21,008	3,406	16%
General and Administration	1,973	2,118	(145)	-7%
Consumer Services	598	511	87	17%
Transmission and Distribution	1,165	548	617	113%
Depreciation	8,294	7,445	849	11%
Maintenance	1,641	1,201	440	37%
Amortization of Intangible Assets	170	134	36	27%
<b>Total Operating Expenses</b>	<b>38,255</b>	<b>32,965</b>	<b>5,290</b>	<b>16%</b>

Operating expenses for the First Quarter 2018 totalled \$38.3 million, a \$5.3 million increase from \$33.0 million for the First Quarter 2017. This increase was due primarily to higher fuel costs for the First Quarter 2018 when compared to the First Quarter 2017. Higher depreciation, transmission and distribution and maintenance costs also contributed to higher operating expenses in First Quarter 2018. These items were partially offset by lower general and administration costs.

## Power Generation

Power generation costs for the First Quarter 2018 increased \$3.4 million to \$24.4 million when compared to \$21.0 million for the First Quarter 2017. This increase is as a result of higher fuel and renewables costs.

Power generation expenses were as follows:

<b>Power Generation</b>				
(\$ thousands) <i>Fuel and Lubricating Oil costs stated net of deferred charges</i>				
	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>	<b>Change</b>	<b>% Change</b>
Fuel costs (net of deferred fuel and renewables charges)	<b>22,389</b>	19,410	2,979	15%
Lubricating Oil costs (net of deferred lubricating oil charges)	<b>329</b>	344	(15)	-4%
Renewables costs	<b>777</b>	416	361	87%
Other generation expenses	<b>919</b>	838	81	10%
<b>Total Power Generation expenses</b>	<b>24,414</b>	21,008	3,406	16%

The Company's average price per Imperial Gallon ("IG") of fuel for the First Quarter 2018 increased 17% to \$3.00, compared to \$2.57 for the First Quarter 2017. The Company's average price per IG of lubricating oil for the First Quarter 2018 increased to \$9.74 when compared to \$9.36 for the First Quarter 2017.

Net generation was 143.0 million kWh for the First Quarter 2018, a 2% decrease when compared to 146.4 million kWh for the First Quarter 2017. Net generation is reported for CUC-owned generation only and does not include kWh generated from CORE or the Entropy Cayman 5 MW solar plant. Net fuel efficiency for the First Quarter 2018 of 18.92 kWh per IG decreased when compared to net fuel efficiency for the First Quarter 2017 of 19.23 kWh per IG. This decrease in net fuel efficiency is due to additional maintenance performed during the 2018 period. The definition of Net Fuel Efficiency was revised as of January 1, 2018 to more accurately reflect the generating efficiency of the power generation facilities. The comparative values listed are both expressed using the most recent definitions.

The Fuel Tracker Account (see Note 7 of the condensed consolidated interim financial statements) is comprised of total diesel fuel, lubricating oil costs and renewables costs to be recovered from consumers.

In March 2011, the OfReg approved the Fuel Price Volatility Management Program. The objective of the programme 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 2017 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.

Renewables costs for First Quarter 2018 totalled \$0.8 million, an increase of \$0.4 million when compared to renewables costs of \$0.4 million for First Quarter 2017. For First Quarter 2018 the renewables costs are a combination of charges from the CORE programme and Entropy Cayman Solar Limited. For First Quarter 2017 the renewables costs are charges from the CORE programme.

Other generation expenses for the First Quarter 2018 totalled \$0.9 million, an increase of \$0.1 million when compared to other generation expenses of \$0.8 million for the First Quarter 2017.

### General and Administration (“G&A”)

G&A expenses for the First Quarter 2018 totalled \$2.0 million, a decrease of \$0.1 million when compared to G&A expenses of \$2.1 million for the First Quarter 2017. This decrease was mainly due to decreases in property insurance premiums and consultancy fees.

### Consumer Services (“CS”)

CS expenses for the First Quarter 2018 totalled \$0.6 million, an increase of \$0.1 million when compared to \$0.5 million for the First Quarter 2017. The increase is due to the increase in credit card commissions and the provision for bad debt expense recorded in First Quarter 2018 in comparison to First Quarter 2017.

<b>Trade and other accounts receivable</b>		
(\$ thousands)		
	<b>As at March 31, 2018</b>	<b>As at December 31, 2017</b>
Current	5,801	5,628
Past due 31-60 days	406	556
Past due 61-90 days	576	504
Past due over 90 days	<u>4,784</u>	<u>5,069</u>
<b>Total Accounts Receivable</b>	<b>11,567</b>	11,757
Less: Allowance for doubtful accounts	<b>(2,261)</b>	(2,238)
Less: Consumer Deposits	<b>(8,681)</b>	(8,433)
<b>Trade receivables less allowance for doubtful accounts and consumer deposits</b>	<b>625</b>	1,086

Trade receivables less allowance for doubtful accounts and consumer deposits as at March 31, 2018 totalled \$0.6 million, a decrease of \$0.5 million, or 42% when compared to \$1.1 million as at December 31, 2017. This decrease was primarily related to a decrease in receivables in the past due 31-60 days and past due over 90 days categories. The past due 31-60 days and past due over 90 days categories of receivables decreased by \$0.2 million and \$0.3 million respectively, or 27% and 6% respectively due to lower electricity sales billings and improved efficiencies in the disconnection process due to the installed Advanced Metering Infrastructure (“AMI”) meters. Customers who have 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 2018 totalled \$1.2 million, an increase of \$0.7 million compared to T&D expenses for the First Quarter 2017 of \$0.5 million. T&D expenses for the First Quarter 2018 were negatively impacted by an increase in staff costs and tree trimming maintenance during First Quarter 2018 when compared to First Quarter 2017.

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

Depreciation expenses for the First Quarter 2018 totalled \$8.3 million, an increase of \$0.9 million from \$7.4 million for the First Quarter 2017. The increase in depreciation expenses is due to capital projects completed in 2017.

## Maintenance

Maintenance expenses for the First Quarter 2018 totalled \$1.6 million, an increase of \$0.4 million when compared to \$1.2 million for the First Quarter 2017. This increase is due to increases in salary costs due to new hires, ongoing maintenance project costs of generating units and training costs.

## Amortization

Amortization of intangible assets for the First Quarter 2018 totalled \$0.2 million, an increase of 0.1 million when compared to \$0.1 million for the First Quarter 2017.

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 2018 totalled \$0.6 million, a decrease of \$0.3 million from \$0.9 million for the First Quarter 2017.

Other Income & Expenses				
(\$ thousands)				
	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Change	% Change
Total interest costs	(3,318)	(3,027)	(291)	10%
AFUDC	<u>1,134</u>	<u>914</u>	<u>220</u>	24%
Total finance charges	(2,184)	(2,113)	(71)	3%
Foreign exchange gain	679	309	370	120%
Other income	<u>951</u>	<u>911</u>	<u>40</u>	4%
<b>Total Net Other Expense</b>	<b>(554)</b>	<b>(893)</b>	<b>339</b>	<b>-38%</b>

Finance charges for the First Quarter 2018 totalled \$2.2 million, a \$0.1 million increase from \$2.1 million for the First Quarter 2017. This increase is as a result of higher interest costs in the First Quarter 2018 partially offset by higher Allowance for Funds Used During Construction (“AFUDC”).

Under the T&D Licence there is a provision for AFUDC. This capitalisation of the Financing Cost is calculated by multiplying the Company's Cost of Capital rate by the average construction work in progress ("CWIP") for each month. The cost of capital rate for 2018 is 8% (2017: 7.75%) as agreed with the OfReg, in accordance with the T&D Licence, and is reviewed annually.

The AFUDC amount for the First Quarter 2018 totalled \$1.1 million, an increase of \$0.2 million from \$0.9 million for the First Quarter 2017. This increase was attributable to higher average CWIP in First Quarter 2018, driven primarily by the transmission and distributions projects that were started in 2017.

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 2018 totalled \$0.7 million, an increase of \$0.4 million when compared to the First Quarter 2017 foreign exchange gains of \$0.3 million.

Other income totalled \$1.0 million for the First Quarter 2018, a \$0.1 million increase when compared to other income of \$0.9 million for the First Quarter 2017.

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.

Revenues from DataLink for the First Quarter 2018 are recorded in Other Income in the amount of \$0.3 million, a decrease of \$0.1 million when compared to Other Income of \$0.4 million for the First Quarter 2017.

## **The Economy**

In February 2018, the Cayman Islands Government released the 2017 Consumer Price Index ("CPI") Report. The average CPI for 2017 increased 1.9% from the average CPI in 2016. This increase was the result of increasing inflation in all quarters throughout 2017, the highest being seen in the second quarter at 2.8%. Of the 12 divisions monitored in the CPI calculation, two divisions saw price declines in 2017: education, and miscellaneous goods and services. The divisions with the largest increases were transport and household furnishings and equipment.

According to the 2017 Third Quarter Economic Report from the Cayman Islands Economics and Statistics office ("ESO") that was released in February 2018, overall economic activity in the Cayman Islands grew by an estimated 2.3 % in the first nine months of 2017 compared to 2016. According to the report, construction led the growth, and growth rates were indicated for a number of other sectors including hotels and restaurants, electricity & water supply, business activities and financing and insurance sector. GDP growth for 2017 is forecasted at 2.3%. The ESO is forecasting Annual GDP growth of 2.8% for 2018. 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:

<b>Indicators for the Financial Services Industry</b>					
	<b>As at March 31, 2018</b>	<b>As at December 31, 2017</b>	<b>As at December 31, 2016</b>	<b>As at December 31, 2015</b>	<b>As at December 31, 2014</b>
Bank Licences	<b>149</b>	150	159	184	198
Mutual Funds	<b>10,500</b>	10,559	10,586	10,940	11,010
Mutual Fund Administrators	<b>92</b>	97	106	108	115
Registered Companies	<b>101,427</b>	99,327	96,248	98,838	99,459
Captive insurance companies	<b>721</b>	724	740	739	788

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 2017 81% 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 2018 air arrivals were higher by 21% when compared to 2017 and cruise arrivals saw an increase of 18% when compared to 2017. 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:

<b>Tourist Arrivals to the Cayman Islands</b>					
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
By Air	<b>134,170</b>	111,237	112,778	115,640	109,406
By Sea	<b>671,935</b>	571,313	612,150	544,073	543,017
Total	<b>806,105</b>	682,550	724,928	659,713	652,423

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 it is anticipated that the airport should accommodate the projected growth in air arrivals. The airport will provide a vastly improved airlift service for Grand Cayman's tourists. The new design expands the current facility, features a larger terminal which accommodates the projected growth in air arrivals. In addition to the airport expansion, the tourism sector is expected to receive a boost by the new 351-room Grand Hyatt Grand Cayman Hotel and Residences resort on Seven Mile Beach which is expected to open in 2020. The resort includes six cafes and restaurants, a spa and fitness center, three swimming pools, shops and a private screening room. It will also have 25,000 square feet of indoor meeting and event space, making it the largest function space in the Cayman Islands. Both projects are likely 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 [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:

<b>Cash Flows</b>				
(\$ thousands)				
	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>	<b>Change</b>	<b>% Change</b>
Beginning cash	<b>7,258</b>	9,861	(2,603)	-26%
Cash provided by/(used in):				
Operating activities	<b>13,319</b>	14,050	(731)	-5%
Investing activities	<b>(9,856)</b>	(9,450)	(406)	4%
Financing activities	<b>(5,490)</b>	<u>4,853</u>	<u>(10,343)</u>	-213%
<b>Ending cash</b>	<b>5,231</b>	19,314	(14,083)	-73%

### *Operating Activities:*

Cash flow provided by operations, after working capital adjustments, for the First Quarter 2018, was \$13.3 million, a \$0.7 million decrease when compared to \$14.0 million for the First Quarter 2017. This decrease was primarily due to the decrease in net earnings for the period and changes in regulatory deferrals and inventories which were partially offset by changes in accounts payable and accrued expenses and prepaid expenses.

### *Investing Activities:*

Cash used in investing activities for the First Quarter 2018 totalled \$9.9 million, an increase of \$0.4 million from \$9.5 million for the First Quarter 2017. This increase is due to higher capital expenditures.

### *Financing Activities:*

Cash used in financing activities for the First Quarter 2018 totalled \$5.5 million, a decrease of \$10.4 million compared to cash provided by financing activities of \$4.9 million for the First Quarter 2017. The decrease in cash used in financing activities is attributable to the issuance of long term debt in First Quarter 2017 which was partially offset by the full repayment of the short term debt in First Quarter 2017.

### *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 2018 capital expenditure programme (see the "Business Risks" section of this MD&A for Liquidity Risk details).

## Transactions with Related Parties

Related-party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The related-party transactions for 2018 and 2017 are summarized in the following table.

Related Party Transactions		
<i>(in thousands)</i>	As at March 31, 2018	As at December 31, 2017
Receivables from Newfoundland Power (a subsidiary of Fortis Inc.)	4	4
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	17	17
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	<u>26</u>	<u>49</u>
<b>Total Related Party Receivables</b>	<b>47</b>	<b>70</b>
Payables to Fortis Inc. (the company's majority shareholder)	2	5
Payables to Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	-	<u>2</u>
<b>Total Related Party Payables</b>	<b>2</b>	<b>7</b>

\*Receivables and payables include but are not limited to travel expenses, hurricane preparedness, membership fees and insurance premiums.

The Company rents office facilities from a related party, Adare Investments Ltd., a Company owned by the retired Chairman of the Company's Board of Directors, on a 5 year lease agreement ending June 30, 2019. Rent expenses totalled \$23,328 for First Quarter 2018 (\$22,900 for First Quarter 2017).

## Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at March 31, 2018, are outlined in the following table:

Contractual Obligations					
(\$ thousands)					
	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	273,000	16,714	27,571	29,689	199,026
Long-term debt interest	120,830	12,648	22,541	18,767	66,874
Defined benefit pension	18	18	-	-	-
<b>Total</b>	<b>393,848</b>	<b>29,380</b>	<b>50,112</b>	<b>48,456</b>	<b>265,900</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 was completed in June 2017. It is expected to 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 qualifies for the Normal

Purchase Normal Sale exemption under Accounting Standards Codification (“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 renewed its contract with RUBiS on September 1, 2016 for the final term which expired on August 31, 2017. The contract with Sol was renewed for the final term on March 1, 2016 which expired on August 31, 2017. The fuel supply contracts are currently under negotiations. Extensions of the previous terms of the expired contracts have been agreed upon until negotiations have been completed. 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, 2017 to March 31, 2018:

<b>Significant changes in Balance Sheet</b>		
<i>(from December 31, 2017 to March 31, 2018)</i>		
<b>Balance Sheet Account</b>	<b>Increase/ (Decrease) (\$ thousands)</b>	<b>Explanation</b>
Cash and Cash Equivalents	(2,027)	Decrease due to cash provided by operating activities of \$13.3 million and offset by cash used in financing activities of \$5.5 million and cash used in investing activities of \$9.9 million.
Accounts Receivable	(213)	A decrease in Datalink receivables of \$0.4 million which was partially offset by an increase of \$0.2 million of miscellaneous billings.
Regulatory Assets	2,392	Increase due to higher fuel costs.
Property, Plant and Equipment	898	Net increase is comprised of (1) capital expenditures of \$8.3 million (2) depreciation expense of \$8.3 million and (3) \$1.0 million in accrued capital expenditure.
Accounts Payable and Accrued Expenses	2,216	Increase attributable to increases in interest payable and fuel costs payable.
Consumers’ Deposits and Advances for Construction	1,684	Increase due to additional customer deposits of \$0.1 million and increase in advances received for construction of \$1.5 million.
Share Premium	722	The Company issued 49,686 shares through its share purchase plans.
Retained Earnings	(3,057)	Decrease due to lower net earnings for the period of \$2.7 million in addition to Class A dividends of \$5.6 million and Class B dividends of \$0.1 million.

## 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, 2018, the Company was in compliance with all debt covenants.

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

Capital Structure				
	March 31, 2018 (\$ thousands)	%	December 31, 2017 (\$ thousands)	%
Total debt	271,631	55	271,596	55
Shareholder's equity	222,098	45	224,423	45
<b>Total</b>	<b>493,729</b>	<b>100</b>	<b>496,019</b>	<b>100</b>

The change in the Company's capital structure between December 31, 2017 and March 31, 2018 was driven by a decrease in shareholder's equity of \$2.3 million.

For First Quarter 2018, shareholder's equity decreased by \$2.3 million to \$222.1 million when compared to \$224.4 million as at December 31, 2017. This decrease was primarily due to lower retained earnings which was partially offset 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.

In April 2018, S&P affirmed the Company's "A-" rating with a negative outlook; the negative outlook on the Company reflects that of Fortis Inc. (the company's majority shareholder). The negative outlook is based on S&P's view of a modest weakening to Fortis' credit metrics following the U.S. corporate tax reform. Despite the moderately strategic relationship between CUC and Fortis, on a standalone basis, CUC is expected to continue to generate stable and predictable cash flows, as the sole provider of generation and T&D services to Grand Cayman.

In January 2018, 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 that allows the Company to earn good returns on its rate base, 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>	
Letter of Guarantee	\$1,000
Operating, Revolving Line of Credit	\$10,000
Catastrophe Standby Loan	\$7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>\$31,000</u>
<b>Total</b>	<b>\$49,500</b>
<b>Provided by RBC:</b>	
Corporate Credit Card Line	<u>\$500</u>
<b>Total</b>	<b>\$500</b>

Of the total above, \$49.0 million was available at March 31, 2018.

### Capital Expenditures

Capital expenditures for the three months ended March 31, 2018 were \$8.3 million, a \$1.1 million, or 12% decrease from \$9.4 million in capital expenditures for the three months ended March 31, 2017. The capital expenditures for the three months ended March 31, 2018 primarily relate to:

- Distribution system extension and upgrades - \$3.2 million;
- Generation Replacement Cost - \$1.2 million;
- LED Lighting Replacement - \$0.5 million;
- 13KV Pole Mounted Smart Switches -\$0.3 million;
- Engine room upgrades - \$ 0.2 million;
- AFUDC of \$1.1 million was capitalized in the three months ended March 31, 2018.



<b>Capital expenditures</b>		
(\$ thousands)		
	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>
Transmission	<b>196</b>	834
Distribution	<b>4,651</b>	3,739
Generation	<b>3,056</b>	4,486
Other	<b>368</b>	373
<b>Total</b>	<b>8,271</b>	9,432

## 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, 2018.

## 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 OfReg for recovery of these costs through higher rates. However, there is no assurance that the OfReg 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 OfReg 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 OfReg.

### *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 successfully passed its re-registration audit in October 2017.

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, 2017 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 cyber-attacks, 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 2018 is 5%. This compares to assumed long-term rates of return of 5% used during 2017. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The gain on pension plan assets during 2017 was 6% (2016: loss of 1%).

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 2018 is 3.7% compared to the discount rate assumed during 2017 of 4.3%.

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 2018.

#### *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.

## Changes in Accounting Policies

The Consolidated Interim Financial Statements have been prepared following the same accounting policies and methods as those used to prepare the Company's 2017 annual audited consolidated financial statements, except as described below.

### *Revenue from Contracts with Customers*

Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers, which requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the standard using the modified retrospective method, under which comparative figures were not restated. The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by OfReg. The adoption of this standard does not change the Company's revenue recognition policy and does not have an impact on net earnings. Additional disclosure on revenue as a result of the adoption of ASC Topic 606 is provided in Note 5.

Operating Revenues		
(\$ thousands)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
<b>Electricity Sales Revenues</b>		
Residential	8,793	8,507
Commercial	9,029	9,474
Other (street lighting etc.)	<u>157</u>	<u>168</u>
	<b>17,979</b>	18,149
<b>Fuel Factor</b>	<b>22,718</b>	19,754
<b>Renewables</b>	<b>777</b>	416
<b>Total Operating Revenues</b>	<b>41,474</b>	38,319

### *Electricity Sales revenue*

The Company generates, transmits and distributes electricity to residential and commercial customers and for street lighting service. Electricity is metered upon delivery to customers and recognized as revenue using approved rates when consumed. Meters are read on the last day of each month, and bills are subsequently issued to customers based on these readings. As a result, the revenue accruals for each period is based on actual bills-rendered during the period.

### *Fuel Factor & Renewables*

Fuel Factor & Renewables revenues are a combination of charges from diesel fuel, lubricating oil costs, and charges from the CORE program and Entropy Cayman Solar Limited, which are passed through to consumers on a two-month lag basis with no mark-up.

## FUTURE ACCOUNTING POLICIES

The Company considers the applicability and impact of all Accounting Standards Updates ("ASU") issued by the Financial Accounting Standards Board ("FASB"). The following updates have been

issued by FASB, but have not yet been adopted by the Company. Any ASUs not included below were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the consolidated financial statements.

### *Leases*

ASU No. 2016-02 was issued in February 2016 and the amendments in this update, along with an additional ASU issued in 2018 to provide additional optional practical expedients, create ASC Topic 842, *Leases*, and supersede lease requirements in ASC Topic 840, *Leases*. The main provision of ASC 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 expedient options. Early adoption is permitted.

The Company expects to elect a package of practical expedients that allow the Company to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. Any significant developments in its implementation efforts could change the Company's expected election of transition practical expedients.

The Company continues to assess the impact that the adoption of this ASU will have on its consolidated financial statements and continues to monitor standard-setting activities that may affect the transition requirements of the new lease standard.

### *Measurement of Credit Losses on Financial Instruments*

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016 and the amendments in this update require entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to inform credit loss estimates. This update is effective for annual and interim periods beginning after December 15, 2019 and is to be applied on a modified retrospective basis. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

### *Targeted Improvements to Accounting for Hedging Activities*

ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, was issued in August 2017 and the amendments in this update better align risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. This update is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The amendments in this update should be reflected as of the beginning of the fiscal year of adoption. For cash flow and net investment hedges existing at the date of adoption, the amendments should be applied as a cumulative effect adjustment related to eliminating the separate

measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings. Amended presentation and disclosure guidance is required only prospectively. The Company is assessing the impact that the adoption of this update will have on its 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*

Following the recent completion of the AMI meter change-out project which allows for all customer meters to be read on the same date, during the Second Quarter 2017 the Company amended its billing processes to have all meters read on the last day of each month. As a result Revenues/kWhs recorded as at March 31, 2018 are based upon actual bills-rendered during the period.

Prior to May 2017, revenue derived from the sale of electricity was taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills were issued throughout the month based on meter readings that established electricity consumption since the last meter reading. The unbilled revenue accrual for the period was based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption resulted in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at March 31, 2018, the amount of unbilled revenue recorded in Electricity Sales was \$nil (March 31, 2017: \$1.8 million).

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

Prior to May 2017, kilowatt-hour sales throughout the month were based on meter readings that established electricity consumption since the last meter reading. The kWh accrual for the period was based on estimated electricity sales to customers since the last meter reading. The estimation process for electricity consumption resulted in adjustments of kWh sales statistics in the periods they become known when actual results differ from the estimates. As at March 31, 2018, the amount of estimated kWh sales was nil (March 31, 2017: 11.6 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, 2018, the Company has a long term liability of \$1.3 million (December 31, 2017: \$1.3 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, 2018, the net book value of the Company's PP&E was \$489.2 million compared to \$488.3 million as at December 31, 2017, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the First Quarter 2018 was \$8.3 million (\$7.4 million for the First Quarter 2017). 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, 2016 through March 31, 2018. 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.

#### **Quarterly results**

*(\$ thousands, except basic and diluted earnings per ordinary share)*

	<b>Operating Revenue</b>	<b>Net Earnings</b>	<b>Earnings on Class A Ordinary Shares</b>	<b>Earnings per Class A Ordinary Share</b>	<b>Diluted earnings per Class A Ordinary Share</b>
March 31, 2018	41,474	2,665	2,552	0.08	0.08
December 31, 2017	44,311	5,475	4,862	0.15	0.15
September 30, 2017	46,153	7,707	7,594	0.23	0.23
June 30, 2017	42,159	6,136	6,023	0.19	0.19
March 31, 2017	38,319	4,461	4,348	0.13	0.13
December 31, 2016	41,181	5,368	4,760	0.15	0.15
September 30, 2016	42,873	7,371	7,258	0.22	0.22
June 30, 2016	37,915	7,544	7,431	0.23	0.23

#### *March 2018/March 2017*

Operating income for First Quarter 2018 totalled \$3.2 million, a decrease of \$2.2 million when compared to operating income of \$5.4 million for First Quarter 2017. The decrease is attributable to an increase in depreciation, transmission and distribution and maintenance costs in First Quarter 2018. These items were partially offset by a 3% increase in kilowatt hour ("kWh") sales and lower general and administration costs.

Net earnings decreased \$1.8 million from \$4.5 million in First Quarter 2017 to \$2.7 million in First Quarter 2018 due primarily to the factors impacting Operating Income and a \$0.1 million increase in Finance charges in First Quarter 2018.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2018 were \$2.6 million, or \$0.08 per Class A Ordinary Share,



compared to earnings on Class A Ordinary Shares of \$4.3 million or \$0.13 per Class A Ordinary Share for the First Quarter 2017.

During the First Quarter 2018, Electricity Sales Revenues for large commercial customers under the newly introduced demand rate were less than what would have been billed under the previous energy only rate. Management's estimate of the shortfall of billings under the demand rate of large commercial customers is \$0.6 million. The Company has applied to OfReg for a review of this shortfall to ensure revenue neutrality which would provide for the same revenues as if billed under the previous energy only rates. A decision on the adjustment of the rates going forward is expected to be made during the Second Quarter of 2018.

#### *December 2017/December 2016*

Net earnings for the three months ended December 31, 2017 ("Fourth Quarter 2017") were \$5.5 million, a \$0.1 million increase when compared to \$5.4 million for the three months ended December 31, 2016 ("Fourth Quarter 2016"). This increase was due to a 2% increase in kWh sales and lower depreciation and amortisation. These items were partially offset by higher maintenance, distribution and consumer service and promotion costs for the Fourth Quarter 2017 when compared to the Fourth Quarter 2016.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2017 were \$4.9 million, or \$0.15 per Class A Ordinary Share, as compared to \$4.7 million, or \$0.15 per Class A Ordinary Share for the Fourth Quarter 2016.

#### *September 2017/September 2016*

Net earnings for the three months ended September 30, 2017 ("Third Quarter 2017") totalled \$7.7 million, an increase of \$0.3 million when compared to net earnings of \$7.4 million for the three months ended September 30, 2016 ("Third Quarter 2016"). This increase was mainly due to a 5% increase in kWh sales. This item was partially offset by higher depreciation and general and administration costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2017 were \$7.6 million, or \$0.23 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$7.3 million or \$0.22 per Class A Ordinary Share for the Third Quarter 2016.

#### *June 2017/June 2016*

Operating income for Second Quarter 2017 totalled \$7.5 million, an increase of \$0.3 million when compared to operating income of \$7.2 million for Second Quarter 2016. The increase is attributable to the decrease in maintenance expenses partially offset by higher depreciation and maintenance costs.

Despite the factors positively impacting operating income, net earnings decreased \$1.4 million from \$7.5 million in Second Quarter 2016 to \$6.1 million in Second Quarter 2017. This was due primarily to a \$1.0 million increase in Finance charges in Second Quarter 2017. This increase in Finance charges was as a result of a reduction in Allowance for Funds Used During Construction ("AFUDC") upon completion of the 40 MW power plant in June 2016. 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.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2017 were \$6.0 million, or \$0.19 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$7.4 million or \$0.23 per Class A Ordinary Share for the Second Quarter 2016.

### **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, 2017; 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, 2018.

### **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, 2018.

### **Outlook**

In November 2017 CUC submitted the 2018-2022 Capital Investment Plan in the amount of \$234 million to the OfReg for approval (December 2016 approved amount: 2017-2021: \$219 million). Proposed projects for the upcoming period include completion of ongoing generation and T&D system replacements and upgrades. The proposed Capital Investment Plan is expected to be finalized during the first half of 2018.

The Company completed an Integrated Resource Plan ("IRP") study and submitted it to OfReg in 2017. The Company's goal in undertaking the IRP was to ensure that all energy options were explored, taking into account their safety, reliability and efficiency, before recommendations were proposed with respect to additions to the energy grid. After analyzing which energy resources are technically viable in the Grand Cayman market, taking into account cost, reliability, environmental impact and other aspects, the Company produced a recommended portfolio of energy resources for the Grand Cayman market. The IRP dovetails with the National Energy Policy ("NEP") and will give

shape to the energy generation plans for Grand Cayman over the next 30 years. Both the IRP and NEP call for a significant increase in renewable energy projects over the next 10 years.

**Subsequent Events: Outstanding Share Data**

At April 30, 2018 the Company had issued and outstanding 33,044,658 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 April 30, 2018 is as follows.

<b>Conversion of Securities into Common Shares As at April 30, 2018 (Unaudited)</b>	<b>Number of Common Shares</b>
Stock Options	45,000

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).

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

<b>Unaudited</b>	<b>Note</b>	<b>As at March 31, 2018</b>	<b>As at December 31, 2017</b>
<b>Assets</b>			
<i>Current Assets</i>			
Cash		5,231	7,258
Accounts Receivable, net	6	9,306	9,519
Related Party Receivables	15	47	70
Regulatory Assets	7	20,675	18,283
Inventories		3,212	2,613
Prepayments		1,353	1,624
<b>Total Current Assets</b>		<b>39,824</b>	39,367
Property, Plant and Equipment, net	8	489,212	488,314
Intangible Assets, net		3,158	3,202
Other Assets		12	12
<b>Total Assets</b>		<b>532,206</b>	530,895
<b>Liabilities and Shareholders' Equity</b>			
<i>Current Liabilities</i>			
Accounts Payable and Accrued Expenses		26,322	24,106
Related Party Payables	15	2	7
Regulatory Liabilities	7	53	52
Current Portion of Long-Term Debt	12	16,714	16,714
Consumers' Deposits and Advances for Construction		10,351	8,667
<b>Total Current Liabilities</b>		<b>53,442</b>	49,546
Defined Benefit Pension Liability		1,292	1,319
Long-Term Debt	12	254,917	254,882
Other Long-Term Liabilities		457	725
<b>Total Liabilities</b>		<b>310,108</b>	306,472
<b>Commitments and Contingency</b>	16		
<b>Shareholders' Equity</b>			
Share Capital	10	2,217	2,214
Share Premium		124,098	123,376
Additional Paid-in Capital		467	467
Retained Earnings		96,611	99,668
Accumulated Other Comprehensive Loss		(1,295)	(1,302)
<b>Total Shareholders' Equity</b>		<b>222,098</b>	224,423
<b>Total Liabilities and Shareholders' Equity</b>		<b>532,206</b>	530,895

*See accompanying Notes to Condensed Consolidated Interim Financial Statements*

**Condensed Consolidated Interim Statements of Earnings***(expressed in thousands of United States Dollars, except basic and diluted earnings per ordinary share)*

<b>Unaudited</b>	<b>Note</b>	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>
<b>Operating Revenues</b>			
Electricity Sales	5	17,979	18,149
Fuel Factor	5	22,718	19,754
Renewables	5	777	416
<i>Total Operating Revenues</i>		<b>41,474</b>	38,319
<b>Operating Expenses</b>			
Power Generation		24,414	21,008
General and Administration		1,973	2,118
Consumer Services		598	511
Transmission and Distribution		1,165	548
Depreciation		8,294	7,445
Maintenance		1,641	1,201
Amortization of Intangible Assets		170	134
<i>Total Operating Expenses</i>		<b>38,255</b>	32,965
<b>Operating Income</b>		<b>3,219</b>	5,354
<b>Other (Expenses)/Income</b>			
Finance Charges	13	(2,184)	(2,113)
Foreign Exchange Gain	14	679	309
Other Income		951	911
<i>Total Net Other (Expenses)/Income</i>		<b>(554)</b>	(893)
<b>Net Earnings for the Period</b>		<b>2,665</b>	4,461
<b>Preference Dividends Paid- Class B</b>		<b>(113)</b>	(113)
<b>Earnings on Class A Ordinary Shares</b>		<b>2,552</b>	4,348
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)		<b>32,995</b>	32,659
<b>Earnings per Class A Ordinary Share</b>		<b>0.08</b>	0.13
Diluted Earnings per Class A Ordinary Share		<b>0.08</b>	0.13
Dividends Declared per Class A Ordinary Share		<b>0.170</b>	0.170

*See accompanying Notes to Condensed Consolidated Interim Financial Statements*

**Condensed Consolidated Interim Statements of Comprehensive Income**

*(expressed in thousands of United States Dollars)*

<b>Unaudited</b>	<b>Three Months Ended March 31, 2018</b>	<b>Three months Ended March 31, 2017</b>
<b>Net Earnings for the Period</b>	<b>2,665</b>	4,461
Other Comprehensive Income:		
Defined Benefit Pension Plans:		
Amortization of Net Actuarial Loss	7	18
Total Other Comprehensive Income	7	18
<b>Comprehensive Income</b>	<b>2,672</b>	4,479

*See accompanying Notes to Condensed Consolidated Interim Financial Statements*

**Condensed Consolidated Interim 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>Preference Shares (\$)</b>	<b>Share Premium (\$)</b>	<b>Additional Paid-in Capital (\$)</b>	<b>Accumulated Other Comprehensive Loss (\$)</b>	<b>Retained Earnings (\$)</b>	<b>Total Equity (\$)</b>
<b>As at December 31, 2017</b>	<b>32,995</b>	<b>1,964</b>	<b>250</b>	<b>123,376</b>	<b>467</b>	<b>(1,302)</b>	<b>99,668</b>	<b>224,423</b>
Net earnings	-	-	-	-	-	-	2,665	2,665
Common share issuance and stock options plans	50	3	-	722	-	-	-	725
Defined benefit plans	-	-	-	-	-	7	-	7
Dividends on common shares	-	-	-	-	-	-	(5,609)	(5,609)
Dividends on preference shares	-	-	-	-	-	-	(113)	(113)
<b>As at March 31, 2018</b>	<b>33,045</b>	<b>1,967</b>	<b>250</b>	<b>124,098</b>	<b>467</b>	<b>(1,295)</b>	<b>96,611</b>	<b>222,098</b>
<b>As at December 31, 2016</b>	<b>32,647</b>	<b>1,943</b>	<b>250</b>	<b>119,096</b>	<b>467</b>	<b>(790)</b>	<b>99,156</b>	<b>220,122</b>
Net earnings	-	-	-	-	-	-	4,461	4,461
Common share issuance and stock options plans	83	5	-	1,012	-	-	-	1,017
Defined benefit plans	-	-	-	-	-	18	-	18
Dividends on common shares	-	-	-	-	-	-	(5,556)	(5,556)
Dividends on preference shares	-	-	-	-	-	-	(113)	(113)
<b>As at March 31, 2017</b>	<b>32,730</b>	<b>1,948</b>	<b>250</b>	<b>120,108</b>	<b>467</b>	<b>(772)</b>	<b>97,948</b>	<b>219,949</b>

*See accompanying Notes to Condensed Consolidated Interim Financial Statements*

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

<b>Unaudited</b>	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>
<i>Operating Activities</i>		
Net Earnings for the period	2,665	4,461
Items not affecting cash:		
Depreciation	8,294	7,445
Amortization of Intangible Assets	170	134
Non-cash Pension Expenses	-	(43)
Amortization of Deferred Financing Costs	35	34
	<b>11,164</b>	12,031
Net Changes in Working Capital Balances Related to Operations:	4,546	4,264
Net Change in Regulatory Deferrals	<b>(2,391)</b>	<b>(2,245)</b>
<i>Cash flow related to operating activities</i>	<b>13,319</b>	14,050
<i>Investing Activities</i>		
Purchase of Property, Plant and Equipment	<b>(9,786)</b>	(9,449)
Proceeds from Sale of Property, Plant and Equipment	45	-
Costs related to Intangible Assets	<b>(126)</b>	(54)
Contributions in Aid of Construction	11	53
<i>Cash flow related to investing activities</i>	<b>(9,856)</b>	(9,450)
<i>Financing Activities</i>		
Proceeds from Long-Term Debt Financing	-	40,000
Short-Term Debt	-	(30,000)
Dividends Paid	<b>(6,215)</b>	(6,164)
Net Proceeds from Share Issues	725	1,017
<i>Cash flow related to financing activities</i>	<b>(5,490)</b>	4,853
(Decrease)/Increase in net cash	<b>(2,027)</b>	9,453
Cash - Beginning of the period	7,258	9,861
Cash - End of the period	<b>5,231</b>	19,314
Supplemental disclosure of cash flow information:		
Interest paid during the period	11	175

***See accompanying Notes to Condensed Consolidated Interim Financial Statements***



***Unaudited – March 31, 2018 (expressed in thousands of United States dollars unless otherwise stated)***

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

These condensed consolidated interim financial statements include the regulated operations and the accounts of the wholly owned subsidiary DataLink Ltd. (“DataLink”), and reflect the decisions of Utility Regulation and Competition Office (“OfReg”). 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.

The Company is regulated by the Cayman Islands Utility Regulation and Competition Office (“OfReg”), which has the overall responsibility of regulating the electricity, information and communications technology, and the petroleum industries in the Cayman Islands in accordance with the Utility Regulation and Competition Office Law (2016). Effective January 16, 2017 as a consequence of the commencement of the Utility Regulation and Competition Office, Law 2016, along with other sector specific laws, the Electricity Regulatory Authority (“ERA”), the Information & Communication Technology Authority (“ICTA”) and the Cayman Petroleum Inspectorate merged into one entity – OfReg. This merger did not impact the terms and conditions of the Licences.

CUC’s wholly-owned subsidiary, DataLink was granted a licence in 2012 from the ICTA (now regulated by the OfReg) permitting DataLink to provide fibre optic infrastructure and other information and communication technology (“ICT”) services to the ICT industry. DataLink is subject to regulation by OfReg in accordance with the terms and conditions of its Licence which currently extends to March 27, 2027.

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, renewables costs 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 2017, following review and approval by the OfReg, the Company increased its base rates by 1.6% (June 2016: 0.1%). This increase was a result of the 2016 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 2016. 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 1.6% 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 2.0%. All fuel, lubricating oil and renewables costs are passed through to customers without mark-up as a per kWh charge. For regulatory purposes, fixed assets comprise of the completed Property, Plant and Equipment ("PP&E") and intangible assets acquired or constructed by the Company as reported in the Company's condensed consolidated interim financial statements. The original book value of these fixed assets includes Allowance for Funds Used During Construction ("AFUDC") and an allowance for General Expenses Capitalised ("GEC"). 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.

### *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 Imperial Gallon ("IG") of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports.

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

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, these Condensed Consolidated Interim Financial Statements do not include all information and notes required by US GAAP for annual financial statements. Since the Condensed Consolidated Interim Financial Statements and Notes do not include all information and notes required by US GAAP for annual financial statements, the Condensed Consolidated Interim Financial Statements and other information included in this quarterly report should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2017.

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. Changes in Accounting Policies**

#### New Accounting Policies

##### *Revenue from Contracts with Customers*

Effective January 1, 2018, the Company adopted Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers, which requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the standard using the modified retrospective method, under which comparative figures were not restated. The majority of the Company’s revenue is generated from electricity sales to customers based on published tariff rates, as approved by OfReg. The adoption of this standard does not change the Company’s revenue recognition policy and does not have an impact on net earnings. Additional disclosure on revenue as a result of the adoption of ASC Topic 606 is provided in Note 5.

### **4. Future Accounting Policies**

#### *Leases*

ASU No. 2016-02 was issued in February 2016 and the amendments in this update, along with an additional ASU issued in 2018 to provide additional optional practical expedients, create ASC Topic 842, *Leases*, and supersede lease requirements in ASC Topic 840, *Leases*. The main provision of ASC 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 expedient 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.

The Company expects to elect a package of practical expedients that allow the Company to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. Any significant developments in its implementation efforts could change the Company’s expected election of transition practical expedients.

The Company continues to assess the impact that the adoption of this ASU will have on its consolidated financial statements and continues to monitor standard-setting activities that may affect the transition requirements of the new lease standard.

### *Measurement of Credit Losses on Financial Instruments*

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016 and the amendments in this update require entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to inform credit loss estimates. This update is effective for annual and interim periods beginning after December 15, 2019 and is to be applied on a modified retrospective basis. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

### *Targeted Improvements to Accounting for Hedging Activities*

ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, was issued in August 2017 and the amendments in this update better align risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. This update is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The amendments in this update should be reflected as of the beginning of the fiscal year of adoption. For cash flow and net investment hedges existing at the date of adoption, the amendments should be applied as a cumulative effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings. Amended presentation and disclosure guidance is required only prospectively. The Company is assessing the impact that the adoption of this update will have on its consolidated financial statements.

## 5. Operating Revenues

Operating Revenues		
(\$ thousands)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
<b>Electricity Sales Revenues</b>		
Residential	8,793	8,507
Commercial	9,029	9,474
Other (street lighting etc.)	<u>157</u>	<u>168</u>
	17,979	18,149
<b>Fuel Factor</b>	22,718	19,754
<b>Renewables</b>	777	416
<b>Total Operating Revenues</b>	<b>41,474</b>	38,319

### *Electricity Sales revenue*

The Company generates, transmits and distributes electricity to residential and commercial customers and for street lighting service. Electricity is metered upon delivery to customers and recognized as revenue using approved rates when consumed. Meters are read on the last day of each month, and bills are subsequently issued to customers based on these readings. As a result, the revenue accruals for each period is based on actual bills-rendered during the period.

### *Fuel Factor & Renewables*

Fuel Factor & Renewables revenues are a combination of charges from diesel fuel, lubricating oil costs, and charges from the CORE program and Entropy Cayman Solar Limited, which are passed through to consumers on a two-month lag basis with no mark-up.

## **6. Accounts Receivable, net**

<b>Accounts Receivable</b>		
(\$ thousands)	<b>As at March 31, 2018</b>	<b>As at December 31, 2017</b>
Billings to consumers	<b>9,945</b>	10,317
Other receivables	<b>1,622</b>	1,440
Allowance for doubtful accounts	<b>(2,261)</b>	<b>(2,238)</b>
<b>Total Accounts Receivable, net</b>	<b>9,306</b>	9,519

### *Unbilled Revenues*

Following the completion of the AMI meter change-out project which allows for all customer meters to be read on the same date, during the Second Quarter 2017 the Company amended its billing processes to have all meters read on the last day of each month. As a result, revenues and accounts receivables as at March 31, 2018 are based on actual bills-rendered during the period.

Prior to May 2017, revenue derived from the sale of electricity was taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills were issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period was based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption resulted in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. Consumers were 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.

## **7. Regulatory Assets and Liabilities**

<b>Regulatory Assets and Liabilities</b>			
(\$ thousands)			
<b>Asset/Liability</b>	<b>Description</b>	<b>As at March 31, 2018</b>	<b>As at December 31, 2017</b>
Regulatory Assets	Fuel Tracker Account	<b>18,918</b>	17,187
Regulatory Assets	Miscellaneous Regulatory Assets	<b>212</b>	218
Regulatory Assets	Government & Regulatory Tracker Account	<b>1,545</b>	878
<b>Total Regulatory Assets</b>		<b>20,675</b>	18,283
Regulatory Liabilities	Derivative contract	<b>(53)</b>	(52)
<b>Total Regulatory Liabilities</b>		<b>(53)</b>	(52)

## 8. Property, Plant and Equipment, net

<b>Property, Plant and Equipment, net</b>		
(\$ thousands)	<b>Cost</b>	<b>Net Book Value March 31, 2018</b>
Transmission & Distribution (T&D)	359,371	223,773
Generation	435,418	242,540
Other:		
Land	5,304	5,304
Buildings	21,473	9,300
Equipment, motor vehicles and computers	27,343	7,863
<i>Total of T&amp;D, Generation and Other</i>	848,909	488,780
Telecommunications assets	546	432
<b>Property, Plant and Equipment, net</b>	<b>849,455</b>	<b>489,212</b>

<b>Property, Plant and Equipment, net</b>		
(\$ thousands)	<b>Cost</b>	<b>Net Book Value December 31, 2017</b>
Transmission & Distribution (T&D)	354,851	221,990
Generation	431,688	243,905
Other:		
Land	5,304	5,304
Buildings	20,942	8,899
Equipment, motor vehicles and computers	27,110	7,778
<i>Total of T&amp;D, Generation and Other</i>	839,895	487,876
Telecommunications assets	546	438
<b>Property, Plant and Equipment, net</b>	<b>840,441</b>	<b>488,314</b>

## 9. Short-Term Financing

The Company has \$50.0 million at March 31, 2018 (\$50.0 million at December 31, 2017) of unsecured credit financing facilities with Scotiabank & Trust (Cayman) Limited ("Scotia") and Royal Bank of Canada ("RBC"). The total available amount was \$49.0 million at March 31, 2018 (\$49 million at December 31, 2017).

<b>Short-Term Financing</b>			
(\$ thousands)	<b>Total Credit Financing Facilities March 31, 2018</b>	<b>Total Utilised March 31, 2018</b>	<b>Total Available March 31, 2018</b>
<b>Provided by Scotia:</b>			
Letter of Guarantee	1,000	500	500
Operating, Revolving Line of Credit	10,000	-	10,000
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim			
Funding of Capital Expenditures	31,000	-	31,000
<b>Total</b>	<b>49,500</b>	<b>500</b>	<b>49,000</b>
<b>Provided by RBC:</b>			
Corporate Credit Card Line*	500	500	-
<b>Short - Term Financing</b>	<b>50,000</b>	<b>1,000</b>	<b>49,000</b>

\*Included in Accounts payable and accrued expenses

A commission at a rate of 0.65% per annum is levied on the Letter of Guarantee amount. Interest is payable on the amount of the Operating Line of Credit utilised at the Scotia's Cayman Islands Prime Lending Rate plus 0.15% per annum. In the event that the Operating Facility is drawn down in United States Dollars, the interest is payable at Scotia's Bank of New York Prime Lending Rate plus 0.15% per annum. Standby Loan and Demand loan interest is payable at LIBOR plus 1.15% per annum for periods of 30, 60, 90, 180 or 360 days. 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.

## 10. Capital Stock

The table below shows the number of authorised and issued and outstanding shares of the Company (shares as follows fully stated, not in thousands):

Capital Stock	As at March 31, 2018	As at December 31, 2017
<b>Authorised:</b>		
Class A Ordinary Shares of CI\$0.05 each	<b>60,000,000</b>	60,000,000
9% Cumulative Participating Class B Preference Shares of \$1.00 each	<b>250,000</b>	250,000
Class C Preference Shares of \$1.00	<b>419,666</b>	419,666
Cumulative Participating Class D Share of CI\$0.56	<b>1</b>	1
<b>Issued and Outstanding (Number of Shares):</b>		
Class A Ordinary Shares	<b>33,044,658</b>	32,994,972
Class B Preference Shares	<b>250,000</b>	250,000
<b>Issued and Outstanding (\$ Amount):</b>		
Class A Ordinary Shares	<b>1,966,944</b>	1,963,986
Class B Preference Shares	<b>250,000</b>	250,000
Total Class A Ordinary & Class B Preference Shares	<b>2,216,944</b>	2,213,986

## 11. Share Based Compensation Plans

### *Share Options:*

The shareholders of the Company approved an Executive Stock Option Plan ("ESOP") on October 24, 1991, under which certain employees and officers 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.

<b>Share Options</b>				
	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2018</b>		
	<b>Number of Options</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Contractual Term (years)</b>	<b>Aggregate Intrinsic Value (\$ thousands)</b>
Outstanding at Beginning of Period	45,000	9.66	4.25	-
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited/Cancelled	-	-	-	-
Expired	-	-	-	-
Outstanding, End of Period	<b>45,000</b>	<b>9.66</b>	<b>4.00</b>	-
<b>Vested, End of the Period</b>	<b>45,000</b>	<b>9.66</b>	<b>4.00</b>	-

Under the fair value method, the compensation expense was \$nil for the three month period ended March 31, 2018 (March 31, 2017: \$nil).

## 12. 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.



There have been no changes in the methodologies used at March 31, 2018. The estimated fair values of the Company's financial instruments, including derivative financial instruments, are as follows:

<b>Financial Instruments</b>				
(\$ thousands)	As at March 31, 2018		As at December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt, including Current Portion	271,631	274,480	271,596	283,649
Fuel Option Contracts	53	53	52	52

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, have been classified as Level 2. There were no transfer between levels for the period ended March 31, 2018.

### 13. Finance Charges

The composition of finance charges were as follows:

<b>Finance Charges</b>		
(\$ thousands)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Interest costs - long-term debt	3,269	2,821
Other interest costs	49	206
AFUDC	(1,134)	(914)
<b>Finance Charges</b>	<b>2,184</b>	<b>2,113</b>

### 14. Foreign Exchange

The closing rate of exchange on March 31, 2018 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn \$1.2894 per US\$1.00 (December 2017: Cdn\$1.2545). 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, 2018 for conversion of Cayman Islands dollars into Canadian dollars was Cdn \$1.547 per CI\$1.00 (December 31, 2017: Cdn \$1.5054).

## 15. Transactions with Related Parties

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The related-party transactions for 2018 and 2017 are summarized in the following table.

Related Party Transactions		
<i>(\$ thousands)</i>	<b>As at March 31, 2018</b>	<b>As at December 31, 2017</b>
Receivables from Newfoundland Power (a subsidiary of Fortis Inc.)	4	4
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	17	17
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	<u>26</u>	<u>49</u>
<b>Total Related Party Receivables</b>	<b>47</b>	<b>70</b>
Payables to Fortis Inc. (the company's majority shareholder)	2	5
Payables to Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	-	<u>2</u>
<b>Total Related Party Payables</b>	<b>2</b>	<b>7</b>

\*Receivables and payables include but are not limited to travel expenses, hurricane preparedness, membership fees and insurance premiums.

The Company rents office facilities from a related party, Adare Investments Ltd., a Company owned by the retired Chairman of the Company's Board of Directors, on a 5 year lease agreement ending June 30, 2019. Rent expenses totalled \$23,328 for the three months ended March 31, 2018 (March 31, 2017: \$22,900).

## 16. Commitments

As at March 31, 2018, the Company's consolidated commitments in each of the next five years and for periods thereafter are as follows:

Commitments					
<i>(\$ thousands)</i>	<b>Total</b>	<b>2018</b>	<b>2019- 2020</b>	<b>2021- 2022</b>	<b>2023 Onward</b>
Accounts Payable and Accrued Expenses	26,322	26,322	-	-	-
Consumer's Deposits and Advances for Construction	10,351	10,351	-	-	-
Letter of Guarantee	500	500	-	-	-
Long Term Debt	273,000	16,714	27,571	29,689	199,026
Long Term Debt Interest	<u>120,830</u>	<u>12,648</u>	<u>22,541</u>	<u>18,767</u>	<u>66,874</u>
<b>Commitments</b>	<b>431,003</b>	<b>66,535</b>	<b>50,112</b>	<b>48,456</b>	<b>265,900</b>

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 was completed in June 2017. It is expected to 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 qualifies for the Normal Purchase Normal Sale exemption under Accounting Standards Codification ("ASC") 815 and does not qualify as a derivative.

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 renewed its contract with RUBiS on September 1, 2016 for the final term which expired on August 31, 2017. The contract with Sol was renewed for the final term on March 1, 2016 which expired on August 31, 2017. The fuel supply contracts are currently under negotiations. Extension of previous terms of the expired contracts have been agreed upon until negotiations have been completed. Both contracts qualify for the Normal Purchase Normal Sale exemption under ASC 815 and do not qualify as derivatives.

The point of delivery for fuel billing purposes remains at the Company’s North Sound Plant compound. The Company is also responsible for the management of the fuel pipeline and ownership of bulk fuel inventory at the North Sound Plant

As a result of the Company’s bulk fuel inventory, the value of CUC’s closing stock of fuel at March 31, 2018 was \$2.62 million (December 31, 2017: \$2.04 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.

## **17. Contingency**

On July 11, 2017 OfReg issued ICT 2017-1 Determination Pole Attachment Reservation Fees. OfReg’s decision was that Datalink’s charge of Reservation Fees in the manners provided for in the current contracts, in its view, was contrary to the ICT Law. Under the determination, Datalink is required to remove references to reservation fees in its contracts with other telecomm providers and provide a refund to the telecomms of fees charged, including fees charged prior to 2017. Datalink is to amend the contracts within 30 days of the determination and negotiate the amounts to be refunded within 60 days of the determination.

As a result of a legal review and assessment of the Directives contained in ICT 2017 -1, DataLink sought a stay of the decision and permission to apply for Judicial Review following the August 9, 2017 refusal by OfReg to suspend the decision and allow DataLink time to respond. Both the stay and permission to apply for Judicial Review were granted on August 11, 2017.

An order for directions was agreed between the parties and a timeline negotiated. A court hearing has been set for four days beginning on June 4, 2018.

## 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.

Our Registrar and Transfer Agents are as follows:

#### **AST Trust Company (Canada)**

P.O. Box 4229  
Station A  
Toronto, ON  
M5W 0G1  
North America toll free – 1-800-387-0825  
Direct – 416-682-3860  
Fax – 1-888-249-6189  
E-mail: [inquiries@astfinancial.com](mailto:inquiries@astfinancial.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  
P.O. Box 38  
Grand Cayman KY1-1101  
CAYMAN ISLANDS  
Tel: (345) 949-5200  
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