



November 7, 2014

**CUC Announces Third Quarter Results for the Period Ended September 30, 2014**

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 Third Quarter ended September 30 2014 (all figures in United States dollars).

Net earnings for the three months ended September 30, 2014 (“Third Quarter 2014”) totalled \$6.2 million, an increase of \$0.2 million when compared to net earnings of \$6.0 million for the three months ended September 30, 2013 (“Third Quarter 2013”). This increase was due to higher electricity sales revenues, lower finance charges and higher other income. These items were partially offset by higher consumer service and transmission and distribution costs, driven by Third Quarter 2014 adjustments to increase the Company’s allowance for doubtful accounts and to dispose of certain obsolete inventory.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2014 were \$6.1 million, or \$0.21 per Class A Ordinary Share, comparable to earnings on Class A Ordinary Shares and earnings per Class A Ordinary Share for the Third Quarter 2013.

Net earnings for the nine months ended September 30, 2014 totalled \$15.4 million, an increase of \$0.7 million when compared to \$14.7 million for the nine months ended September 30, 2013.

This increase was due primarily to higher electricity sales revenues, lower depreciation costs and higher other income. These items were partially offset by higher consumer service and transmission and distribution expenses.

**Caribbean Utilities Company, Ltd.**

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After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the nine months ended September 30, 2014 were \$15.1 million, or \$0.52 per Class A Ordinary Share, an increase of \$0.8 million from the \$14.3 million, or \$0.50 per Class A Ordinary Share for the nine months ended September 30, 2013

Sales for the Third Quarter 2014 totalled 153.2 million kilowatt hour, (“kWh”) an increase of 7.5 million kWh in comparison to 145.7 million kWh for the Third Quarter 2013. This 5% increase was driven by warmer weather conditions in 2014 and an increase in the number of customers. Total customers as at September 30, 2014 were 27,560, an increase of 384 customers, or 1%, compared to 27,176 customers as at September 30, 2013.

President and CEO, Mr. Richard Hew, says, “The Company continues to focus on delivering a safe and reliable service to its customers while at the same time managing costs and improving efficiencies. As the local economy continues to emerge from the recent recession, the Company stands ready to meet the demands of any accompanying growth in our customer base.”

Capital expenditures totaled \$7.1 million and reliability of service as measured by the Average Service Availability Index, was 99.93% for the Third Quarter 2014.

In October 2014, the Electricity Regulatory Authority (“ERA”) announced that the Company’s bid to supply new generation capacity had been selected as the top proposal of the bids submitted in response to the ERA’s request for proposals issued on January 31, 2014. As a result, CUC will develop and operate a new 39.7 megawatts (“MW”) diesel power plant including a 2.7 MW waste heat recovery steam turbine. The project cost is estimated at \$85 million and the plant will be commissioned no later than June 2016.

This project will require a significant, long-term financial undertaking by CUC to deliver the benefits of the highly efficient production of electricity for consumers in Grand Cayman. The Company is now moving forward to the signing of agreements with its equipment provider MAN



Diesel & Turbo of Augsburg, Germany and the primary construction contractor BWSC of Denmark, to build and commission the new power plant.

The Company also continues to explore large-scale alternative energy options. During the period under review, one of the renewable energy providers which is currently in discussions with the Company applied for Planning Department permission to start the development of a 5MW solar power plant. It is anticipated that the output from this renewable energy project will be available to the Company in 2016. The Company believes that there are economic and environmental benefits to be derived from renewable energy sources. These renewable energy sources will replace some of the diesel fuel presently used in our generators.

CUC's Third Quarter results and related Management's Discussion and Analysis ("MD&A") for the period ended September 2014 are attached to this release and incorporated by reference.

The MD&A section of this report contains a discussion of CUC's unaudited 2014 Third Quarter results, the Cayman Islands economy, liquidity and capital resources, capital expenditures and the business risks facing the Company. The release and Third Quarter 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 2029 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*



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*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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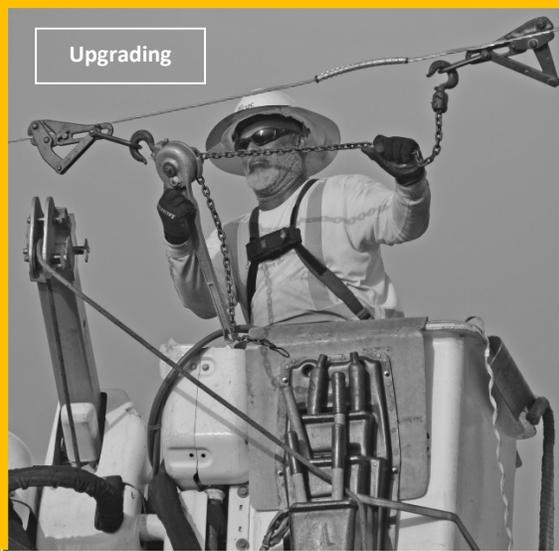
Training



Rewarding



Mentoring



Upgrading

Caribbean Utilities Company, Ltd.  
**2014 Third Quarter Report**  
September 30, 2014



### **About the Company**

Caribbean Utilities Company, Ltd., ("CUC" or "the Company") commenced operations as the only electric utility in Grand Cayman on May 10, 1966.

The Company currently has an installed generating capacity of 131.65 megawatts (MW) and a record peak load of 102.086 MW was experienced on June 3, 2010.

CUC is committed to providing a safe and reliable supply of electricity to over 27,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's development for over 45 years.

The Company's registered office address is 457 North Sound Road, P.O. Box 38, Grand Cayman KY1-1101 and employs 199 employees.

### **About the Cayman Islands**

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

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

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

Readers should review the note, further in this Quarterly Report, 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,**

For the three months ended September 30<sup>th</sup>, 2014 ("Third Quarter 2014") the Company remained focused on controlling costs and improving efficiencies throughout the organization, with an emphasis on safety and reliability of service.

Net earnings for the Third Quarter 2014 totalled \$6.2 million, an increase of \$0.2 million when compared to net earnings of \$6.0 million for the three months ended September 30, 2013 ("Third Quarter 2013"). This increase was due to higher electricity sales revenues, lower finance charges and higher other income. These items were partially offset by higher consumer service and transmission and distribution costs, driven by Third Quarter 2014 adjustments to increase the Company's allowance for doubtful accounts and to dispose of certain obsolete inventory.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2014 were \$6.1 million, or \$0.21 per Class A Ordinary Share, comparable to earnings on Class A Ordinary Shares and earnings per Class A Ordinary Share for the Third Quarter 2013.

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Sales for the Third Quarter 2014 totalled 153.2 million kiloWatt hours ("kWh"), an increase of 7.5 million kWh in comparison to 145.7 million kWh for the Third Quarter 2013. The average monthly temperature for the Third Quarter 2014 was 85.2 degrees Fahrenheit as compared to average monthly temperature of 84.3 degrees for Third Quarter 2013.

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

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Total customers at September 30, 2014 were 27,560, a 1% increase compared to 27,176 at September 30, 2013.

The Company's average price per Imperial Gallon ("IG") of fuel for the Third Quarter 2014 decreased 1% to \$4.65, compared to \$4.71 for the Third Quarter 2013. The Company's average price per Imperial Gallon of fuel for the nine months ended September 30, 2014 decreased 1% to \$4.69, compared to \$4.75 for the nine months ended September 30, 2013.

Net generation was 164.3 million kWh for the Third Quarter 2014 a 5% increase when compared to 156.2 million kWh for the Third Quarter 2013. Net generation was 459.2 million kWh for the nine months ended September 30, 2014, a 3% increase when compared to 445.2 million kWh for the Third Quarter 2013.

In October 2014, the Electricity Regulatory Authority ("ERA") announced that the Company's bid to supply new generation capacity had been selected as the top proposal of the bids submitted in response to the ERA's request for proposals issued on January 31, 2014. As a result, CUC will develop and operate a new 39.7 megawatts ("MW") diesel power plant including a 2.7 MW waste heat recovery steam turbine. The project cost is estimated at \$85 million and the plant will be commissioned no later than June 2016.

CUC has secured the supply of 7.5 MW of temporary mobile generation following the retirement of 17.5 MW of generation in early 2014. This temporary generation will complement existing generation and help to ensure continuity of supply until the installation of the firm capacity. CUC understands that reliability of service is critical to Grand Cayman's continued growth and development. Our Company continues to focus on maintaining and improving the level of service we offer to our customers.

Progress also continues to be made in the area of renewable energy options. One of the developers chosen and with whom the Company has been having discussions has applied

**Caribbean Utilities Company, Ltd.**

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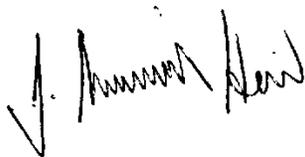
for planning permission to develop a 5 megaWatt (MW) solar photovoltaic power plant. Once the necessary regulatory approvals have been received, final power purchase agreements, also subject to regulatory approval, will be established with this developer who will then start construction of the project. It is anticipated that the solar plant will be completed by 2016. The Company believes that there are economic and environmental benefits to be derived from renewable energy sources. These renewable energy sources will replace some of the diesel fuel presently used in our generators.

The Advanced Metering Infrastructure (“AMI”) project has restarted and 9,500 meters have been installed to date. This project should be substantially completed by early 2015. Upon completion it is anticipated that this project will bring efficiencies in meter reading and other services such as disconnects and reconnects directly from CUC’s offices. AMI will also provide real-time electricity consumption information and a ‘pay as you go’ payment option to assist consumers with monitoring and controlling their electricity consumption.

During the period under review, the Company remained committed to the ongoing training and development of our employees. Significant investment has been made and focus placed on the safety of employees as well as members of the public who visit our plant compound.

The Cayman Islands Government has reported that overall economic activity grew by an estimated 2.2% in the first six months of 2014. It stated that Gross Domestic Product (“GDP”) grew by an estimated 3.3% in the second quarter of 2014, which was even higher than the first quarter growth of 1.5%. The Government added that these trends indicate that the economy is now moving to a stronger growth path this year, coming from the slow growth in 2011 to 2013 when GDP growth averaged 1.2 %.

The Company stands ready to participate in the development of the island as the economy grows and will continue to deliver a cost effective, safe and reliable service to its customers while managing costs and improving efficiencies.



J.F. Richard Hew  
President & Chief Executive Officer  
November 4, 2014

## **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") audited consolidated financial statements and notes thereto for the year ended December 31, 2013. 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 United States Generally Accepted Accounting Principles ("US GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, which are disclosed in the notes to the Company's 2013 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 the recovery or refund 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 section labelled "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.*

*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.*

**Financial and Operational Highlights**

<i>(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)</i>	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change	Change %
Electricity Sales	<b>19,960</b>	18,758	<b>55,574</b>	53,023	<b>2,551</b>	5%
Fuel Factor Revenues	<b>43,477</b>	40,789	<b>117,940</b>	114,396	<b>3,544</b>	3%
Operating Revenues	<b>63,437</b>	59,547	<b>173,514</b>	167,419	<b>6,095</b>	4%
Fuel and Lube Costs	<b>43,477</b>	40,789	<b>117,940</b>	114,396	<b>3,544</b>	3%
Other Operating Expenses	<b>12,858</b>	11,521	<b>36,527</b>	34,559	<b>1,968</b>	6%
Total Operating Expenses	<b>56,335</b>	52,310	<b>154,467</b>	148,955	<b>5,512</b>	4%
Earnings for the Period	<b>6,221</b>	6,048	<b>15,420</b>	14,661	<b>759</b>	5%
Basic Earnings per Class A Ordinary Share	<b>0.21</b>	0.21	<b>0.52</b>	0.50	<b>0.02</b>	4%
Dividends paid per Class A Ordinary Share	<b>0.165</b>	0.165	<b>0.495</b>	0.495	-	0%
Cash Flow from Operating Activities	<b>12,922</b>	13,241	<b>36,916</b>	38,855	<b>(1,939)</b>	-5%
Peak Load Gross (MW)	<b>99.7</b>	97.4	<b>99.7</b>	97.4	<b>2.3</b>	2%
Net Generation (millions of kWh)	<b>164.3</b>	156.2	<b>459.2</b>	445.2	<b>14.0</b>	3%
Kilowatt-Hour Sales (millions of kWh)	<b>153.2</b>	145.7	<b>428.4</b>	415.4	<b>13.0</b>	3%
Total Customers	<b>27,560</b>	27,176	<b>27,560</b>	27,176	<b>384</b>	1%
System Availability (%)	<b>99.93</b>	99.95	<b>99.97</b>	99.96	<b>0.01</b>	0%
Customer per Employee (#)	<b>138</b>	145	<b>138</b>	145	<b>(7)</b>	-5%
Sales per employee (millions of kWh)	<b>0.77</b>	0.78	<b>2.15</b>	2.21	<b>(0.06)</b>	-3%

**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 21.5 year non-exclusive Generation Licence ("the Licences") granted by the Cayman Islands Government ("Government"), which expire in April 2028 and September 2029 respectively.

The Licences contain the provision for a rate cap and adjustment mechanism ("RCAM") based on published consumer price indices. CUC's return on rate base ("RORB") for 2013 was 7.6% (2012: 6.9%). CUC's RORB for 2014 is targeted in the 7.00% to 9.00% range (2013: 6.50% to 8.50%).

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review

and adjustment each June through the RCAM. In June 2014, following review and approval by the Electricity Regulatory Authority ("ERA"), the Company increased its base rates by 1.5%. This increase is a result of the 2013 RORB and the increase in the applicable United States and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2013. All fuel and lubricating oil costs are passed through to customers without mark-up as a per kWh charge.

Rate base is the value of capital upon which the Company is permitted an opportunity to earn a return. The value of this capital is the average of the beginning and ending values for the applicable financial year of: fixed assets less accumulated depreciation, plus the allowance for working capital, plus regulatory assets less regulatory liabilities.

In addition to the RORB requirements of the T&D Licence, CUC may periodically (but at least every 5 years) propose re-balanced and restructured rates, taking into account the results of any cost of service study ("COSS") completed in advance of the proposed rate adjustment. Any such adjustments must be revenue neutral to the base rate adjustment as determined by the RCAM. An independent, comprehensive, allocated COSS was completed and submitted to the ERA for review in April 2014. The last COSS conducted by an independent consultant was completed in April 2009.

An allocated COSS assigns cost responsibility between rate classes based on various relative characteristics – specifically, number of customers, energy sales, impact on peak demands and revenues. For the demand allocation factors, in particular, extensive analysis of customer load data was performed based on interval usage readings collected from CUC's advanced metering infrastructure meters. The sum of all allocated revenue requirements represents the allocated cost of service, or the net revenue requirement for the Base Rates of each of the rate classes.

As a result of the 2014 COSS, the Company adjusted its base rates for a 1% reduction to the residential customer category, a 2.8% increase to the general commercial customer category and a 1.1% increase to the large commercial customer category. The entire exercise must be revenue neutral, that is, the total revenue from all classes must be the same before and after any rebalancing and equivalent to the overall 1.5% base rate increase allowed under the RCAM.

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

The ERA also annually reviews and approves CUC's capital investment plan ("CIP"). In December 2013 the ERA approved \$143.0 million of proposed non-generation installation expenditures in the 2014-2018 CIP.

The Company issued a Certificate of Need ("CON") in October 2013 for approximately 36 MW of generation capacity to be operational by summer 2016. In November 2013 the ERA issued a solicitation for Statements of Qualifications from prospective bidders. In January 2014 the ERA announced the parties selected as qualified bidders and released the request for proposal document to all qualified bidders. The Company submitted a bid in May 2014.

On October 3, 2014 the ERA announced that CUC was the successful bidder for the supply of new generation capacity. CUC will develop and operate a new 39.7 megawatts ("MW") diesel power plant including two 18.5 MW diesel generating units and a 2.7 MW waste heat recovery steam turbine. The project cost is estimated at \$85 million and the plant will be commissioned no later than June 2016.

CUC has secured the supply of 7.5 MW of temporary mobile generation following the retirement of 17.5 MW of generation in early 2014. This temporary generation will complement existing generation and help to ensure continuity of supply until the installation of the firm capacity. CUC understands that reliability of service is critical to Grand Cayman's continued growth and development. Our Company continues to focus on maintaining and improving the level of service we offer to our customers.

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

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

CUC's wholly owned subsidiary, DataLink, Ltd. ("DataLink"), has a license from the Information and Communications Technology Authority ("ICTA") which permits DataLink to provide fibre optic infrastructure and other information and communication technology (ICT) services to the ICT industry. The term of the license is 15 years and expires on March 27, 2027. CUC and DataLink have entered into three agreements;

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

All three agreements have been approved by the ERA.

### **Consolidation Accounting Policy**

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

### **Earnings**

Net earnings for the three months ended September 30, 2014 ("Third Quarter 2014") totalled \$6.2 million, an increase of \$0.2 million when compared to net earnings of \$6.0 million for the three months ended September 30, 2013 ("Third Quarter 2013"). This increase was due to higher electricity sales revenues, lower finance charges and higher other income. These items were partially offset by higher consumer service and transmission and distribution costs, driven by Third Quarter 2014 adjustments to increase the Company's allowance for doubtful accounts and to dispose of certain obsolete inventory.

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## Caribbean Utilities Company, Ltd.

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### Sales

Sales for the Third Quarter 2014 totalled 153.2 million kWh, an increase of 7.5 million kWh in comparison to 145.7 million kWh for the Third Quarter 2013. The average monthly temperature for the Third Quarter 2014 was 85.2 degrees Fahrenheit as compared to average monthly temperature of 84.3 degrees for Third Quarter 2013.

Sales for the nine months ended September 30, 2014 totalled 428.4 million kWh, an increase of 13.0 million kWh in comparison to 415.4 million kWh for the nine months ended September 30, 2013. Sales for the nine months ended September 30, 2014 were positively impacted by warmer weather conditions and an increased number of customers when compared to the same period last year. The average monthly temperature for the first nine months of 2014 was 82.8 degrees Fahrenheit as compared to average monthly temperature of 82.0 degrees for the same period last year.

Total customers as at September 30, 2014 were 27,560, an increase of 384 customers, or 1%, compared to 27,176 customers as at September 30, 2013.

The following tables present customer and sales highlights:

Customers (#)	September 30, 2014	September 30, 2013	Change %
Residential	23,537	23,199	1%
Commercial	<u>4,023</u>	<u>3,977</u>	1%
<b>Total Customers</b>	<b>27,560</b>	<b>27,176</b>	1%

Sales (thousands kWh)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	% Change
<b>Residential</b>	<b>75,279</b>	70,507	<b>203,427</b>	194,210	4.7%
<b>Commercial</b>	<b>76,258</b>	73,584	<b>219,960</b>	216,325	1.7%
<b>Other (street lighting, etc.)</b>	<b><u>1,684</u></b>	<u>1,652</u>	<b><u>5,057</u></b>	<u>4,914</u>	2.9%
<b>Total Sales</b>	<b>153,221</b>	145,743	<b>428,444</b>	415,449	3.1%

### Operating Revenues

Total operating revenues were as follows:

## Caribbean Utilities Company, Ltd.

Revenues (thousands \$)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change	% Change
Residential	9,674	9,374	26,704	25,687	1,017	4%
Commercial	10,162	9,267	28,484	26,994	1,490	6%
Other (street lighting, etc.)	124	117	386	342	44	13%
<b>Electricity Sales Revenues</b>	<b>19,960</b>	18,758	<b>55,574</b>	53,023	<b>2,551</b>	5%
<b>Fuel Factor Revenues</b>	<b>43,477</b>	<u>40,789</u>	<b>117,940</b>	<u>114,396</u>	<b>3,544</b>	3%
<b>Total Operating Revenues</b>	<b>63,437</b>	59,547	<b>173,514</b>	167,419	<b>6,095</b>	4%

Operating revenues for the Third Quarter 2014 were \$63.4 million, an increase of \$3.9 million from \$59.5 million for the Third Quarter 2013. Operating revenues for the nine months ended September 30, 2014 were \$173.5 million, an increase of \$6.1 million from \$167.4 million for the nine months ended September 30, 2013.

Other (street lighting, etc.) revenue for the Third Quarter 2014 totalled \$0.1 million, comparable to the Third Quarter 2013. Other (street lighting, etc.) revenue for the nine months ended September 30, 2014 totalled \$0.4 million, an increase of \$0.1 million when compared to \$0.3 million for the nine months ended September 30, 2013. This increase is due to an increase in the total number of streetlights.

Electricity sales revenues were \$20.0 million for the Third Quarter 2014, an increase of \$0.2 million from \$18.8 million for the Third Quarter 2013. Electricity sales revenues for the Third Quarter 2014 increased when compared to electricity sales revenue for the Third Quarter 2013 due to higher kWh sales and a 1.5% base rate increase effective June 1, 2014.

Electricity sales revenues were \$55.6 million for the nine months ended September 30, 2014, an increase of \$2.6 million from \$53.0 million for the nine months ended September 30, 2013. Electricity sales revenues increased due to a 3% increase in kWh sales period over period, a 1.8% base rate increase effective June 1, 2013 and a 1.5% base rate increase effective June 1, 2014.

Fuel factor revenues for the Third Quarter 2014 totalled \$43.5 million, compared to fuel factor revenues of \$40.8 million for the Third Quarter 2013. Fuel factor revenues for the Third Quarter 2014 increased due to higher kWh sales when compared to the Third Quarter 2013. The average Fuel Cost Charge rate billed to consumers for the three months ended September 30, 2014 was \$0.28 per kWh, compared to the average Fuel Cost Charge rate of \$0.27 per kWh for the three months ended September 30, 2013. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

Fuel factor revenues for the nine months ended September 30, 2014 totalled \$117.9 million, compared to fuel factor revenues of \$114.4 million for the nine months ended September 30, 2013. Fuel factor revenues increased due to 2% kWh sales growth experienced period over period. The average Fuel Cost Charge rate billed to consumers for the nine months ended September 30, 2014 was \$0.27 per kWh, compared to the average Fuel Cost Charge rate of \$0.28 per kWh for the nine months ended September 30, 2013. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

### Operating Expenses

Operating expenses were as follows:

## Caribbean Utilities Company, Ltd.

<i>Operating Expenses (\$ thousands)</i>	<b>Three Months Ended September 30, 2014</b>	<b>Three Months Ended September 30, 2013</b>	<b>Nine Months Ended September 30, 2014</b>	<b>Nine Months Ended September 30, 2013</b>	<b>Change</b>	<b>% Change</b>
Power Generation Expenses	<b>44,536</b>	41,591	<b>120,492</b>	116,663	<b>3,829</b>	3%
General and Administration	<b>2,154</b>	2,181	<b>6,631</b>	6,502	<b>129</b>	2%
Consumer Service	<b>1,184</b>	420	<b>2,698</b>	1,240	<b>1,458</b>	118%
Transmission and Distribution	<b>1,066</b>	542	<b>1,985</b>	1,629	<b>356</b>	22%
Depreciation	<b>5,875</b>	5,926	<b>18,073</b>	18,391	<b>(318)</b>	-2%
Maintenance	<b>1,435</b>	1,575	<b>4,332</b>	4,301	<b>31</b>	1%
Amortization of Intangible Assets	<b>85</b>	<u>75</u>	<b>256</b>	<u>229</u>	<b>27</b>	12%
<b>Total Operating Expenses</b>	<b>56,335</b>	52,310	<b>154,467</b>	148,955	<b>5,512</b>	4%

Operating expenses for the Third Quarter 2014 totalled \$56.3 million, a \$4.0 million increase from \$52.3 million for the Third Quarter 2013. This increase was due primarily to higher power generation, consumer services and transmission and distribution expenses for the Third Quarter 2014 when compared to the Third Quarter 2013.

Operating expenses for the nine months ended September 30, 2014 totalled \$154.5 million, a \$5.5 million increase from \$149.0 million for the nine months ended September 30, 2013. This increase was due primarily to higher power generation, consumer service and transmission and distribution expenses which were partially offset by lower depreciation costs.

### Power Generation

Power generation costs for the Third Quarter 2014 increased \$2.9 million to \$44.5 million when compared to \$41.6 for the Third Quarter 2013. This increase is as a result of higher net generation.

Power generation costs for the nine months ended September 30, 2014 increased \$3.8 million to \$120.5 million when compared to \$116.7 million for the nine months ended September 30, 2013. This increase is as a result of higher net generation partially offset by lower fuel costs.

Power generation expenses were as follows:

## Caribbean Utilities Company, Ltd.

<i>Power Generation (\$ thousands)</i>	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change	% Change
Fuel costs (net of deferred fuel charges)	<b>42,886</b>	40,053	<b>116,140</b>	112,547	<b>3,593</b>	3%
Lubricating Oil costs (net of deferred lubricating oil charges)	<b>591</b>	736	<b>1,800</b>	1,849	<b>(49)</b>	-3%
Temporary generation costs	<b>200</b>	-	<b>200</b>	-	<b>(200)</b>	
Other generation expenses	<b>859</b>	802	<b>2,352</b>	2,267	<b>285</b>	13%
<b>Total power generation expenses</b>	<b>44,536</b>	41,591	<b>120,492</b>	116,663	<b>3,829</b>	3%

The Company's average price per IG of fuel for the Third Quarter 2014 decreased 1% to \$4.65, compared to \$4.71 for the Third Quarter 2013. The Company's average price per IG of fuel for the nine months ended September 30, 2014 decreased 1% to \$4.69, compared to \$4.75 for the nine months ended September 30, 2013.

Net generation was 164.3 million kWh for the Third Quarter 2014 a 5% increase when compared to 156.2 million kWh for the Third Quarter 2013. Net generation was 459.2 million kWh for the nine months ended September 30, 2014, a 3% increase when compared to 445.2 million kWh for the Third Quarter 2013. Net fuel efficiency for the Third Quarter 2014 of 18.10 kWh per IG decreased when compared to net fuel efficiency for the Third Quarter 2013 of 18.47 kWh per IG. Net fuel efficiency for the nine months ended September 30, 2014 of 18.31 kWh per IG decreased when compared to net fuel efficiency for the nine months ended September 30, 2013 of 18.47 kWh per IG.

The Company's average price per IG of lubricating oil for the Third Quarter 2014 decreased to \$12.49 when compared to \$12.51 for the Third Quarter 2013. The Company's average price per IG of lubricating oil for the nine months ended September 30, 2014 declined 2% to \$12.42 when compared to \$12.68 for the nine months ended September 30, 2013.

The Fuel Tracker Account (see Note 5 of the consolidated financial statements) is comprised of total diesel fuel and lubricating oil costs to be recovered from consumers.

In March 2011 the ERA approved the Fuel Price Volatility Management Program. The objective of the program is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers for the fuel that the Company must purchase in order to provide electric service. Contracts initiated in 2014 utilize call options and call spreads to promote transparency in pricing. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

CUC has secured the supply of 7.5 MW of temporary mobile generation following the retirement of 17.5 MW of generation in early 2014. Temporary generation expenses for the Third Quarter 2014 totalled \$0.2 million. There were no temporary generation expenses for the Third Quarter 2013.

Other generation expenses for the Third Quarter 2014 totalled \$0.9 million, a \$0.1 million increase when compared to other generation expenses of \$0.8 million for the Third Quarter 2013.

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

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Other generation expenses for the nine months ended September 30, 2014 totalled \$2.4 million, a \$0.1 million increase when compared to other generation expenses of \$2.3 million for the nine months ended September 30, 2013.

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

G&A expenses for the Third Quarter 2014 totalled \$2.2 million, comparable to G&A expenses for the Third Quarter 2013.

General Expenses Capitalised ("GEC") totalled \$0.9 million for the Third Quarter 2014, an increase of \$0.1 million when compared to \$0.8 million for the Third Quarter 2013.

G&A expenses for the nine months ended September 30, 2014 totalled \$6.6 million, a \$0.1 million increase compared to \$6.5 million for the nine months ended September 30, 2013. This increase was due primarily to the Company's short term incentive plan and the introduction of the Company's Performance Share Unit ("PSU") plan (see Note 12 of the consolidated financial statements).

General Expenses Capitalised ("GEC") totalled \$2.7 million for the nine months ended September 30, 2014, an increase of \$0.1 million compared to \$2.6 million for the nine months ended September 30, 2013.

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

CS expenses for the Third Quarter 2014 totalled \$1.2 million, a \$0.8 million increase compared to \$0.4 million for the Third Quarter 2013. This increase is attributable to an adjustment to the Allowance for Doubtful Accounts ("AFDA").

In accordance with its AFDA policy, the Company maintains an accumulated provision for uncollectible customer accounts receivable that is estimated based on known accounts, historical experience and other currently available information, including the economic environment. During 2014, the Company commenced a full review of its outstanding Accounts Receivables balance and the reasonableness of its methodology of applying a flat percentage to total receivables in calculating AFDA. This review is substantially complete and has indicated an increase in days outstanding for receivable balances. Consequently management has determined the estimation process related to the AFDA would be refined to include a risk element for aging of accounts receivable. Management expects that the implementation of the new AFDA methodology will be completed by December 2014. The effect of this change of estimate in the Third Quarter 2014 was to increase the provision by \$0.6 million.

CS expenses for the nine months ended September 30, 2014 totalled \$2.7 million a \$1.5 million increase compared to \$1.2 million for the nine months ended September 30, 2013. This increase is attributable to an adjustment to the AFDA and increased expenses associated with additional human resources hired in this area to meet the needs of customers. The effect of the change in AFDA estimate for the nine months ended September 30, 2014 was to increase the provision by \$1.1 million.

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<b>Trade and other accounts receivables (\$ thousands)</b>	<b>As at September 30, 2014</b>	<b>As at December 31, 2013</b>
Current	11,581	11,914
Past due 31-60 days	1,821	2,018
Past due 61-90 days	434	594
Past due over 90 days	<u>4,136</u>	<u>4,314</u>
<b>Total Accounts Receivables</b>	<b>17,972</b>	<b>18,840</b>
Less: allowance for doubtful accounts	(1,356)	(195)
Less: Consumer Deposits	<u>(5,364)</u>	<u>(4,998)</u>
<b>Net Exposure</b>	<b>11,252</b>	<b>13,647</b>

**Transmission and Distribution ("T&D")**

T&D expenses for the Third Quarter 2014 totalled \$1.1 million, an increase of \$0.6 million compared to T&D expenses for the Third Quarter 2013 of \$0.5 million. In the Third Quarter 2014, the Company incurred expenses totalling \$0.4 million associated with the disposal of obsolete T&D inventory items.

T&D expenses for the nine months ended September 30, 2014 totalled \$2.0 million, an increase of \$0.4 million compared to T&D expenses for the nine months ended September 30, 2013 of \$1.6 million. T&D expenses for the nine months ended September 30, 2013 were negatively impacted by the write off of obsolete inventory items.

**Depreciation**

Depreciation expenses for the Third Quarter 2014 totalled \$5.9 million, comparable to the Third Quarter 2013.

Depreciation expenses for the nine months ended September 30, 2014 totalled \$18.1 million, a decrease of \$0.3 million, from \$18.4 million for the nine months ended September 30, 2013. This decrease in depreciation is related to the book retirement of a 7.59 MW generating unit during 2013 and the change in estimates of useful lives.

In accordance with its PP&E policy, the Company reviews the estimated useful lives of its fixed assets on an ongoing basis. A review concluded during the First Quarter 2014 indicated that the actual lives of certain T&D and Generation assets were longer than the estimated useful lives used for depreciation purposes in the Company's financial statements. As a result, effective 1 January 2014, the Company changed its estimates of the useful lives of these assets to better reflect the estimated periods during which these assets will remain in service. The affected assets previously averaged useful lives of twenty years which were increased to an average of twenty-five to thirty-five years. The effect of this change in estimate was to reduce Third Quarter 2014 depreciation expense by \$0.4 million and depreciation for the nine months ended September 30, 2014 by \$1.2 million.

**Maintenance**

Maintenance expenses for the Third Quarter 2014 totalled \$1.4 million, a decrease of \$0.2 million when compared to \$1.6 million for the Third Quarter 2013. Maintenance expenses for the nine months ended September 30, 2014 totalled \$4.3 million comparable to the nine months ended September 30, 2013.

**Amortization**

Amortization of intangible assets for the Third Quarter 2014 totalled \$0.09 million, a 13% increase when compared to \$0.08 million for the Third Quarter 2013. The increase in amortization is attributable to software purchases made in prior periods.

Amortization of intangible assets for the nine months ended September 30, 2014 totalled \$0.26 million, a 12% increase when compared to \$0.23 million for the nine months ended September 30, 2013. The increase in amortization is attributable to software purchases made in prior periods.

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 ceased 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 Third Quarter 2014 totalled \$0.9 million, a decrease of \$0.3 million from \$1.2 million for the Third Quarter 2013. Net Other Expenses for the nine months ended September 30, 2014 totalled \$3.6 million, a decrease of \$0.2 million from \$3.8 million for the nine months ended September 30, 2013.

<i>Other Income &amp; Expenses (\$ thousands)</i>	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change	% Change
Total interest costs	(2,871)	(3,076)	(8,876)	(9,164)	288	-3%
AFUDC	770	825	1,942	2,317	(375)	-16%
Total finance charges	(2,101)	(2,251)	(6,934)	(6,847)	(87)	1%
Foreign exchange gain	486	519	1,455	1,443	12	1%
Other income	734	543	1,852	1,601	251	16%
<b>Total Net Other Expense</b>	<b>(881)</b>	<b>(1,189)</b>	<b>(3,627)</b>	<b>(3,803)</b>	<b>176</b>	<b>-5%</b>

Finance charges for the Third Quarter 2014 totalled \$2.1 million, a \$0.2 million decrease from \$2.3 million for the Third Quarter 2013. This decrease is as a result of lower interest costs in the Third Quarter 2014.

Finance charges for the nine months ended September 30, 2014 totalled \$6.9 million, a \$0.1 million increase from \$6.8 million for the nine months ended September 30, 2013. The increase to this expense is a result of lower capitalization of financing costs in 2014.

Under the T&D Licence there is a provision for an Allowance for Funds Used During Construction ("AFUDC"). This capitalisation of the Financing Cost is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for 2014 is 8.0% as agreed with the ERA, in accordance with the T&D Licence, and will be reviewed annually. The cost of capital rate for 2013 was 7.5%.

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The AFUDC amount for the Third Quarter 2014 totalled \$0.8 million, comparable the Third Quarter 2013. The AFUDC amount for the nine months ended September 30, 2014 totalled \$1.9 million, a \$0.4 million decrease from \$2.3 million for the nine months ended September 30, 2013. This decrease is attributable to a decreased work in progress value for Third Quarter 2014 when compared to Third Quarter 2013. Work in progress balances will vary depending upon the nature and longevity of projects.

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 Third Quarter 2014 totalled \$0.5 million, comparable to the Third Quarter 2013. Foreign exchange gains for the nine months ended September 30, 2014 totalled \$1.5 million, a \$0.1 million increase when compared to \$1.4 million for the nine months ended September 30, 2013.

Other income is comprised of income from the Company's wholly-owned subsidiary DataLink, income from pipeline operations, sale of meter sockets, sale of recyclable materials and other miscellaneous income.

Other income totalled \$0.7 million for the Third Quarter 2014, a \$0.2 million increase when compared to other income of \$0.5 million for the Third Quarter 2013. Other income totalled \$1.9 million for the nine months ended September 30, 2014, a \$0.3 million increase when compared to \$1.6 million for the nine months ended September 30, 2013.

Revenues from DataLink for the Third Quarter 2014 are recorded in Other Income in the amount of \$0.2 million comparable to the Third Quarter 2013.

### The Economy

In September 2014, the Cayman Islands Government released the 2014 Second Quarter Consumer Price Index ("CPI") Report. The CPI for the three months ended June 30, 2014 increased 0.7 percent when compared to the same period last year. The CPI for the three months ended June 30, 2014 increased by 0.2 percent when compared to the three months ended March 31, 2014. These movements reflect the rebound in actual rentals for housing after ten consecutive quarters of decline.

The 2014 Cayman Islands Semi-Annual Economic Report released by the Cayman Islands Government in October 2014 reported that the country's estimated Gross Domestic Product ("GDP") at constant prices rose by 3.3 percent in the second quarter of 2014. The growth in GDP was attributed to greater economic activity in a number of sectors including hotels and restaurants, transport, storage and communication, wholesale and retail trade and financing and insurance. The report also indicated the growth outlook for 2014 as 1.9%.

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

	As at September 2014	As at December 2013	As at December 2012	As at December 2011	As at December 2010
Bank Licences	206	213	222	234	246
Mutual Funds *	11,292	11,379	10,841	9,258	9,438
Mutual Fund Administrators	117	121	124	129	134

- The Cayman Islands Mutual Funds (Amendment) Law, 2011, dated December 22, 2011, amended the Mutual Funds Law (2009 Revision) to require all Master Funds, as defined therein, to become registered by the Cayman Islands Monetary Authority ("CIMA"). Registration for these funds was required for the first time in 2012, previously registration of any such funds was voluntary in nature. As at December 31, 2013 there were 2,635 registered Master Mutual Funds (2012:1,891) and nil as at December 31, 2011 and prior periods.*

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The other major industry in Cayman is tourism. The tourist demographic is largely comprised of visitors from the United States of America ("US"). For the Third Quarter 2014 76% of air arrivals to the country were citizens of the US. As such the US economy largely impacts that of the Cayman Islands. Third Quarter 2014 air arrivals were up 20% when compared to 2013 and cruise arrivals increased by 62% when compared to 2013. 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 September 31:

Arrivals	2014	2013	2012	2011	2010
By Air	83,161	69,175	64,529	61,401	57,864
By Sea	<u>313,598</u>	<u>193,421</u>	<u>256,299</u>	<u>225,958</u>	<u>315,968</u>
Total	396,759	262,596	320,828	287,359	373,832

All data is sourced from the Cayman Islands Government, Cayman Islands Economics & Statistics Office, Cayman Islands Monetary Authority, Cayman Financial Review, Cayman Islands Department of Tourism and Health City websites; [www.gov.ky](http://www.gov.ky) [www.FSO.ky](http://www.FSO.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 cash flows:

<i>Cash Flows (\$ thousands)</i>	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change	% Change
Beginning cash	<b>2,014</b>	1,364	<b>1,215</b>	694	<b>521</b>	75%
Cash provided by/(used in):						
Operating activities	<b>12,922</b>	13,241	<b>36,916</b>	38,855	<b>(1,939)</b>	-5%
Investing activities	<b>(7,292)</b>	(4,118)	<b>(21,031)</b>	(18,614)	<b>(2,417)</b>	13%
Financing activities	<b>(4,177)</b>	<b>(7,042)</b>	<b>(13,633)</b>	<b>(17,490)</b>	<b>3,857</b>	-22%
<b>Ending cash</b>	<b>3,467</b>	3,445	<b>3,467</b>	3,445	<b>22</b>	1%

### Operating Activities:

Cash flow provided by operations, after working capital adjustments, for the Third Quarter 2014, was \$12.9 million, a \$0.3 million decrease when compared to \$13.2 million for the Third Quarter 2013.

Cash flow provided by operations, after working capital adjustments, for the nine months ended September 30, 2014, was \$36.9 million, a decrease of \$2.0 million from \$38.9 million for the nine months ended September 30, 2013. This decrease is mainly attributable to the movement in non-cash working capital in the nine months ended September 30, 2014 when compared to the same period last year.

### Investing Activities:

Cash used in investing activities for the Third Quarter 2014 totalled \$7.3 million, an increase of \$3.2 million from \$4.1 million for the Third Quarter 2013. This increase is mainly attributable to insurance funds received in Third Quarter 2013 which offset capital expenditures during that period.

## Caribbean Utilities Company, Ltd.

Cash used in investing activities for the nine months ended September 30, 2014 totalled \$21.0 million, an increase of \$2.4 million from \$18.6 million for the nine months ended September 30, 2013. This increase is mainly attributable to insurance funds received in Third Quarter 2013 which offset capital expenditures during that period.

### *Financing Activities:*

Cash used in financing activities for the Third Quarter 2014 totalled \$4.2 million, a decrease of \$2.8 million compared to cash used in financing activities of \$7.0 million for the Third Quarter 2013. This decrease in cash used in financing activities is attributable to lower overdraft repayments in the Third Quarter 2014.

Cash used in financing activities for the nine months ended September 30, 2014 totalled \$13.6 million, a decrease of \$3.9 million compared to cash used in financing activities of \$17.5 million for the nine months ended September 30, 2013. This decrease in cash used in financing activities is attributable to lower overdraft repayments in the nine months ended September 30, 2014.

### **Transactions with Related Parties**

Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totaling \$0.1748 million were outstanding at September 30, 2014 (\$0.0098 million as at December 31, 2013) for insurance, hurricane preparedness and travel expenses and are shown as related party payables on the Balance Sheet.

### **Contractual Obligations**

The contractual obligations of the Company over the next five years and periods thereafter, as at September 30, 2014, are outlined in the following table:

<i>(\$ millions)</i>	<b>Total</b>	<b>&lt; 1 year</b>	<b>1 to 3 years</b>	<b>4 to 5 years</b>	<b>&gt; 5 years</b>
Total debt	220.0	29.0	25.0	29.4	136.6
Defined benefit pension	0.1	0.1	-	-	-
<b>Total</b>	<b>220.1</b>	<b>29.1</b>	<b>25.0</b>	<b>29.4</b>	<b>136.6</b>

The Company executed a primary fuel supply contract with Rubis Cayman Islands Limited ("Rubis") in September 2012 upon the expiration of its previous fuel supply contracts. Under the agreement the Company is committed to purchase approximately 60% of its diesel fuel requirements for its generating plant from Rubis. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2014 - 0.6, 2015 - 1.7, 2016 - 0.1.

The Company also has a secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") (previously Esso Cayman Limited) executed in September 2012 and is committed to purchase approximately 40% of the Company's diesel fuel requirements for its generating plant from Sol. Both contracts expired August 2014 and both were renewed for an additional 18 month term to expire by February 2016. Each contract has the option to renew for an additional 18 month term. Renewal cannot occur more than 6 months in advance of the current contract expiry date.

### **Financial Position**

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2013 to September 30, 2014:

## Caribbean Utilities Company, Ltd.

Significant changes in Balance Sheets between December 31, 2013 and September 30, 2014 (\$ millions)	Increase (Decrease)	Explanation
Cash and Cash Equivalents	2.3	Increase due to cash provided by operating activities of \$36.9 million offset by cash used in financing activities of \$21.0 million and by cash used in investing activities of \$13.6 million.
Accounts Receivable	(2.0)	Increased collection on over 90 days accounts and increased allowance for doubtful accounts.
Regulatory Assets	3.6	Increase attributable to an increase in fuel costs.
Prepayments	0.6	Increase due to payment of the Company's property and machinery breakdown insurance policy
Property, Plant and Equipment	2.9	Net increase is comprised of capital expenditures of (1) \$21.1 million (2) depreciation expense of \$18.1 million (3) \$0.2 million in accrued capital expenditure (4) \$0.3 million in contributions in aid of construction.
Bank Overdraft	(0.8)	Decrease in bank overdraft.
Accounts Payable and Accrued Expenses	4.6	Increased payable related to accrued interest expense and fuel. Fuel consumption increases in the summer months leading to higher payable balances.
Short-Term Debt	15.0	Increase due to drawdown on RBC capital expenditure credit facility in May 2014.
Current Portion of Long-Term Debt	(3.0)	Decrease due to full repayment of Company's 7.64% Senior Unsecured Note Loan Note in June 2014.
Long-Term Debt	(11.0)	Decrease due to principal payments made on the Company's Senior Unsecured Notes in the Second Quarter 2014.
Share Premium	1.4	The Company issued 137,059 shares through its share purchase plans.

### Capital Resources

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

To help ensure access to capital, the Company targets a long-term capital structure containing approximately 45 per cent equity, including preference shares, and 55 per cent 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 rights offering that occurred in 2008 and through 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 65 per cent of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at September 30, 2014, the Company was in compliance with all debt covenants.

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

## Caribbean Utilities Company, Ltd.

Capital structure	September 30, 2014 (\$ millions)	%	December 31, 2013 (\$ millions)	%
Total debt	220.0	55	219.0	55
Shareholder's equity	<u>180.4</u>	<u>45</u>	<u>178.3</u>	<u>45</u>
<b>Total</b>	<b>400.4</b>	<b>100</b>	<b>397.3</b>	<b>100</b>

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

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

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

Following Fortis Inc.'s December 2013 announcement of a proposed US\$4.3 billion acquisition of UNS Energy Corp., an Arizona-based holding company that wholly owns Tucson Electric Power Co. (TEP), S&P affirmed the Company's A- rating and revised its outlook on the Company from Stable to Negative.

The negative outlook on CUC reflected the application of S&P's group rating methodology and an expectation that Fortis Inc.'s credit metrics would materially weaken due to convertible debentures used to finance the acquisition. S&P also indicated their belief that there are insufficient ring-fencing mechanisms between Fortis and its subsidiaries, including CUC, to allow for further rating separation.

On Oct. 28, 2014, S&P revised its outlook on Fortis Inc. and its subsidiaries, including CUC, to stable from negative. At the same time, S&P affirmed its ratings on the companies, including its 'A-' rating on CUC. The outlook revision follows Fortis' announcement of the receipt of the final installment of the convertible debentures that it used to finance the UNS Energy Corp. acquisition. The outlook revision on the subsidiaries reflects the application of S&P's group rating methodology.

The A- rating reflects S&P's positive view of the Company's current position as the sole provider of generation services, and the Company's licensed position as the sole provider of T&D services. The rating also reflects S&P's positive view of regulatory support and stable cash flows offset by the economic uncertainty and the limited history of the regulator.

Considerations for the DBRS A rating were a supportive regulatory regime, solid credit metrics and a stable island economy and the demand for electricity. Impacting the rating were such factors as hurricane event risk and small size of customer base.

### *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 allowances in the Licences for review of the RCAM by the ERA in order to enable the Company to maintain sound credit ratings.

**Credit Facilities**

The Company currently has \$47.0 million of unsecured credit financing facilities with the Royal Bank of Canada ("RBC"). The financing facilities are comprised of:

Credit Facilities	(\$ millions)
Corporate Credit Card Line	\$0.5
Letters of Credit	\$0.5
Operating, Revolving Line of Credit	\$7.5
Catastrophe Standby Loan	\$7.5
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>\$31.0</u>
<b>Total</b>	<b>\$47.0</b>

Of the total above, \$30.5 million was available at September 30, 2014.

**Capital Expenditures**

Capital expenditures for the Third Quarter 2014 were \$7.1 million, a \$0.3 million, or 4% decrease from \$7.4 million in capital expenditures for the Third Quarter 2013.

Capital expenditures for the nine months ended September 30, 2014 were \$21.1 million, a \$0.8 million, or 4% decrease from \$21.9 million in capital expenditures for the nine months ended September 30, 2013.

The capital expenditures for the nine months ended September 30, 2014 primarily relate to:

- Distribution system extension and upgrades - \$8.5 million
- Generation Replacement Cost – \$9.6 million.
- Facility Asset Replacement & Upgrades Structural & Mechanical- \$0.6 million
- AFUDC of \$1.9 million was capitalized in the nine months ended September 30, 2014

Capital expenditures (\$ Millions)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine months Ended September 30, 2014	Nine months Ended September 30, 2013
Transmission & Distribution	<b>1.8</b>	3.6	<b>8.1</b>	9.7
Generation	<b>4.4</b>	3.3	<b>11.2</b>	11.4
Other	<u><b>0.9</b></u>	<u>0.5</u>	<u><b>1.8</b></u>	<u>0.8</u>
<b>Total</b>	<b>7.1</b>	7.4	<b>21.1</b>	21.9

**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 September 30, 2014.

**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 factors. 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 safe and efficient 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 programs 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 program that provides coverage for business interruption, liability and property damage, although the coverage offered by this program is limited. (See "Insurance" for discussion of insurance terms and coverage). In the event of a large uninsurable loss, the Company would apply to the ERA for recovery of these costs through higher rates. However, there is no assurance that the ERA will approve any such application (See "Regulation" 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 and seasonal fluctuations.

*Regulation*

The Company operates within a regulated environment. As such the operations of the Company are subject to the normal uncertainties faced by regulated companies. Such uncertainties include approval by the ERA of billing rates that allow a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on rate base assets. The Company's capital expenditure plan requires regulatory approval. There is no assurance that capital projects perceived as required by the management of the Company will be approved.

*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 proper 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, land use activities, and the handling, storage, processing, use, emission and disposal of materials and waste products.

In 2004, CUC was initially registered to the ISO 14001:2007 which is the international standard for Environmental Management Systems ("EMS"). Under the ISO 14001 standard CUC is required to adhere to all applicable local legislation to prevent pollution to the environment as well as any self-determined procedures, practices, and policies. The Company continuously adheres with the standard, and recertification must occur every three years. The Company has most recently received a recertification audit in March 2013, and zero non-conformances were identified, allowing CUC to be eligible for recertification.

In March 2007 the Kyoto Protocol was signed by the Cayman Islands; this framework aims to reduce Greenhouse Gas ("GHG") emissions produced by certain industries. 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 Government to quantify as best as possible the country's fuel consumption across a variety of sectors, production processes and distribution means. CUC has been in full cooperation with the Cayman Islands Government with supplying information requested for our industry to address this inventory.

Through adhering to local environmental legislation, cooperating with the Cayman Islands government departments and authorities, and by registering our EMS with an international standard CUC has determined that its exposure to environmental risks is not significant and does not have an impact on 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, 2014 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 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 the original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with rate regulated accounting and differs from the GAAP treatment of a loss being recognized on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. Insurance proceeds are included within the criteria.

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

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

#### *Defined Benefit Pension Plan*

The Company maintains a defined benefit pension plan. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The assumed long-term rate of return on pension plan assets, for the purposes of estimating pension expense for 2014 is 5%. This compares to assumed long-term rates of return of 5% used during 2013. The gain on pension plan assets during 2013 was 7% (2012: gain of 9%).

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.

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

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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 2014 is 4.9% compared to the discount rate assumed during 2013 which was 3.7%.

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.

### **CHANGES IN ACCOUNTING ESTIMATES**

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

In accordance with its PP&E policy, the Company reviews the estimated useful lives of its fixed assets on an ongoing basis. A review concluded during the first three months of 2014 indicated that the actual lives of certain Transmission and Distribution ("T&D") and Generation assets were longer than the estimated useful lives used for depreciation purposes in the Company's financial statements. As a result, effective 1 January 2014, the Company changed its estimates of the useful lives of these assets to better reflect the estimated periods during which these assets will remain in service. The affected assets previously averaged useful lives of twenty years which were increased to an average of twenty-five to thirty-five years.

The effect of this change in estimate for the Third Quarter 2014 was to reduce the depreciation expense by \$0.4 million, increase net earnings by \$0.4 million, and increase basic and diluted earnings per share by \$0.01. The effect of this change in estimate for the nine months ended September 30, 2014 was to reduce the depreciation expense by \$1.2 million, increase net earnings by \$1.2 million, and increase basic and diluted earnings per share by \$0.03.

#### *Allowance for Doubtful Accounts ("AFDA")*

In accordance with its AFDA policy, the Company maintains an accumulated provision for uncollectible customer accounts receivable that is estimated based on known accounts, historical experience and other currently available information, including the economic environment. During 2014, the Company commenced a full review of its outstanding Accounts Receivables balance and the reasonableness of its methodology of applying a flat percentage to total receivables in calculating AFDA. This review is substantially complete and has indicated an increase in days outstanding for receivable balances. Consequently management has determined the estimation process related to the AFDA would be refined to include a risk element for aging of accounts receivable. Management expects that the implementation of the new AFDA process will be completed by December 2014. The effect of this change of estimate in the Third Quarter 2014 was to increase the provision by \$0.6 million, decrease net earnings by \$0.6 million, and decrease basic and diluted earnings per share by \$0.02. The effect of this change in estimate for the nine months ended September 30, 2014 was to increase the provision by \$1.1 million, decrease net earnings by \$1.1 million, and decrease basic and diluted earnings per share by \$0.03.

### **Critical Accounting Estimates**

The preparation of the Company's financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Estimates

are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from the current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known. The Company's critical accounting estimates relate to:

*Revenue Recognition*

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at September 30, 2014, the amount of unbilled revenue recorded in Electricity Sales was \$3.2 million (September 30, 2013: \$3.8 million).

*Kilowatt Hour ("kWh") Sales*

KWh sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. The kWh accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for electricity consumption will result in adjustments of kWh sales statistics in the periods they become known when actual results differ from the estimates. As at September 30, 2014, the amount of estimated kWh sales was 23.5 million kWh (September 30, 2013: 27.4 million kWh).

*Employee Future Benefits*

The Company's defined benefit pension plan is subject to judgments utilised 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 September 30, 2014, the Company has a long term liability of \$0.2 million (December 31, 2013: \$0.3 million).

*Property, Plant and Equipment Depreciation*

Depreciation, by its very nature 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 September 30, 2014, the net book value of the Company's PP&E was \$382.3 million compared to \$379.3 million as at December 31, 2013, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the Third Quarter 2014 was \$5.9 million (\$5.9 million for the Third Quarter 2013). 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 December 31, 2012 through September 30, 2014. 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.

## Caribbean Utilities Company, Ltd.

Quarterly results (\$ thousands, except basic and diluted earnings per ordinary share)	Operating Revenue	Net earnings	Income applicable to ordinary shares	Earnings per ordinary share	Diluted earnings per ordinary share
September 30, 2014	63,437	6,221	6,108	0.21	0.21
June 30, 2014	56,571	5,749	5,636	0.20	0.20
March 31, 2014	53,505	3,448	3,335	0.11	0.11
December 31, 2013	58,801	5,760	5,169	0.18	0.18
September 30, 2013	59,547	6,048	5,935	0.21	0.21
June 30, 2013	55,346	5,716	5,603	0.19	0.19
March 31, 2013	52,525	2,898	2,785	0.10	0.10
December 31, 2012	59,087	4,061	3,468	0.12	0.12

### *September 2014/September 2013*

Net earnings for the three months ended September 30, 2014 ("Third Quarter 2014") totalled \$6.2 million, an increase of \$0.2 million when compared to \$6.0 million net earnings for the three months ended September 30, 2013 ("Third Quarter 2013"). Higher electricity sales revenues were offset primarily by higher consumer service and transmission and distribution costs, driven by Third Quarter 2014 adjustments to increase the Company's allowance for doubtful accounts and to dispose of certain obsolete inventory.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2014 were \$6.1 million, or \$0.21 per Class A Ordinary Share, an increase of \$0.2 million from \$5.9 million, or \$0.21 per Class A Ordinary Share for the Third Quarter 2013.

### *June 2014/June 2013*

Net earnings for the three months ended June 30, 2014 ("Second Quarter 2014") totalled \$5.7 million, comparable to net earnings for the three months ended June 30, 2013 ("Second Quarter 2013"). Higher electricity sales revenues were offset primarily by higher consumer service and maintenance costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2014 were \$5.6 million, or \$0.20 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$5.6 million or \$0.19 per Class A Ordinary Share for the Second Quarter 2013.

### *March 2014/March 2013*

Net earnings for the three months ended March 31, 2014 ("First Quarter 2014") totalled \$3.4 million, an increase of \$0.5 million when compared to \$2.9 million for the three months ended March 31, 2013 ("First Quarter 2013"). This increase was due primarily to higher electricity sales revenues and lower depreciation costs. These items were partially offset by higher consumer service costs and finance charges.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2014 were \$3.3 million, or \$0.11 per Class A Ordinary Share, an increase of \$0.5 million from the \$2.8 million, or \$0.10 per Class A Ordinary Share for the First Quarter 2013.

### *December 2013/December 2012*

Net earnings for the three months ended December 31, 2013 ("Fourth Quarter 2013") were \$5.8 million, a \$1.7 million increase when compared to \$4.1 million for the three months ended December 31, 2012 ("Fourth Quarter 2012"). This increase is attributable to a 6% increase in kWh sales, higher other income and lower non-fuel operating expenditure. These items were

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

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partially offset by higher finance charges and lower foreign exchange gains for the Fourth Quarter 2013 when compared to the Fourth Quarter 2012.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2013 were \$5.2 million, or \$0.18 per Class A Ordinary Share, as compared to \$3.5 million, or \$0.12 per Class A Ordinary Share for the Fourth Quarter 2012.

### **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, to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the quarter ending September 30, 2014 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.

### **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 original Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

There was no material weakness relating to design existing as of September 30, 2014. There has been no change in the Company’s ICFR that occurred during the period beginning on January 1, 2014 and ended on September 30, 2014 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

### **Outlook**

On October 3, 2014 the ERA announced that CUC was the successful bidder for new generation capacity. CUC will develop and operate a new 39.7 megawatts (“MW”) diesel power plant including two 18.5 MW diesel generating units and a 2.7 MW waste heat recovery steam turbine. The project cost is estimated at \$85 million and the plant will be commissioned no later than June 2016.

On October 15, 2014 CUC submitted its 2015-2019 Capital Investment Plan in the amount of \$247 million for ERA approval. Generation expansion costs related to the recent bid award are included in the CIP in the amount of CUC’s competitive bid.

**Outstanding Share Data**

At September 30, 2014 the Company had issued and outstanding 29,196,821 Ordinary Shares and 250,000 9% cumulative Participating Class B Preference Shares.

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).



Letitia T. Lawrence  
Vice-President Finance & Chief Financial Officer  
November 4, 2014

## Caribbean Utilities Company, Ltd.

### Consolidated Balance Sheets

(expressed in thousands of United States Dollars)

Unaudited	Note	As at September 30, 2014	As at December 31, 2013
<b>Assets</b>			
<i>Current Assets</i>			
Cash and Cash Equivalents		3,467	1,215
Accounts Receivable	4	16,616	18,645
Regulatory Assets	5	27,983	24,373
Inventories	6	5,222	5,185
Prepayments		<u>3,316</u>	<u>2,703</u>
		56,604	52,121
Property, Plant and Equipment	7	382,274	379,329
Other Assets	8	1,384	1,509
Intangible Assets	9	<u>2,931</u>	<u>2,791</u>
<b>Total Assets</b>		<u>443,193</u>	<u>435,750</u>
<b>Liabilities and Shareholders' Equity</b>			
<i>Current Liabilities</i>			
Bank Overdraft		455	1,258
Accounts Payable and Accrued Expenses	10	36,244	31,633
Related Party Payables	21	175	10
Regulatory Liabilities	5	170	242
Short-Term Debt		15,000	-
Current Portion of Long-Term Debt		14,000	17,000
Consumers' Deposits and Advances for Construction		<u>5,364</u>	<u>4,998</u>
		71,408	55,141
Defined Benefit Pension Liability	17	198	283
Long-Term Debt	14	191,000	202,000
Other Long term Liabilities	12	<u>166</u>	<u>34</u>
<b>Total Liabilities</b>		262,772	257,458
<b>Shareholders' Equity</b>			
Share Capital		1,988	1,980
Share Premium		82,430	81,023
Additional Paid in Capital	12	462	479
Retained Earnings		95,735	95,064
Accumulated Other Comprehensive Loss		<u>(194)</u>	<u>(254)</u>
<b>Total Shareholders' Equity</b>		180,421	178,292
<b>Total Liabilities and Shareholders' Equity</b>		<u>443,193</u>	<u>435,750</u>

*See accompanying Notes to Interim Consolidated Financial Statements*

**Consolidated Statements of Earnings**

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

Unaudited	Note	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
<b>Operating Revenues</b>					
Electricity Sales		19,960	18,758	55,574	53,023
Fuel Factor		<u>43,477</u>	<u>40,789</u>	<u>117,940</u>	<u>114,396</u>
<i>Total Operating Revenues</i>		<b>63,437</b>	<b>59,547</b>	<b>173,514</b>	<b>167,419</b>
<b>Operating Expenses</b>					
Power Generation		44,536	41,591	120,492	116,663
General and Administration		2,154	2,181	6,631	6,502
Consumer Services		1,184	420	2,698	1,240
Transmission and Distribution		1,066	542	1,985	1,629
Depreciation		5,875	5,926	18,073	18,391
Maintenance		1,435	1,575	4,332	4,301
Amortization of Intangible Assets		<u>85</u>	<u>75</u>	<u>256</u>	<u>229</u>
<i>Total Operating Expenses</i>		<b>56,335</b>	<b>52,310</b>	<b>154,467</b>	<b>148,955</b>
<b>Operating Income</b>		<b>7,102</b>	<b>7,237</b>	<b>19,047</b>	<b>18,464</b>
<b>Other (Expenses)/Income:</b>					
Finance Charges	16	(2,101)	(2,251)	(6,934)	(6,847)
Foreign Exchange Gain	18	486	519	1,455	1,443
Other Income		<u>734</u>	<u>543</u>	<u>1,852</u>	<u>1,601</u>
<i>Total Net Other (Expenses)/Income</i>		(881)	(1,189)	(3,627)	(3,803)
<b>Earnings for the Period</b>		<b>6,221</b>	<b>6,048</b>	<b>15,420</b>	<b>14,661</b>
<i>Preference Dividends Paid- Class B</i>		<u>(113)</u>	<u>(113)</u>	<u>(339)</u>	<u>(339)</u>
<i>Earnings on Class A Ordinary Shares</i>		<b>6,108</b>	<b>5,935</b>	<b>15,081</b>	<b>14,322</b>
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)	13	29,158	28,927	29,131	28,890
<i>Earnings per Class A Ordinary Share</i>	13	0.21	0.21	0.52	0.50
Diluted Earnings per Class A Ordinary Share	13	0.21	0.21	0.52	0.50
Dividends Declared per Class A Ordinary Share		0.165	0.165	0.495	0.495

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

**Consolidated Statements of Comprehensive Income**

*(expressed in thousands of United States Dollars)*

Unaudited	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
<b>Net Earnings for the Period</b>	<b>6,221</b>	<b>6,048</b>	<b>15,420</b>	<b>14,661</b>
Other Comprehensive Income/(Loss):				
Amounts arising during the period				
Defined Benefit Pension plans:				
Net actuarial (loss)/gain	-	-	-	-
Reclassification to net income				
Defined Benefit Pension plans:				
Amortization of prior service costs	20	62	60	186
Amortization of net actuarial loss	-	<u>33</u>	-	<u>100</u>
Total Other Comprehensive Income	20	95	60	286
<b>Comprehensive Income</b>	<b>6,241</b>	<b>6,143</b>	<b>15,480</b>	<b>14,947</b>

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

**Consolidated Statements of Shareholders' Equity**

(expressed in thousands of United States Dollars except Common Shares)

	Class A Ordinary Shares (in thousands)	Common Shares Value (\$)	Preference Shares (\$)	Share premium (\$)	Additional paid-in capital (\$)	Accumulated Other Comprehensive Loss (\$)	Retained Earnings (\$)	Total Equity (\$)
<b>As At January 1, 2014</b>	<b>29,060</b>	<b>1,730</b>	<b>250</b>	<b>81,023</b>	<b>479</b>	<b>(254)</b>	<b>95,064</b>	<b>178,292</b>
Net Earnings	-	-	-	-	-	-	15,420	15,420
Common Share Issuance & stock options plans	137	8	-	1,407	(17)	-	-	1,398
Defined benefit plans	-	-	-	-	-	60	-	60
Dividends on common shares	-	-	-	-	-	-	(14,410)	(14,410)
Dividends on preference shares	-	-	-	-	-	-	(339)	(339)
<b>As At September 30, 2014</b>	<b>29,197</b>	<b>1,738</b>	<b>250</b>	<b>82,430</b>	<b>462</b>	<b>(194)</b>	<b>95,735</b>	<b>180,421</b>
<b>As At January 1, 2013</b>	<b>28,806</b>	<b>1,715</b>	<b>250</b>	<b>78,524</b>	<b>450</b>	<b>(1,720)</b>	<b>94,647</b>	<b>173,866</b>
Net Earnings	-	-	-	-	-	-	14,661	14,661
Common Share Issuance & stock options plans	163	9	-	1,633	22	-	-	1,664
Defined benefit plans	-	-	-	-	-	286	-	286
Dividends on common shares	-	-	-	-	-	-	(14,289)	(14,289)
Dividends on preference shares	-	-	-	-	-	-	(339)	(339)
<b>As At September 30, 2013</b>	<b>28,969</b>	<b>1,724</b>	<b>250</b>	<b>80,157</b>	<b>472</b>	<b>(1,434)</b>	<b>94,680</b>	<b>175,849</b>

See accompanying Notes to Interim Consolidated Financial Statements

**Consolidated Statements of Cash Flows**

(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
<b><i>Operating Activities</i></b>				
Earnings for the period	6,221	6,048	15,420	14,661
Items not affecting cash:				
Depreciation	5,875	5,926	18,073	18,391
Amortization of Intangible Assets	85	75	256	229
Non-cash Pension Expenses	-	-	44	-
Amortization of Deferred Financing Costs	36	37	122	135
Stock-based compensation	<u>(31)</u>	<u>7</u>	<u>(17)</u>	<u>21</u>
	<b>12,186</b>	<b>12,093</b>	<b>33,898</b>	<b>33,437</b>
Net change in non-cash working capital balances related to operations	449	823	6,700	7,302
Net Change in Regulatory Deferrals	<u>287</u>	<u>325</u>	<u>(3,682)</u>	<u>(1,884)</u>
<i>Cash flow related to operating activities</i>	<b>12,922</b>	<b>13,241</b>	<b>36,916</b>	<b>38,855</b>
<b><i>Investing Activities</i></b>				
Purchase of property, plant and equipment	(7,104)	(7,369)	(21,105)	(21,863)
Costs related to intangible assets	(197)	(72)	(267)	(93)
Insurance funds received	-	2,505	-	2,505
Contributions in Aid of Construction	-	818	320	818
Proceeds on sale of property, plant and equipment	<u>9</u>	<u>-</u>	<u>21</u>	<u>19</u>
<i>Cash flow related to investing activities</i>	<b>(7,292)</b>	<b>(4,118)</b>	<b>(21,031)</b>	<b>(18,614)</b>
<b><i>Financing Activities</i></b>				
Proceeds from debt financing	-	-	15,000	50,000
Repayment of debt	-	-	(14,000)	(47,500)
Increase/(Decrease) in bank overdraft	286	(2,651)	(803)	(6,200)
Dividends paid	(4,924)	(4,886)	(15,247)	(15,431)
Net proceeds from share issues	<u>461</u>	<u>495</u>	<u>1,417</u>	<u>1,641</u>
<i>Cash flow related to financing activities</i>	<b>(4,177)</b>	<b>(7,042)</b>	<b>(13,633)</b>	<b>(17,490)</b>
<b>Increase in net cash and cash equivalents</b>	<b>1,453</b>	<b>2,081</b>	<b>2,252</b>	<b>2,751</b>
Cash and cash equivalents - Beginning of period	<u>2,014</u>	<u>1,364</u>	<u>1,215</u>	<u>694</u>
<b>Cash and cash equivalents - End of period</b>	<b>3,467</b>	<b>3,445</b>	<b>3,467</b>	<b>3,445</b>
<b>Supplemental disclosure of cash flow information:</b>				
Interest paid during the period	78	16	6,069	5,949

See accompanying Notes to Interim Consolidated Financial Statements

**Notes to Interim Consolidated Financial Statements**

*Unaudited – September 30, 2014 (expressed in thousands of United States dollars unless otherwise stated)*

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

These consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP") and reflect the decisions of the Electricity Regulatory Authority ("ERA"). 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 consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary DataLink, Ltd. ("DataLink").

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 21.5 year non-exclusive Generation Licence (collectively the "Licenses") with the Cayman Islands Government ("Government"), which expire in April 2028 and September 2029 respectively. These consolidated interim financial statements do not include all of the disclosures normally found in the Company's annual financial statements and should be read in conjunction with the MD&A and audited financial statements and notes thereto for the year ended December 31, 2013, with 2012 comparatives, prepared in accordance with US GAAP included in the Company's 2013 Annual Report.

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

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

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

*Rate Regulated Operations*

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2014, following review and approval by the Electricity Regulatory Authority ("ERA"), the Company increased its base rates by 1.5%. This increase is a result of the 2013 RORB and the increase in the applicable United States and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2013. All fuel and lubricating oil costs are passed through to customers without mark-up as a per kWh charge.

For regulatory purposes fixed assets comprise the completed Property, Plant and Equipment ("PP&E") and intangible assets acquired or constructed by the Company as reported in the Company's consolidated financial statements. The original book value of these fixed assets include an Allowance for Funds Used During Construction ("AFUDC")(Note 7) and an allowance for General Expenses Capitalised ("GEC")(Note 7). GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity.

*Seasonality*

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

**2. Summary of Significant Accounting Policies**

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

**3. Changes in Accounting Estimates**

*Property, Plant and Equipment ("PP&E")*

In accordance with its PP&E policy, the Company reviews the estimated useful lives of its fixed assets on an ongoing basis. A review concluded during the first three months of 2014 indicated that the actual lives of certain Transmission and Distribution ("T&D") and Generation assets were longer than the estimated useful lives used for depreciation purposes in the Company's financial statements. As a result, effective 1 January 2014, the Company changed its estimates of the useful lives of these assets to better reflect the estimated periods during which these assets will remain in service. The affected assets previously averaged useful lives of twenty years which were increased to an average of twenty-five to thirty-five years.

The effect of this change in estimate for the Third Quarter 2014 was to reduce the depreciation expense by \$0.4 million, increase net earnings by \$0.4 million, and increase basic and diluted earnings per share by \$0.01. The effect of this change in estimate for the nine months ended September 30, 2014 was to reduce the depreciation expense by \$1.2 million, increase net earnings by \$1.2 million, and increase basic and diluted earnings per share by \$0.03.

*Allowance for Doubtful Accounts ("AFDA")*

In accordance with its AFDA policy, the Company maintains an accumulated provision for uncollectible customer accounts receivable that is estimated based on known accounts, historical experience and other currently available information, including the economic environment. During 2014, the Company commenced a full review of its outstanding Accounts Receivables balance and the reasonableness of its methodology of applying a flat percentage to total receivables in calculating AFDA. This review is substantially complete and has indicated an increase in days outstanding for receivable balances. Consequently management has determined the estimation process related to the AFDA would be refined to include a risk element for aging of accounts receivable. Management expects that the implementation of the new AFDA methodology will be completed by December 2014.

The effect of this change of estimate in the Third Quarter 2014 was to increase the provision by \$0.6 million, decrease net earnings by \$0.6 million, and decrease basic and diluted earnings per share by \$0.02. The effect of this change in estimate for the nine months ended September 30, 2014 was to increase the provision by \$1.1 million, decrease net earnings by \$1.1 million, and decrease basic and diluted earnings per share by \$0.03.

**4. Accounts Receivable**

	As at September 30, 2014	As at December 31, 2013
Billings to consumers	12,841	12,979
Unbilled revenues	3,160	3,661
Other receivables	1,971	2,200
Allowance for doubtful accounts	<u>(1,356)</u>	<u>(195)</u>
Total Accounts Receivable	<b>16,616</b>	<b>18,645</b>

*Unbilled Revenues*

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

*Other receivables*

Other receivables relate to amounts due outside of the normal course of operations. Items in other receivables include sale of inventory and machine break-down costs covered by warranties. Other receivables at September 30, 2014 also include billing adjustments for commercial customers.

**5. Regulatory Assets and Liabilities**

Asset/Liability	Description	As at September 30, 2014	As at December 31, 2013
Regulatory Assets	Fuel Tracker Account (a)	25,778	22,867
Regulatory Assets	Derivative contract (b)	593	-
Regulatory Assets	Miscellaneous Regulatory Assets (c)	306	329
Regulatory Assets	Government & Regulatory Tracker Account (d)	<u>1,306</u>	<u>1,177</u>
<b>Total Regulatory Assets</b>		<b>27,983</b>	<b>24,373</b>
Regulatory Liabilities	Miscellaneous Regulatory Liabilities (e)	(170)	(242)
<b>Total Regulatory Liabilities</b>		<b><u>(170)</u></b>	<b><u>(242)</u></b>

- a) Fuel Tracker Account – The 2008 T&D Licence established a fuel tracker mechanism to ensure the Company and the consumers neither gain nor lose from the pass through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from or reimbursed to the consumers. The receivable or payable value represents a regulatory asset or liability. The net position of the fuel tracker accounts fluctuates monthly and is affected by fuel prices and electricity consumption.

- b) Derivative contract - The Company's purpose of hedging is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers in the face of price volatility for the fuel that the Company must purchase in order to provide electric service. This account represents the fair value adjustments for the call options. The Company's current call option contracts will expire in June 2015.
- c) Miscellaneous regulatory assets represent costs incurred by the Company, other than fuel and the specifically itemised licence and regulatory fees, to be recovered through the Company's base rates on terms as agreed with the ERA.
- d) Government and Regulatory Tracker Account - A licence fee of 1% of gross revenues applies to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per kWh basis. Additionally, a regulatory fee of ½ of 1% is charged on gross revenues then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The government and regulatory tracker account is the actual fee incurred less the amount of funds received from consumers.
- e) Miscellaneous regulatory liabilities represent costs owed by the Company, other than licence and regulatory fees, to be recovered through the Company's base rates on terms as agreed with the ERA.

## **6. Inventories**

The composition of inventories is shown in the table below:

<b>Inventories</b>	<b>As at September 30, 2014</b>	<b>As at December 31, 2013</b>
Fuel	4,516	4,591
Lubricating Oil	620	499
Line spares	69	79
Other	<u>17</u>	<u>16</u>
<b>Total</b>	<b>5,222</b>	<b>5,185</b>

**7. Property, Plant and Equipment ("PP&E")**

Property, Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value September 30, 2014
Transmission & Distribution (T&D)	291,859	101,421	190,438
Generation	302,989	133,000	169,989
Other:			
Land	5,360	-	5,360
Buildings	19,889	10,452	9,437
Equipment, motor vehicles and computers	<u>21,599</u>	<u>15,293</u>	<u>6,306</u>
<i>Total</i>	641,696	260,166	381,530
Datalink, Ltd.	<u>744</u>	-	<u>744</u>
<b>Property, plant and equipment</b>	<b><u>642,440</u></b>	<b><u>260,166</u></b>	<b><u>382,274</u></b>
Property, Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value December 31, 2013
Transmission & Distribution (T&D)	283,944	95,368	188,576
Generation	291,459	122,883	168,576
Other:			
Land	5,304	-	5,304
Buildings	19,993	10,068	9,925
Equipment, motor vehicles and computers	<u>21,244</u>	<u>14,676</u>	<u>6,568</u>
<i>Total</i>	621,944	242,995	378,949
Datalink, Ltd.	<u>380</u>	-	<u>380</u>
<b>Property, plant and equipment</b>	<b><u>622,324</u></b>	<b><u>242,995</u></b>	<b><u>379,329</u></b>

Included in PP&E are a number of capital projects in progress with a total cost to date of \$31.9 million (December 31, 2013: \$29.8 million). These projects primarily relate to various improvements to the Distribution System. Included in the total cost is an amount of \$0.7 million that relates to fibre optic assets for DataLink.

Also included in Generation and T&D is freehold land with a cost of \$5.0 million (December 31, 2013: \$5.0 million). In addition, line inventory with a cost of \$4.3 million (December 31, 2013: \$4.5 million) is included in T&D. Engine spares with a net book value of \$14.4 million (December 31, 2013: \$15.7 million) are included in Generation.

The capitalisation of 'Financing Costs' is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for fiscal 2014 is 8.0% (2013: 7.5%) and will be adjusted annually. As a result, during the Third Quarter 2014, the Company recognised \$0.8 million in AFUDC, comparable to AFUDC recognised for the Third Quarter 2013. During the nine month period ended September 30, 2014, the Company recognised \$1.9 million in AFUDC, compared to \$2.3 million for the nine month period ended September 30, 2013.

GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity. GEC totalled \$0.9 million for the Third Quarter 2014, an increase of \$0.1 million when compared to \$0.8 million for the Third Quarter 2013. GEC totalled \$2.7 million for the nine months ended September 30, 2014, compared to GEC for the nine months ended September 30, 2013 of \$2.6 million.

In accordance with the Licences, when an asset is impaired or disposed of before the original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with the rate regulation standard

## Caribbean Utilities Company, Ltd.

under US GAAP and differs from non-regulatory treatment of a loss being recognized on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. This amount within accumulated depreciation is to be depreciated as per the remaining life of the asset based on the original life when the unit was initially placed into service.

### 8. Other Assets

<b>Other Assets</b>	<b>As at September 30, 2014</b>	<b>As at December 31, 2013</b>
Deferred debt issue costs	1,361	1,483
Miscellaneous other assets	<u>23</u>	<u>26</u>
<b>Total</b>	<b>1,384</b>	<b>1,509</b>

Deferred debt issue costs relate to transaction costs incurred in respect of financial liabilities. These costs are deferred on the balance sheet and are being amortized over the life of the related note using the effective-interest rate method.

### 9. Intangible Assets

<b>Intangible Assets</b>	<b>Cost</b>	<b>Accumulated Amortisation</b>	<b>Net Book Value September 30, 2014</b>
Deferred licence renewal costs	1,890	605	1,285
Datalink Ltd. deferred licence renewal costs	200	33	167
Computer Software	5,290	4,013	1,277
Other Intangible Assets in progress	127	-	127
Trademark Costs	<u>75</u>	<u>-</u>	<u>75</u>
<b>Total</b>	<b>7,582</b>	<b>4,651</b>	<b>2,931</b>
<b>Intangible Assets</b>	<b>Cost</b>	<b>Accumulated Amortisation</b>	<b>Net Book Value December 31, 2013</b>
Deferred licence renewal costs	1,890	534	1,356
Datalink Ltd. deferred licence renewal costs	200	23	177
Computer Software	4,877	3,819	1,058
Other Intangible Assets in progress	125	-	125
Trademark Costs	<u>75</u>	<u>-</u>	<u>75</u>
<b>Total</b>	<b>7,167</b>	<b>4,376</b>	<b>2,791</b>

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

**10. Accounts Payable and Accrued Expenses**

	As at September 30, 2014	As at December 31, 2013
Fuel Cost Payable	28,082	25,478
Trade Accounts Payable & Accrued expenses	2,149	2,246
Accrued Interest	3,623	938
Dividends Payable	113	592
Other Accounts Payable	<u>2,277</u>	<u>2,379</u>
Total Accounts Payable	<b>36,244</b>	<b>31,633</b>

Included in Other Accounts Payable is an amount related to the fuel option contracts (see Note 14) of \$0.6 million at September 30, 2014 (nil at December 31, 2013).

**11. Short-Term Financing**

The Company has \$47.0 million of unsecured credit financing facilities with the Royal Bank of Canada ("RBC"). The total available was \$30.5 million at September 30, 2014 (\$44.7 million at December 31, 2013).

	Total Credit Financing Facilities September 30, 2014	Total Utilised September 30, 2014	Total Available September 30, 2014
Corporate Credit Card Line*	500	500	-
Letter of Credit	500	500	-
Operating, Revolving Line of Credit	7,500	455	7,045
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>31,000</u>	<u>15,000</u>	<u>16,000</u>
<b>Total</b>	<b>47,000</b>	<b>16,455</b>	<b>30,545</b>

\*. Included in Accounts payable and accrued expenses

A stand-by fee of 1/5 of 1% per annum in arrears is applied to the unused portion of the capital expenditure and catastrophe lines of the facility. A review fee of 1/8 of 1% of the total credit facilities is incurred annually in arrears.

**12. 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.

Subject to certain amendments requiring shareholder approval, the Board of Directors may amend or discontinue the ESOP at any time without shareholder approval subject to TSX regulations, provided, however, that any amendment that may materially and adversely affect any option rights previously granted to a participant under the Option Plan must be consented to in writing by the Participant.

Share Options	Nine Months Ended September 30, 2014 Number of options	Nine Months Ended September 30, 2014 Weighted average exercise price per share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$ millions)
Outstanding at beginning of period	332,950	10.49	-	-
Granted	-	-	-	-
Exercised	(5,600)	8.76	-	-
Forefeited/Cancelled	-	-	-	-
Expired	=	=	=	=
Outstanding, end of period	<u>327,350</u>	<u>10.52</u>	<u>5.72</u>	<u>(0.06)</u>
Vested, end of the period	238,850	10.84	5.05	0.03

Under the fair value method, the compensation expense was \$0.01 million for the nine month period ended September 30, 2014 (September 30, 2013: \$0.01 million), resulting in a corresponding increase of Additional Paid in Capital.

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

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

In September 2013, 21,500 PSUs were granted. In March 2014, 26,000 PSU's were granted. The vesting period of the grant is three years, at which time a cash payment may be made to plan participants after evaluation by the Board of Directors of the achievement of certain payment criteria.

PSU Compensation expense was \$0.1 million for the nine month period ended September 30, 2014 (September 30, 2013: nil), resulting in a corresponding increase to Other Long-Term Liabilities.

**13. Earnings per Share**

The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average Class A Ordinary Shares outstanding were 29,157,923 and 28,926,712 for the three month periods ended September 30, 2014 and September 30, 2013 respectively. The weighted average Class A Ordinary Shares outstanding were 29,130,536 and 28,889,606 for the nine month periods ended September 30, 2014 and September 30, 2013 respectively.

The weighted average of Class A Ordinary Shares used for determining diluted earnings were 29,170,708 and 28,946,776 for the three month periods ended September 30, 2014 and September 30, 2013 respectively. The weighted average of Class A Ordinary Shares used for determining diluted earnings were 29,142,106 and 28,905,817 for the nine month periods ended September 30, 2014 and September 30, 2013 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at September 30, 2014 the outstanding options are not materially dilutive as the market price of common shares is below or marginally higher than the exercise price.

	Earnings (in thousands) September 30, 2014	Weighted average shares (in thousands) September 30, 2014	Earnings per Common Shares September 30, 2014
Net earnings applicable to common shares	6,108		
Weighted Average share outstanding		29,158	
<b>Basic Earnings Per Common Share</b>			0.21
Effect of potential dilutive securities:			
Stock Options	=	<u>13</u>	=
Diluted Earnings per Common Share	6,108	29,171	0.21
	Earnings (in thousands) September 30, 2013	Weighted average shares (in thousands) September 30, 2013	Earnings per Common Shares September 30, 2013
Net earnings applicable to common shares	5,935		
Weighted Average share outstanding		28,927	
<b>Basic Earnings Per Common Share</b>			0.21
Effect of potential dilutive securities:			
Stock Options	=	<u>20</u>	=
Diluted Earnings per Common Share	5,935	28,947	0.21

#### **14. Fair Value Measurement**

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

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

- Level 1: Fair value determined using unadjusted quoted prices in active markets.
- Level 2: Fair value determined using pricing inputs that are observable.
- Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

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

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

	As at September 30, 2014		As at December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long term debt, including current portion	205,000	210,486	219,000	214,110
Fuel Option Contracts <sup>1</sup>	593	593	-	-

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

## Caribbean Utilities Company, Ltd.

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

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

The fair value of the fuel option contract reflects only the value of the heating oil derivative and not the offsetting change in the value of the underlying future purchases of heating oil. The derivatives' fair value shown in the below table reflects the estimated amount the Company would pay to terminate the contract at the stated date. The fair value has been determined using published market prices for heating oil commodities. The Company's current option contracts will expire in June 2015.

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

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

Financial Liability	September 30, 2014 Total Fair Value	Level 1 - Quoted Prices in active markets for identical assets	Level 2 - Significant Other inputs	Level 3 - Significant unobservable inputs
Long term debt, including current portion	210,486	-	210,486	-
Fuel Option Contracts <sup>1</sup>	593	-	593	-

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

## 15. Financial Risk Management

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

### *Credit Risk*

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

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

*Liquidity Risk*

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

<i>(\$millions)</i>	<b>Total</b>	<b>2014</b>	<b>2015-2016</b>	<b>2017-2018</b>	<b>2019 Onward</b>
Bank Overdraft	0.5	0.5			
Accounts payable and accrued expenses	36.2	36.2	-	-	-
Consumer's Deposits and Advances for Construction	5.4	5.4	-	-	-
Letter of Credit	0.5	0.5	-	-	-
Short term debt	15.0	15.0	-	-	-
Long term debt	205.0	14.0	25.0	29.4	136.6
Long term debt interest	<u>81.4</u>	<u>10.9</u>	<u>19.4</u>	<u>16.4</u>	<u>34.7</u>
<b>Total</b>	<b>344.0</b>	<b>82.5</b>	<b>44.4</b>	<b>45.8</b>	<b>171.3</b>

*Interest Rate Risk*

Long-term debt is issued at fixed interest rates, thereby minimising cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings is \$15 million (nil: December 31, 2013).

**16. Finance Charges**

The composition of finance charges were as follows:

<i>(\$ thousands)</i>	<b>Three Months Ended September 30, 2014</b>	<b>Three Months Ended September 30, 2013</b>	<b>Nine Months Ended September 30, 2014</b>	<b>Nine Months Ended September 30, 2013</b>
Interest costs - long-term debt	2,756	3,016	8,627	8,737
Other interest costs	115	60	249	427
AFUDC *	<u>(770)</u>	<u>(825)</u>	<u>(1,942)</u>	<u>(2,317)</u>
<b>Total</b>	<b>2,101</b>	<b>2,251</b>	<b>6,934</b>	<b>6,847</b>

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

**17. Defined Benefit Pension Plan**

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. Compensation expense of \$0.06 million was recognised for the nine months ended September 30, 2014 (\$0.3 million: nine months ended September 30, 2013).

The composition of the expense was as follows:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Interest cost	78	67	234	201
Expected return on plan assets	(75)	(75)	(225)	(225)
Amortisation of past service costs	20	62	60	186
Amortisation of actuarial losses	=	33	=	99
<b>Total</b>	<b>23</b>	<b>87</b>	<b>69</b>	<b>261</b>

This expense has been recorded in general and administrative expenses.

### **18. Foreign Exchange**

The closing rate of exchange on September 30, 2014 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn \$1.120 per US\$1.00. The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by the Cayman Islands Monetary Authority is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of September 30, 2014 for conversion of Cayman Islands dollars into Canadian dollars was Cdn \$1.3440 per CI\$1.00 (December 31, 2013: Cdn \$1.2763).

### **19. 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 \$0.89 per IG of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports.

### **20. Commitments**

The Company executed a primary fuel supply contract with Rubis Cayman Islands Limited ("Rubis") in September 2012 upon the expiration of its previous fuel supply contracts. Under the agreement the Company is committed to purchase approximately 60% of its diesel fuel requirements for its generating plant from Rubis. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2014 – 0.6, 2015 – 1.7, 2016 – 0.1.

The Company also has a secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") (previously Esso Cayman Limited) executed in September 2012 and is committed to purchase approximately 40% of the Company's diesel fuel requirements for its generating plant from Sol. Both contracts expired August 2014 and both were renewed for an additional 18 month to expire by February 2016. Each contract has the option to renew for an additional 18 month term. Renewal cannot occur more than 6 months in advance of the current contract expiry date.

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 September 30, 2014 was \$4.5 million (December 31, 2013: \$4.6 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Plant.

**21. Transactions with Related Parties**

Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totalling \$0.1748 million were outstanding at September 30, 2014 (\$0.0098 million as at December 31, 2013) for insurance, hurricane preparedness and travel expenses and are shown as related party payables on the Balance Sheet.

**22. Subsequent Events**

On October 3, 2014 the ERA announced that CUC was the successful bidder for new generation capacity. CUC will develop and operate a new 39.7 megawatts ("MW") diesel power plant including two 18.5 MW diesel generating units and a 2.7 MW waste heat recovery steam turbine. The project cost is estimated at \$85 million and the plant will be commissioned no later than June 2016.

**23. Comparative Figures**

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

**Shareholder Information**

**Shareholder Plans**

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

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

**Shareholder Information**

Duplicate Annual Reports

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

Our Registrar and Transfer Agents are as follows:

**CST Trust Company**

P.O. Box 700, Station B  
Montreal, QC  
H3B 3K3  
North America toll free – 1-800-387-0825  
Direct – 416-682-3860  
Fax – 1-888-249-6189  
E-mail: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

**Caribbean Utilities Company, Ltd.**

Company Secretary  
P.O. Box 38  
Grand Cayman KY1-1101  
CAYMAN ISLANDS  
Tel: (345) 949-5200  
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E-mail: [investor@cuc.ky](mailto:investor@cuc.ky)  
Website: [www.cuc-cayman.com](http://www.cuc-cayman.com)

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

**Caribbean Utilities Company, Ltd.**

Assistant to the Company Secretary  
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