



**November 6 2015**

**CUC Announces Third Quarter Results for the Period Ended September 30, 2015**

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 2015 (all figures in United States dollars).

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

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

Net earnings for the nine months ended September 30, 2015 totalled \$16.7 million, an increase of \$1.3 million when compared to net earnings of \$15.4 million for the nine months ended September 30, 2014. This increase was due mainly to higher electricity sales, lower finance charges, lower



consumer services costs, and higher other income. These items were partially offset by higher depreciation costs and lower foreign exchange gain.

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, 2015 were \$16.4 million, or \$0.53 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$15.1 million or \$0.52 per Class A Ordinary Share for the nine months ended September 30, 2014.

Sales for the Third Quarter 2015 totalled 160.4 million kilowatt hours (“kWh”), an increase of 7.2 million kWh in comparison to 153.2 million kWh for the Third Quarter 2014 driven primarily by an increase in large commercial sales, warmer weather conditions, and higher overall customer numbers.

Sales for the nine months ended September 30, 2015 totalled 435.4 million kWh, an increase of 7.0 million kWh in comparison to 428.4 million kWh for the nine months ended September 30, 2014. Sales for the nine months ended September 30, 2015 were positively impacted by an increase in large commercial sales and higher overall customer numbers when compared to the same period last year.

Total customers at the end of the period were 28,035 representing a 2% increase when compared to the number of customers for the period ending September 30, 2014.

President and CEO, Mr. Richard Hew, says, “I am pleased with the positive results recorded during the Third Quarter 2015. The Company remains focused on providing a safe, reliable and efficient service to our customers across Grand Cayman while at the same time adopting technologies that are sustainable and more environmentally friendly.”



Capital expenditures for the Third Quarter 2015 were \$31.9 million, a \$24.8 million, or a 349% increase from \$7.1 million in capital expenditures for the Third Quarter 2014. This increase in capital expenditures is driven by costs associated with the new Generation Expansion Project at CUC's North Sound Road Power Plant.

Work on the Generation Expansion Project is progressing according to plan. When completed the new engine room will house two 18.5 MW diesel generating units, one 2.7 MW waste heat recovery steam turbine, and associated auxiliary equipment. The project cost is estimated at \$85 million. It is expected that the units will be commissioned by June 2016.

Significant progress is also being made in the area of renewable energy options. The Company has recently completed negotiations on a Power Purchase Agreement ("PPA") with Entropy Cayman Solar Limited that will construct a 5 MW solar photovoltaic power plant in Bodden Town. It is anticipated that the solar plant will be completed and producing electricity to the grid by October 2016.

The Consumer Owned Renewable Energy ("CORE") programme continues to attract customers. During the Third Quarter 2015, 27 additional customers were approved to participate in the programme. The CORE programme allows customers to connect small scale solar systems or wind turbines to CUC's distribution system and to reduce their monthly energy bills by generating their own electricity while remaining connected to the CUC grid. Total capacity approved under the CORE programme is estimated at 3.3 MW. Under the Company's Transmission & Distribution ("T&D") Licence, the CORE programme and the 5 MW solar photovoltaic power plant are cost neutral to CUC.

Reliability of Service to customers as measured by the Average Service Availability Index was 99.97% for the Third Quarter 2015.



Electricity consumers also continue to enjoy the benefit of lower fuel costs. The Company's average price per Imperial Gallon of fuel for the Third Quarter 2015 decreased 37% to \$2.93, compared to \$4.65 for the Third Quarter 2014. This decrease resulted in an average Fuel Cost Charge rate billed to residential consumers for the Third Quarter 2015 of \$0.19 per kWh, compared to the average Fuel Cost Charge rate of \$0.28 per kWh for the Third Quarter 2014. The residential consumer who consistently uses 1,000 kWh per month would have seen their monthly bills decline by approximately \$94.00 in the Third Quarter 2015 when compared to the Third Quarter 2014 as a result of the lower Fuel Cost Charge Rate. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

CUC's Third Quarter results and related Management's Discussion and Analysis ("MD&A") for the period ended September 30, 2015 are attached to this release and incorporated by reference. They can be accessed by clicking the link at the end of this release.

The MD&A section of this report contains a discussion of CUC's unaudited 2015 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 2039 and an exclusive Electricity Transmission and Distribution Licence expiring in 2028. Further information is available at [www.cuc-cayman.com](http://www.cuc-cayman.com).

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

*Forward looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plan", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedule", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward looking statements are based on underlying assumptions and management's beliefs, estimates and opinions, and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Some of the important risks and uncertainties that could affect forward looking statements are described in the MD&A in the section labeled*



*“Business Risks” and include but are not limited to operational, general economic, market and business conditions, regulatory developments and weather. CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect. Forward-looking statements are provided for the purpose of providing information about management’s current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.*

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Caribbean Utilities Company, Ltd.

## 2015 Third Quarter Report

September 30, 2015



### **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), in addition to 10.5 MW of temporary generation and the record peak load of 102.086 MW was experienced on June 3, 2010.

CUC is committed to providing a safe and reliable supply of electricity to over 28,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman’s development for over 45 years.

The Company’s registered office address is 457 North Sound Road, P.O Box 38, Grand Cayman KY1-1101 and employs 204 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 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 2015, Caribbean Utilities Company, Ltd. (“CUC” or “the Company”) continued its focus on providing a safe and reliable electricity service to its customers, improving efficiencies and controlling costs across the organization.

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

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

Net earnings for the nine months ended September 30, 2015 totalled \$16.7 million, an increase of \$1.3 million when compared to net earnings of \$15.4 million for the nine months ended September 30, 2014. This increase was due mainly to higher electricity sales, lower finance charges, lower consumer services costs and higher other income. These items were partially offset by higher depreciation costs and lower foreign exchange gain.

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Sales for the Third Quarter 2015 totalled 160.4 million kilowatt-hours (“kWh”), an increase of 7.2 million kWh in comparison to 153.2 million kWh for the Third Quarter 2014 driven primarily by large commercial development, warmer weather conditions, and higher overall customer numbers. The average monthly temperature for the Third Quarter of 2015 was 86.1 degrees Fahrenheit as compared to an average monthly temperature of 85.2 degrees for the Third Quarter 2014.

Sales for the nine months ended September 30, 2015 totalled 435.4 million kWh, an increase of 7.0 million kWh in comparison to 428.4 million kWh for the nine months ended September 30, 2014. Sales for the nine months ended September 30, 2015 were positively impacted by an increase in large commercial sales and higher overall customer numbers when compared to the same period last year.

Total customers at the end of the period were 28,035 representing a 2% increase, compared to the number of customers for the period ending September 30, 2014.

The Company’s average price per Imperial Gallon (“IG”) of fuel for the Third Quarter 2015 decreased 37% to \$2.93, compared to \$4.65 for the Third Quarter 2014. The Company’s average price per IG of lubricating oil for the nine months ended September 30, 2015 decreased to \$11.21 when compared to \$12.42 for the nine months ended September 30, 2014.

Net generation was 171.9 million kWh for the Third Quarter 2015, a 9% increase when compared to 164.3 million kWh for the Third Quarter 2014. Net fuel efficiency for the Third Quarter 2015 of 18.53 kWh per IG increased when compared to net fuel efficiency for the Third Quarter 2014 of 18.10 kWh per IG.

Net generation was 466.7 million kWh for the nine months ended September 30, 2015 compared to 459.2 million kWh for the nine months ended September 30, 2014. Net fuel efficiency for the nine months ended September 30, 2015 of 18.19 kWh per IG decreased when compared to net fuel efficiency for the nine months ended September 30, 2014 of 18.31 kWh per IG. This decrease in net fuel efficiency is due primarily to the use of temporary mobile generation.

## Caribbean Utilities Company, Ltd.

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Significant progress is being made in the area of renewable energy options. The Company has completed negotiations and signed a Power Purchase Agreement (PPA) with Entropy Cayman Solar Limited that will construct a 5 megawatt ("MW") solar photovoltaic power plant in Bodden Town. It is anticipated that the solar plant will be completed and producing electricity to the grid by October 2016. Under the Company's Transmission & Distribution ("T&D") Licence, the 5 MW solar photovoltaic plan is cost neutral to CUC.

Work on the Generation Expansion Project is progressing according to plan. When completed the new engine room will house two 18.5 MW diesel generating units, one 2.7 MW waste heat recovery steam turbine, and associated auxiliary equipment. The project cost is estimated at \$85 million. It is expected that the units will be commissioned in June 2016. The Company, in an effort to ensure continuity of supply, particularly during the hot summer months, leased 10.5 MW of temporary mobile generation. These units will be returned following the commissioning of the new engine room.

In September 2015, the Company completed its annual Customer Service Satisfaction Survey. The results indicated that satisfaction scores have improved in all areas, with significant improvements recorded in the areas of overall service provided and service provided by staff at CUC's offices. The overall average satisfaction score has improved from 77% in 2014 to 80% in 2015.

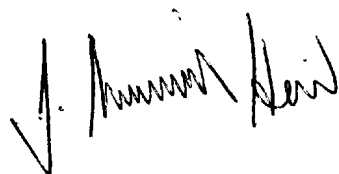
During the period under review, the Company remained committed to the ongoing training and development of our employees. The training hours for Third Quarter 2015 were 1,221 and approximately 61 employees were trained in areas including Project Management and the Master Trainer Instructor Certification Training Programme from the National Center for Construction, Education and Research (NCCER), which is designed to prepare employees to become certified instructors and assume the duties and responsibilities of delivering NCCER curricula in workforce development to employees.

The Cayman Islands Government ("the Government") released the 2015 First Quarter Economic Report in September 2015. The report revealed that the economy is estimated to have grown by 1.4% in the first quarter. According to the report, the Government is on track to achieve the 2.1% forecast Gross Domestic Product (GDP) growth for the year.

The tourist arrival statistics for the Third Quarter 2015 indicate that air arrivals were down by 1.4% and cruise arrivals were down by 3.7% when compared to the same period last year. For the nine months ended September 30, 2015 air arrivals and cruise arrivals increased by 0.6% and 3.1% respectively when compared to the same period last year.

The ground breaking ceremony for the expansion of the Owen Roberts International Airport was held in September 2015. This project is scheduled to be completed by 2018, with the new design expanding the current facility to feature a larger terminal that will accommodate the projected growth in air arrivals. Work also continues on the 265 room Kimpton Hotel & Residences, with completion slated for 2016. As a result of these large commercial development projects, additional employment opportunities and an increase in stay over tourism is expected to occur.

The Company remains ready to participate in the development of Grand Cayman as the economy strengthens 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 6, 2015

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

*The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or "the Company") consolidated financial statements for the twelve months ended December 31, 2014 ("Fiscal 2014"). The material has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to Management's Discussion and Analysis.*

*Additional information in this MD&A has been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, which are disclosed in the notes to the Company's 2014 annual financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation, the amount and timing of recovery or refund by the Company of costs of providing services, including a fair return on rate base assets, from customers through appropriate billing rates would not be subject to regulatory approval.*

*Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements concerning anticipated future events, results, circumstances, performance or expectations with respect to the Company and its operations, including its strategy and financial performance and condition. Forward looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plan", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedule", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward-looking statements are based on underlying assumptions and management's beliefs, estimates and opinions, and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Some of the important risks and uncertainties that could affect forward looking statements are described in the MD&A in the sections labelled "Business Risks", "Capital Resources" and "Corporate and Regulatory Overview" and include but are not limited to operational, general economic, market and business conditions, regulatory developments 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**

| (\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated) | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change   | % Change |
|---|---------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|----------|----------|
| Electricity Sales Revenues  | 21,131                                | 19,960                                | 57,357                               | 55,574                               | 1,783    | 3%       |
| Fuel Factor Revenues  | 29,111                                | 43,477                                | 85,641                               | 117,940                              | (32,299) | -27%     |
| Operating Revenues  | 50,242                                | 63,437                                | 142,998                              | 173,514                              | (30,516) | -18%     |
| Fuel and Lube Costs   | 29,111                                | 43,477                                | 85,641                               | 117,940                              | (32,299) | -27%     |
| Other Operating Expenses  | 12,732                                | 12,858                                | 38,079                               | 36,527                               | 1,552    | 4%       |
| Total Operating Expenses  | 41,843                                | 56,335                                | 123,720                              | 154,467                              | (30,747) | -20%     |
| Earnings for the Period   | 7,893                                 | 6,221                                 | 16,689                               | 15,420                               | 1,269    | 8%       |
| Cash Flow from Operating Activities   | 19,468                                | 12,922                                | 43,633                               | 36,916                               | 6,717    | 18%      |
| <i>Per Class A Ordinary Share:</i>  |                                       |                                       |                                      |                                      |          |          |
| Basic Earnings  | 0.25                                  | 0.21                                  | 0.53                                 | 0.52                                 | 0.01     | 2%       |
| Dividends Paid  | 0.165                                 | 0.165                                 | 0.495                                | 0.495                                | -        | 0%       |
| Total Customers   | 28,035                                | 27,560                                | 28,035                               | 27,560                               | 475      | 2%       |
| Total Employees*  | 204                                   | 200                                   | 204                                  | 200                                  | 4        | 2%       |
| Customer per Employee (#)   | 137                                   | 138                                   | 137                                  | 138                                  | (1)      | -1%      |
| System Availability (%)   | 99.97                                 | 99.93                                 | 99.93                                | 99.97                                | (0.04)   | 0%       |
| Peak Load Gross (MW)  | 100.7                                 | 99.7                                  | 100.7                                | 99.7                                 | 1.0      | 1%       |
| <i>Millions of kWh:</i>   |                                       |                                       |                                      |                                      |          |          |
| Net Generation  | 171.9                                 | 164.3                                 | 466.7                                | 459.2                                | 7.5      | 2%       |
| Kilowatt-Hour Sales   | 160.4                                 | 153.2                                 | 435.4                                | 428.4                                | 7.0      | 2%       |
| Sales per employee  | 0.79                                  | 0.77                                  | 2.13                                 | 2.15                                 | (0.02)   | -1%      |

\*Total full time employees

**Corporate and Regulatory Overview**

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

The Licences contain the provision for a rate cap and adjustment mechanism ("RCAM") based on published consumer price indices. CUC's return on rate base ("RORB") for 2014 was 7.4% (2013: 7.6%). CUC's RORB for 2015 is targeted in the 7.25% to 9.25% range (2014: 7.00% to 9.00%).

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

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

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

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

In December 2014 the ERA approved CUC's 2015-2019 Capital Investment Plan in the amount of \$234 million. Generation expansion costs related to the competitive bid award to install 39.7 MW of generation capacity are included in the approved CIP in the amount of CUC's competitive bid.

As a result of CUC's successful bid, the Company has since entered into a design-build contract agreement for the generation expansion project with the consortium of Burmeister & Wain Scandinavian Contractor A/S ("BWSC") of Denmark and MAN Diesel & Turbo SE ("MAN") of Germany. The agreement covers the purchase and turnkey installation of a new 39.7 MW power plant which is comprised of two 18.5 MW V48/60 medium-speed diesel generating units, one 2.7 MW waste heat recovery steam turbine, and associated auxiliary equipment. This contract is valued at approximately \$55 million. The total project cost is estimated at \$85 million. A total of \$11.6 million was spent in 2014 and an additional \$31.4 million was spent on the project during the nine month period ending September 30, 2015.

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

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

CUC has also secured the supply of 10.5 MW of temporary mobile generation following the retirement of 17.5 MW of generation in early 2014. This retirement relates to units 14 and 16 which exhausted their useful lives in accordance with the Company's Generation Licence. This temporary generation 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. The Company continues to focus on maintaining and improving the level of service we offer to our customers.

A licence fee of 1%, payable to the Government, is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kilowatt-hours ("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.

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

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

CUC’s wholly owned subsidiary, DataLink, Ltd. (“DataLink”), was granted a licence in 2012 from the Information and Communications Technology Authority (“ICTA”) permitting DataLink to provide fibre optic infrastructure and other information and communication technology (“ICT”) services to the ICT industry. The term of the licence is 15 years and expires on March 27, 2027. CUC and DataLink have entered into three 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, 2015 (“Third Quarter 2015”) totalled \$7.9 million, an increase of \$1.7 million when compared to net earnings of \$6.2 million for the three months ended September 30, 2014 (“Third Quarter 2014”). This increase was due mainly to higher electricity sales revenues, and lower consumer services expenses, lower finance charges, and lower transmission and distribution costs. These items were partially offset by higher depreciation and maintenance costs.

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

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The Company successfully completed a Rights Offering (the “Offering”) on May 4, 2015. The Offering raised gross proceeds of \$31,563,639 through the issue of 2,930,700 Class A Ordinary Shares. The weighted average number of Class A Ordinary Shares used to calculate the earnings per Class A Ordinary Shares for the nine months ended September 30, 2015 is impacted by the shares issued through the Offering.

## Caribbean Utilities Company, Ltd.

### Sales

Sales for the Third Quarter 2015 totalled 160.4 million kWh, an increase of 7.2 million kWh in comparison to 153.2 million kWh for the Third Quarter 2014 driven primarily by large commercial development, warmer weather conditions, and higher overall customer numbers. The average monthly temperature for the Third Quarter of 2015 was 86.1 degrees Fahrenheit as compared to an average monthly temperature of 85.2 degrees for the Third Quarter 2014.

Sales for the nine months ended September 30, 2015 totalled 435.4 million kWh, an increase of 7.0 million kWh in comparison to 428.4 million kWh for the nine months ended September 30, 2014. Sales for the nine months ended September 30, 2014 were positively impacted by large commercial development and an increase in the number of customers when compared to the same period last year.

Total customers as at September 30, 2015 were 28,035, an increase of 475 customers, or 2%, compared to 27,560 customers as at September 30, 2014.

The following tables present customer and sales highlights:

| Customers (#)          | September 30, 2015  | September 30, 2014 | Change | %  |
|------------------------|---------------------|--------------------|--------|----|
| Residential            | <b>23,874</b>       | 23,537             |        | 1% |
| Commercial             | <b><u>4,161</u></b> | <u>4,023</u>       |        | 3% |
| <b>Total Customers</b> | <b>28,035</b>       | 27,560             |        | 2% |

| Sales (thousands kWh)         | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change       | % Change |
|-------------------------------|---------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|--------------|----------|
| Residential                   | <b>79,200</b>                         | 75,279                                | <b>205,949</b>                       | 203,427                              | <b>2,522</b> | 1%       |
| Commercial                    | <b>79,534</b>                         | 76,258                                | <b>224,424</b>                       | 219,960                              | <b>4,464</b> | 2%       |
| Other (street lighting, etc.) | <b><u>1,693</u></b>                   | <u>1,684</u>                          | <b><u>5,058</u></b>                  | <u>5,057</u>                         | <b>1</b>     | 0%       |
| <b>Total Sales</b>            | <b>160,427</b>                        | 153,221                               | <b>435,431</b>                       | 428,444                              | <b>6,987</b> | 2%       |

| Average Monthly Consumption per Customer (kWhs) | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change | % Change |
|---|---------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|--------|----------|
| Residential                                     | <b>1,107</b>                          | 1,068                                 | <b>962</b>                           | 964                                  | -2     | 0%       |
| Commercial                                      | <b>60,770</b>                         | 58,859                                | <b>58,014</b>                        | 56,957                               | 1,057  | 2%       |

**Operating Revenues**

Total operating revenues were as follows:

| Revenues (\$ thousands)           | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change          | % Change |
|-----------------------------------|---------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|-----------------|----------|
| Residential                       | 10,252                                | 9,674                                 | 26,711                               | 26,704                               | 7               | 0%       |
| Commercial                        | 10,676                                | 10,162                                | 30,080                               | 28,484                               | 1,596           | 6%       |
| Other (street lighting, etc.)     | 203                                   | 124                                   | 566                                  | 386                                  | 180             | 47%      |
| <b>Electricity Sales Revenues</b> | <b>21,131</b>                         | 19,960                                | <b>57,357</b>                        | 55,574                               | <b>1,783</b>    | 3%       |
| <b>Fuel Factor Revenues</b>       | <b>29,111</b>                         | 43,477                                | <b>85,641</b>                        | 117,940                              | <b>(32,299)</b> | -27%     |
| <b>Total Operating Revenues</b>   | <b>50,242</b>                         | 63,437                                | <b>142,998</b>                       | 173,514                              | <b>(30,516)</b> | -18%     |

Operating revenues for the Third Quarter 2015 were \$50.2 million, a decrease of \$13.2 million from \$63.4 million for the Third Quarter 2014. Operating revenues for the nine months ended September 30, 2015 were \$143.0 million, a decrease of \$30.5 million from \$173.5 million for the nine months ended September 30, 2014. The decrease in operating revenues for the three and nine months ended September 30, 2015 was due to lower fuel factor revenues partially offset by higher electricity sales revenues.

Other revenues (street lighting, etc.) for the Third Quarter 2015 totalled \$0.2 million, an increase of \$0.1 million from \$0.1 million for the Third Quarter 2014. Other revenues for the nine months ended September 30, 2015 totalled \$0.6 million, an increase of \$0.2 million from \$0.4 million for the nine months ended September 30, 2014. This increase is due to an increase in the street lighting rates as approved by the ERA with an effective date of January 1, 2015. Lighting rates are not subject to the RCAM, but the Company can apply to the ERA for adjustment to the lighting rates on an as-needed basis by submitting appropriate cost justifications. Lighting rates were last adjusted in June 2009.

Electricity sales revenues were \$21.1 million for the Third Quarter 2015, an increase of \$1.1 million from \$20.0 million for the Third Quarter 2014. Electricity sales revenues for the Third Quarter 2015 increased when compared to electricity sales revenue for the Third Quarter 2014 due to a 5% increase in kWh sales and a 0.9% base rate increase effective June 1, 2015.

Electricity sales revenues were \$57.4 million for the nine months ended September 30, 2015, an increase of \$1.8 million from \$55.6 million for the nine months ended September 30, 2014. Electricity sales revenues for the nine months ended September 30, 2015 increased when compared to the same period last year due to a 2% increase in kWh sales, a 1.5% base rate increase effective June 1, 2014 and a 0.9% base rate increase effective June 1, 2015.

Fuel factor revenues for the Third Quarter 2015 totalled \$29.1 million, a decrease of \$14.4 million, compared to fuel factor revenues of \$43.5 million for the Third Quarter 2014. Fuel factor revenues for the Third Quarter 2015 decreased when compared to the Third Quarter 2014 due to a reduction in global oil prices and a reduction in custom duties levied on diesel fuel imports by the Government. Effective January 1, 2015, custom duties decreased by \$0.30 per imperial gallon ("IG"). The average Fuel Cost Charge rate billed to consumers for the Third Quarter 2015 was \$0.19 per kWh, compared to the average Fuel Cost Charge rate of \$0.28 per kWh for the Third Quarter 2014. 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, 2015 totalled \$85.6 million, a decrease of \$32.3 million compared to fuel factor revenues of \$117.9 million for the nine months ended September 30, 2014. Fuel factor revenues for the nine months ended September 30, 2015 decreased when compared to the nine month period ended September 30, 2014 due to a reduction in global oil prices and a reduction in custom duties levied on diesel fuel imports by the Government. The average Fuel Cost Charge rate billed to consumers for the nine months



## Caribbean Utilities Company, Ltd.

ended September 30, 2015 was \$0.20 per kWh, compared to the average Fuel Cost Charge rate of \$0.27 per kWh for the nine months ended September 30, 2014.

### Operating Expenses

Operating expenses were as follows:

| Operating Expenses (\$ thousands) | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change          | % Change    |
|-----------------------------------|---------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|-----------------|-------------|
| Power Generation Expenses         | 30,165                                | 44,536                                | 88,679                               | 120,492                              | (31,813)        | -26%        |
| General and Administration        | 2,164                                 | 2,154                                 | 6,674                                | 6,631                                | 43              | 1%          |
| Consumer Service                  | 606                                   | 1,184                                 | 2,007                                | 2,698                                | (691)           | -26%        |
| Transmission and Distribution     | 698                                   | 1,066                                 | 2,130                                | 1,985                                | 145             | 7%          |
| Depreciation                      | 6,480                                 | 5,875                                 | 19,368                               | 18,073                               | 1,295           | 7%          |
| Maintenance                       | 1,609                                 | 1,435                                 | 4,495                                | 4,332                                | 163             | 4%          |
| Amortization of Intangible Assets | 121                                   | 85                                    | 367                                  | 256                                  | 111             | 43%         |
| <b>Total Operating Expenses</b>   | <b>41,843</b>                         | <b>56,335</b>                         | <b>123,720</b>                       | <b>154,467</b>                       | <b>(30,747)</b> | <b>-20%</b> |

Operating expenses for the Third Quarter 2015 totalled \$41.8 million, a \$14.5 million decrease from \$56.3 million for the Third Quarter 2014. This decrease was due primarily to lower power generation expenses and consumer services, partially offset by higher depreciation and maintenance expenses for the Third Quarter 2015 when compared to the Third Quarter 2014.

Operating expenses for the nine months ended September 30, 2015 totalled 123.7 million, a \$30.8 million decrease from \$154.5 million for the nine months ended September 30, 2014. This decrease was due primarily to lower power generation and consumer services, partially offset by higher depreciation and maintenance expenses.

### Power Generation

Power generation costs for the Third Quarter 2015 decreased \$14.4 million to \$30.2 million for the Third Quarter 2014. This decrease is as a result of lower fuel costs.

Power generation costs for the nine months ended September 30, 2015 decreased \$31.8 million to \$88.7 million when compared to \$120.5 million for the nine months ended September 30, 2014. This decrease is as a result of lower fuel costs.

Power generation expenses were as follows:

| Power Generation (\$ thousands)                                 | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change          | % Change    |
|---|---------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|-----------------|-------------|
| Fuel costs (net of deferred fuel charges)                       | 28,594                                | 42,886                                | 83,995                               | 116,140                              | (32,145)        | -28%        |
| Lubricating Oil costs (net of deferred lubricating oil charges) | 517                                   | 591                                   | 1,646                                | 1,800                                | (154)           | -9%         |
| Temporary generation costs                                      | 241                                   | 200                                   | 550                                  | 200                                  | 350             | 175%        |
| Other generation expenses                                       | 813                                   | 859                                   | 2,488                                | 2,352                                | 136             | 6%          |
| <b>Total power generation expenses</b>                          | <b>30,165</b>                         | <b>44,536</b>                         | <b>88,679</b>                        | <b>120,492</b>                       | <b>(31,813)</b> | <b>-26%</b> |

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

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The Company's average price per IG of fuel for the Third Quarter 2015 decreased 37% to \$2.93, compared to \$4.65 for the Third Quarter 2014.

Net generation was 171.9 million kWh for the Third Quarter 2015, a 5% increase when compared to 164.3 million kWh for the Third Quarter 2014. Net fuel efficiency for the Third Quarter 2015 of 18.53 kWh per IG increased when compared to net fuel efficiency for the Third Quarter 2014 of 18.10 kWh per IG.

Net generation was 466.7 million kWh for the nine months ended September 30, 2015 compared to 459.2 million kWh for the nine months ended September 30, 2014. Net fuel efficiency for the nine months ended September 30, 2015 of 18.19 kWh per IG decreased when compared to net fuel efficiency for the nine months ended September 30, 2014 of 18.31 kWh per IG. This decrease in net fuel efficiency is due primarily to the use of temporary mobile generation.

The Company's average price per IG of lubricating oil for the Third Quarter 2015 decreased to \$8.99 when compared to \$12.49 for the Third Quarter 2014. The Company's average price per IG of lubricating oil for the nine months ended September 30, 2015 decreased to \$11.21 when compared to \$12.42 for the nine months ended September 30, 2014.

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 2015 utilize call options and call spreads to promote transparency in pricing. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

CUC has secured the supply of 10.5 MW of temporary mobile generation following the retirement of 17.5 MW of generation in early 2014 in accordance with the Generation Licence. Temporary generation expenses for the Third Quarter 2015 totalled \$0.2 million comparable with temporary generation expenses for the Third Quarter 2014. Temporary generation expenses for the nine months ended September 30, 2015 totalled \$0.6 million, a \$0.4 million increase when compared to \$0.2 million for the nine months ended September 30, 2014. The temporary mobile generation was acquired in the Third Quarter 2014.

Other generation expenses for the Third Quarter 2015 totalled \$0.8 million, a \$0.1 million decrease when compared to other generation expenses of \$0.9 million for the Third Quarter 2014. Other generation expenses for the nine months ended September 30, 2015 totalled \$2.5 million, a \$0.1 million increase when compared to other generation expenses of \$2.4 million for the nine months ended September 30, 2014.

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

G&A expenses for the Third Quarter 2015 totalled \$2.2 million comparable to the Third Quarter 2014. General Expenses Capitalised ("GEC") totalled \$1.0 million for the Third Quarter 2015, an increase of \$0.1 million when compared to \$0.9 million for the Third Quarter 2014.

G&A expenses for the nine months ended September 30, 2015 totalled \$6.7 million, an increase of \$0.1 million when compared to G&A expenses for the nine months ended September 30, 2014. This increase is due mainly to the purchase of additional safety equipment for employees and higher Performance Share Unit ("PSU") plan costs (see note 12 in the Notes to the Interim Consolidated Financial Statements) partially offset by higher GEC. The Company's Health and Safety standards require employees to wear suitable clothing and footwear that provides adequate protection from any exposure to unavoidable hazards.

GEC totalled \$3.1 million for the nine months ended September 30, 2015, an increase of \$0.4 million when compared to \$2.7 million for the nine months ended September 30, 2014.

**Consumer Services ("CS")**

CS expenses for the Third Quarter 2015 totalled \$0.6 million, a \$0.6 million decrease compared to \$1.2 million for the Third Quarter 2014. CS expenses for the nine months ended September 30, 2015 totalled \$2.0 million, a \$0.7 million decrease compared to \$2.7 million for the nine months ended September 30, 2014. This decrease is attributable to an adjustment in 2014 to the AFDA which resulted from a review of the Company's accounts receivable balances.

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 completed a full review of its outstanding accounts receivables balance and the reasonableness of its methodology of applying a flat percentage to total receivables in calculating AFDA. This review indicated an increase in days outstanding for receivable balances. Consequently, management determined the estimation process related to the AFDA would be refined to include a risk element for aging of accounts receivable.

| Trade and other accounts receivable   | As at September 30, 2015 | As at December 31, 2014 |
|---------------------------------------|--------------------------|-------------------------|
| Current                               | 9,523                    | 9,222                   |
| Past due 31-60 days                   | 968                      | 1,626                   |
| Past due 61-90 days                   | 386                      | 514                     |
| Past due over 90 days                 | <u>4,326</u>             | <u>4,391</u>            |
| Total Accounts Receivable             | 15,203                   | 15,753                  |
| Less: Allowance for doubtful accounts | (1,630)                  | (1,481)                 |
| Less: Consumer Deposits               | <u>(6,240)</u>           | <u>(5,461)</u>          |
| Net Exposure                          | 7,333                    | 8,811                   |

Net Exposure as at September 30, 2015 totalled \$7.3 million, a decrease of \$1.5 million, or 17% when compared to the Net Exposure of \$8.8 million as at December 31, 2014. This decrease was primarily related to a decrease in customer receivables and an increase in consumer deposits. Customer receivables decreased by \$1.1 million due to the reduction in the fuel factor billed to consumers and improved efficiencies in the disconnection process resulting from the newly installed Advanced Metering Infrastructure ("AMI") meters. At the end of September 2015, 50% of the planned AMI installations were completed. Customers who have had the AMI meters installed are benefiting from the ability to monitor their consumption and manage their usage.

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

T&D expenses for the Third Quarter 2015 totalled \$0.7 million, a decrease of \$0.4 million compared to T&D expenses for the Third Quarter 2014 of \$1.1 million. T&D expenses for the Third Quarter 2014 were impacted by the disposal of obsolete T&D inventory items totalling \$0.4 million.

T&D expenses for the nine months ended September 30, 2015 totalled \$2.1 million, an increase of \$0.1 million compared to T&D expenses for the nine months ended September 30, 2014 of \$2.0 million. T&D expenses for the nine months ended September 30, 2015 were impacted by higher street light maintenance and general tree trimming projects when compared to the nine months ended September 30, 2014.

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

Depreciation expenses for the Third Quarter 2015 totalled \$6.5 million, an increase of \$0.6 million, from \$5.9 million for the Third Quarter 2014. Depreciation expenses for the nine months ended September 30, 2015 totalled \$19.4 million, an increase of \$1.3 million, from \$18.1 million for the nine months ended September 30, 2014.

The increase in depreciation expenses is due to capital projects completed in prior periods.

**Maintenance**

Maintenance expenses for the Third Quarter 2015 totalled \$1.6 million, an increase of \$0.2 million when compared to \$1.4 million for the Third Quarter 2014. This increase was due mainly to an increase in maintenance costs for various information technology ("IT") programs.

Maintenance expenses for the nine months ended September 30, 2015 totalled \$4.5 million, an increase of \$0.2 million when compared to \$4.3 million for the nine months ended September 30, 2014. This increase is due to ongoing maintenance projects in the generation and IT areas of the Company. The maintenance to IT systems has increased productivity and efficiencies throughout the organisation. Ongoing maintenance of the generating units is a necessary component of operations.

**Amortization**

Amortization of intangible assets for the Third Quarter 2015 totalled \$0.1 million, an 11% increase when compared to \$0.09 million for the Third Quarter 2014. Amortization of intangible assets for the nine months ended September 30, 2015 totalled \$0.37 million, a 42% increase when compared to \$0.26 million for the nine months ended September 30, 2014. 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 concluded in 2008 and the costs associated with the negotiations are being amortized over 20 years on a straight-line basis.

The negotiations associated with DataLink's ICT licence ceased in 2012 and these costs are being amortized over 15 years on a straight-line basis.

**Other Income and Expenses**

Net Other Expenses for the Third Quarter 2015 totalled \$0.5 million, a decrease of \$0.4 million from \$0.9 million for the Third Quarter 2014. Net Other Expenses for the nine months ended September 30, 2015 totalled \$2.5 million, a decrease of \$1.1 million from \$3.6 million for the nine months ended September 30, 2014.

| Other Income & Expenses<br>(\$ thousands) | Three<br>Months<br>Ended<br>September<br>30, 2015 | Three<br>Months<br>Ended<br>September<br>30, 2014 | Nine<br>Months<br>Ended<br>September<br>30, 2015 | Nine<br>Months<br>Ended<br>September<br>30, 2014 | Change       | %<br>Change |
|---|---|---|--|--|--------------|-------------|
| Total interest costs                      | (3,092)   | (2,871)   | (9,536)  | (8,876)  | (660)        | 7%          |
| AFUDC                                     | <u>1,448</u>                                      | <u>770</u>  | <u>3,388</u>                                     | <u>1,942</u>                                     | <u>1,446</u> | 74%         |
| Total finance charges                     | (1,644)   | (2,101)   | (6,148)  | (6,934)  | 786          | -11%        |
| Foreign exchange gain                     | 401   | 486   | 1,043  | 1,455  | (412)        | -28%        |
| Other income                              | <u>737</u>  | <u>734</u>  | <u>2,516</u>                                     | <u>1,852</u>                                     | <u>664</u>   | 36%         |
| <b>Total Net Other Expense</b>            | <b>(506)</b>                                      | <b>(881)</b>                                      | <b>(2,589)</b>                                   | <b>(3,627)</b>                                   | <b>1,038</b> | <b>-29%</b> |

Finance charges for the Third Quarter 2015 totalled \$1.6 million, a \$0.5 million decrease from \$2.1 million for the Third Quarter 2014. Finance charges for the nine months ended September 30, 2015 totalled \$6.1 million, a \$0.8 million decrease from \$6.9 million for the nine months ended September 30, 2014. This decrease is as a result of higher Allowance for Funds Used During Construction ("AFUDC") partially offset by higher interest costs for the three and nine month periods ended September 30, 2015.

Under the T&D Licence there is a provision for an 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 2015 is 8.25% (2014:8.0%) as agreed with the ERA, in accordance with the T&D Licence, and will be reviewed annually.

The AFUDC amount for the Third Quarter 2015 totalled \$1.4 million, an increase of \$0.6 million from \$0.8 million for the Third Quarter 2014. The AFUDC amount for the nine months ended September 30, 2015 totalled \$3.4 million, an increase of \$1.5 million from \$1.9 million for the nine months ended September 30, 2014. This increase is due mainly to an increased work in progress value for nine months ended September 30, 2015 when compared to the nine months ended September 30, 2014, driven primarily by the generation expansion project. Work in progress balances will vary depending upon the nature and longevity of projects.

Foreign exchange gains for the Third Quarter 2015 totalled \$0.4 million, a \$0.1 million decrease when compared to \$0.5 million in the Third Quarter 2014. Foreign exchange gains for the nine months ended September 30, 2015 totalled \$1.0 million, a \$0.5 million decrease when compared to \$1.5 million for the nine months ended September 30, 2014.

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.

Other income is comprised of income from the third party customers of DataLink, income from pipeline operations, sale of meter sockets, sale of recyclable materials, performance rewards and other miscellaneous income.

Other income totalled \$0.7 million for the Third Quarter 2015 comparable to the Third Quarter 2014. Other income totalled \$2.5 million for the nine months ended September 30, 2015, a \$0.6 million increase when compared to other income of \$1.9 million for the nine months ended September 30, 2014. This increase is due mainly to an increase in customer service fees. The Company's new Customer Service Code ("CSC") became effective on January 1, 2015. The CSC sets out the terms and conditions of the supply of electricity to the Company's customers, as well as the standards for the level of service which CUC is required to provide to its customers. The new CSC also provides for an increase in various customer service fees such as reconnection fees and the introduction of late fees on outstanding customer receivables.

Revenues from DataLink for the Third Quarter 2015 are recorded in Other Income in the amount of \$0.2 million comparable to \$0.2 million for the Third Quarter 2014.

## **The Economy**

In September 2015, the Cayman Islands Government released the 2015 First Quarter Economic Report. According to the report, for the First Quarter 2015, Gross Domestic Product ("GDP") grew at an estimated rate of 1.4%. The growth in GDP is attributed to tourism-related service sectors such as hotels and restaurants, real estate, renting and business services and utilities. The financial services sector, which remains the largest contributor to GDP, has an estimated growth of 0.4%, an improvement over the estimated declines of 1.3% in the first quarter of 2014, and 0.2% in 2014.

According to the report, the Consumer Price Index ("CPI") for the First Quarter 2015 declined by 0.4% compared to First Quarter 2014. This decline is as a result of price movements in housing and utilities, restaurants and hotels and miscellaneous goods and services. The housing and utilities price index declined on account of the lower costs of fuel in the international market and decreases in actual rent. According to the 2014 Cayman Islands Annual Economic Report released earlier this year, the inflation rate in 2015 is projected at 1.5% arising from growth in domestic demand.

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The report also indicated an uptrend in work permits, which has been evident from the Second Quarter 2014 and continued in the first quarter. Work permits increased by 7.9% to 21,562; the highest figure since 2010. The increase in work permits supports improving indications of economic conditions.

Financial services is one of the two main industries of the Cayman Islands. The table below itemises trends in some of the key financial areas:

|                             | As at<br>September<br>30, 2015 | As at<br>December<br>2014 | As at<br>December<br>2013 | As at<br>December<br>2012 | As at<br>December<br>2011 |
|-----------------------------|--------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Bank Licences               | 193                            | 198                       | 213                       | 222                       | 234                       |
| Mutual Funds *              | 11,215                         | 11,010                    | 11,379                    | 10,841                    | 9,258                     |
| Mutual Fund Administrators  | 109                            | 115                       | 121                       | 124                       | 129                       |
| Registered Companies        | 98,481                         | 99,459                    | 95,530                    | 93,612                    | 92,964                    |
| Captive insurance companies | 740                            | 793                       | 788                       | 768                       | 739                       |

- *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.*

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 2015, 77% of air arrivals to the country were US citizens. As such the US economy largely impacts that of the Cayman Islands. Third Quarter 2015 air arrivals were down 1.4% when compared to 2014 and cruise arrivals saw a decline of 3.7% when compared to 2014. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

Work on the expansion of the Owen Roberts International Airport commenced in September 2015. This project is scheduled to be completed by 2018, with the new design expanding the current facility to feature a larger terminal that will accommodate the projected growth in air arrivals. Work continues on the Kimpton Hotel, with completion slated for 2016. As a result of these projects, additional employment opportunities and an increase in stay over tourism are expected to occur.

The following table presents statistics for tourist arrivals in the Cayman Islands for the three months ending September 30:

| Arrivals | 2015           | 2014           | 2013           | 2012           | 2011           |
|----------|----------------|----------------|----------------|----------------|----------------|
| By Air   | 81,974         | 83,161         | 69,175         | 64,529         | 61,401         |
| By Sea   | <u>302,116</u> | <u>313,598</u> | <u>193,421</u> | <u>256,299</u> | <u>225,958</u> |
| Total    | 384,090        | 396,759        | 262,596        | 320,828        | 287,359        |

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

**Liquidity**

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

| Cash Flows (\$ thousands)   | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change        | % Change    |
|-----------------------------|---------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|---------------|-------------|
| Beginning cash              | 35,128                                | 2,014                                 | 21,815                               | 1,215                                | 20,600        | 1,695%      |
| Cash provided by/(used in): |                                       |                                       |                                      |                                      |               |             |
| Operating activities        | 19,468                                | 12,922                                | 43,633                               | 36,916                               | 6,717         | 18%         |
| Investing activities        | (32,104)                              | (7,292)                               | (53,388)                             | (21,031)                             | (32,357)      | 154%        |
| Financing activities        | (5,003)                               | (4,177)                               | 5,429                                | (13,633)                             | 19,062        | -140%       |
| <b>Ending cash</b>          | <b>17,489</b>                         | <b>3,467</b>                          | <b>17,489</b>                        | <b>3,467</b>                         | <b>14,022</b> | <b>404%</b> |

*Operating Activities:*

Cash flow provided by operations, after working capital adjustments, for the Third Quarter 2015, was \$19.5 million, a \$6.6 million increase when compared to \$12.9 million for the Third Quarter 2014. This increase is primarily attributable to higher earnings for the period and the movement in regulatory deferrals and non-cash working capital balances in the Third Quarter 2015 when compared to the same period last year.

Cash flow provided by operations, after working capital adjustments, for the nine months ended September 30, 2015 was \$43.6 million, a \$6.7 million increase when compared to \$36.9 million for the nine months ended September 30, 2014. This increase is primarily attributable to higher earnings for the period and the movement in Regulatory deferrals partially offset by the net change in non-cash working capital balances for the nine month period ending September 30, 2015 when compared to the same period last year.

*Investing Activities:*

Cash used in investing activities for the Third Quarter 2015 totalled \$32.1 million, an increase of \$24.8 million from \$7.3 million for the Third Quarter 2014. This increase is due mainly to higher expenditures related to property, plant and equipment for the Third Quarter 2015 when compared to the Third Quarter 2014.

Cash used in investing activities for the nine months ended September 30, 2015 totalled \$53.4 million, an increase of \$32.4 million from \$21.0 million for the Third Quarter 2014. This increase is due mainly to higher expenditures related to property, plant and equipment for the Third Quarter 2015.

*Financing Activities:*

Cash used in financing activities for the Third Quarter 2015 totalled \$5.0 million, an increase of \$0.8 million compared to cash used in financing activities of \$4.2 million for the Third Quarter 2014. This increase in cash provided by financing activities is primarily attributable to dividends paid to shareholders.

Cash provided by financing activities for the nine months ended September 30, 2015 totalled \$5.4 million, an increase of \$19.1 million compared to cash used in financing activities of \$13.6 million for the nine months ended September 30, 2014. This increase in cash provided by financing activities is attributable to proceeds from the issuance of Class A Ordinary Shares under the 2015 Rights Offering, partially offset by dividends paid to shareholders.

**Cash Flow Requirements:**

The Company expects that operating expenses and interest costs will generally be paid from the Company's operating cash flows, with residual cash flows available for capital expenditures and dividend payments. Borrowings under credit facilities may be required from time to time to support seasonal working capital requirements. Cash flows required to complete planned capital expenditures are expected to be financed from a combination of proceeds from operating cash, debt and equity transactions. The Company expects to be able to source the cash required to fund its 2015 capital expenditure programme (see the "Business Risks" section of this MD&A for Liquidity Risk details).

**Transactions with Related Parties**

Miscellaneous receivables from Newfoundland Power, a subsidiary of Fortis Inc., totaling \$17,800 were outstanding at September 30, 2015 (\$300 as at December 31, 2014). Miscellaneous receivables from Directors of the Company were \$600 at September 30, 2015 (nil as at December 31, 2014) for insurance expenses and are included within Accounts Receivable on the Balance Sheet. Miscellaneous payables to Fortis Inc., the Company's majority shareholder, were nil at September 30, 2015 (\$16,100 as at December 31, 2014). The Company rents office facilities from a related party on a 5 year lease agreement ending June 30, 2019. Rent Expense for the Third Quarter 2015 was \$22,510 and is included within Consumer Services on the Statement of Earnings.

**Contractual Obligations**

The contractual obligations of the Company over the next five years and periods thereafter, as at September 30, 2015, are outlined in the following table:

| (\$ millions)                          | Total        | < 1 year    | 1 to 3 years | 4 to 5 years | > 5 years    |
|--|--------------|-------------|--------------|--------------|--------------|
| Total debt                             | 241.0        | 14.0        | 27.7         | 27.6         | 171.7        |
| Long-term debt interest                | 106.0        | 12.0        | 22.0         | 18.5         | 53.5         |
| MAN/BWSC Generation Expansion Contract | 16.6         | 16.6        | -            | -            | -            |
| Defined benefit pension                | 0.1          | 0.1         | =            | =            | =            |
| <b>Total</b>                           | <b>363.7</b> | <b>42.7</b> | <b>49.7</b>  | <b>46.1</b>  | <b>225.2</b> |

1. Relates to principal payments on long-term debt only.
2. In December 2014, the Company entered into design-build contracts with BWSC and MAN. The contract is valued at approximately \$55 million. A down payment of \$11.1 million was made in 2014 and a progress payments of \$27.7 million made in 2015.
3. The defined benefit pension funding contribution is based on an estimate provided under the latest completed actuarial valuation.

The Company executed an 18 month primary fuel supply contract with RUBiS Cayman Islands Limited ("RUBiS") in September 2014 upon the expiration of its previous fuel supply contract with RUBiS. 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 under the contract on an annual basis are, by fiscal year in millions of IGs: 2015 – 19.9, 2016 – 13.3. The Company also has an 18 month secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") executed in September 2014, and is committed to purchase approximately 40% of the Company's fuel requirements for its generating plant from Sol. The approximate quantities per the fuel contract on an annual basis are, by fiscal year in millions of IGs: 2015 – 10.1, 2016 – 6.7. 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. Both contracts qualify for the Normal Purchase Normal Sale exemption under ASC 815 and do not qualify as derivatives.



**Financial Position**

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2014 to September 30, 2015:

| Significant changes in Balance Sheets between December 31, 2014 and September 30, 2015<br>(\$ millions) | Increase (Decrease) | Explanation  |
|---|---------------------|--|
| Cash and Cash Equivalents   | (4.3)               | Decrease due to cash provided by operating activities of \$43.6 million and by cash provided by financing activities of \$5.4 million offset by cash used in investing activities of \$53.3 million. |
| Accounts Receivable   | (0.7)               | Increased collection on over 30 days accounts and increased allowance for doubtful accounts  |
| Regulatory Assets   | (5.9)               | Decrease attributable to a reduction in fuel costs.  |
| Property, Plant and Equipment   | 34.0                | Net increase is comprised of capital expenditures of (1) \$53.0 million (2) depreciation expense of \$19.4 million (3) \$0.4 million in accrued capital expenditure                                  |
| Long-Term Debt  | (11.0)              | Decrease due to principal payments made on the Company's Senior Unsecured Notes in the Second Quarter 2015   |
| Share Premium   | 32.7                | The Company issued 2,930,700 shares through the 2015 Rights Offering and 141,080 shares through its share purchase plans.  |
| Retained Earnings   | 0.9                 | Increase due to net earnings for the period of \$16.7 million offset by Class A dividends of \$15.5 million and Class B dividends of \$0.3 million.  |

**Capital Resources**

The Company's principal activity of generation, transmission and distribution of electricity in Grand Cayman, requires CUC to have ongoing access to capital to build and maintain the electrical system for the community it serves. To help ensure access to capital, the Company targets a long-term capital structure of approximately 45% equity, including preference shares, and 55% debt.

The Company's objective is to maintain investment-grade credit ratings. The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the recent rights offering and the Company's Share Purchase Plans.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 60% of the Company's consolidated capital structure, as defined by short-term and long-term debt agreements. As at September 30, 2015, the Company was in compliance with all debt covenants.

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

| Capital Structure    | September 30, 2015 | %          | December 31, 2014 | %          |
|----------------------|--------------------|------------|-------------------|------------|
| Total debt           | 241.0              | 53         | 252.0             | 58         |
| Shareholder's equity | <u>213.7</u>       | <u>47</u>  | <u>179.8</u>      | <u>42</u>  |
| <b>Total</b>         | <b>454.7</b>       | <b>100</b> | <b>431.8</b>      | <b>100</b> |

The change in the Company's capital structure between December 31, 2014 and September 30, 2015 was driven by an increase in equity resulting from the issuance of Class A Ordinary Shares under the 2015 Rights Offering and a reduction in total debt due to principal payments made on the Company's Senior Unsecured Notes.

## Caribbean Utilities Company, Ltd.

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.

In May 2015, S&P affirmed the Company's A- rating and stable outlook. The A- rating reflects S&P's positive view of the Company's current position as the sole provider of generation services, and the Company's licenced position as the sole provider of T&D services. The rating also reflects S&P's positive view of regulatory support and stable cash flows offset by the economic uncertainty and the limited history of the regulator.

In March 2015, DBRS affirmed the Company's "A" credit rating while maintaining the categorisation of low with a Stable trend. Considerations for the rating were a supportive regulatory regime, solid credit metrics and a stable island economy and the demand for electricity. Impacting the rating were such factors as hurricane event risk and the small size of the Company's customer base.

### Credit Facilities

The Company currently has \$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 | \$31.0        |
| <b>Total</b>  | <b>\$47.0</b> |

Of the total above, \$46.0 million was available at September 30, 2015.

### Capital Expenditures

Capital expenditures for the three months ended September 30, 2015 were \$31.9 million, a \$24.8 million, or 349% increase from \$7.1 million in capital expenditures for the three months ended September 30, 2014.

Capital expenditures for the nine months ended September 30, 2015 were \$53.0 million, a \$31.8 million, or 150% increase from \$21.2 million in capital expenditures for the nine months ended September 30, 2014. The capital expenditures for the nine months ended September 30, 2015 primarily relate to:

- Distribution system extension and upgrades - \$6.3 million
- Generation Replacement Cost - \$6.7 million
- Generation Expansion Project- \$31.4 million
- Facility Asset Replacement & Upgrades Structural & Mechanical - \$0.9 million
- AFUDC of \$3.4 million was capitalized in the nine months ended September 30, 2015

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| Capital expenditures<br>(\$ Millions) | Three Months Ended<br>September 30, 2015 | Three Months Ended<br>September 30, 2014 | Nine months Ended<br>September 30, 2015 | Nine months Ended<br>September 30, 2014 |
|---------------------------------------|--|--|---|---|
| Transmission                          | 0.4                                      | (0.3)                                    | 0.6                                     | 0.7                                     |
| Distribution                          | 1.9                                      | 2.1                                      | 7.8                                     | 7.4                                     |
| Generation                            | 29.1                                     | 4.4                                      | 43.2                                    | 11.2                                    |
| Other                                 | <u>0.5</u>                               | <u>0.9</u>                               | <u>1.4</u>                              | <u>1.8</u>                              |
| <b>Total</b>                          | <b>31.9</b>                              | <b>7.1</b>                               | <b>53.0</b>                             | <b>21.1</b>                             |

### Off Balance-Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at September 30, 2015.

### Business Risks

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

#### *Operational Risks*

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

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

#### *Economic Conditions*

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

*Regulation*

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

*Weather*

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

*Environmental Matters*

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

CUC's Environmental Management System ("EMS") is registered to the ISO 14001 Environmental Standard. The Company was initially registered in 2004, pursuant to an audit by a third party of the Company's EMS to ensure that the Company was meeting requirements put in place by the Government as well as self-imposed requirements. Under the ISO 14001 standard companies are required to establish, document, implement, maintain and continually improve their environmental performance with an aim of prevention of pollution. In order to maintain the Company's registration to this standard an external surveillance audit is conducted annually, and an external audit is conducted every three years for re-certification. Internal audits of the system must also be conducted on an annual basis. CUC has most recently conducted, and passed its re-certification audit in June 2013.

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

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

*Insurance - Terms and Coverage*

The Company renewed its insurance policy as at July 1, 2015 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include \$100.0 million in property and machinery breakdown insurance and business interruption insurance per annum with a 24-month indemnity period and a waiting period on Non-Named Wind, Quake and Flood of 60-days. Any named Wind, Quake and Flood deductible has a 45-day waiting period. All T&D assets

outside of 1,000 feet from the boundaries of the main power plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$1.0 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1.0 million and maximum deductible of \$4.0 million for all interests combined.

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

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

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

#### *Defined Benefit Pension Plan*

The Company maintains a defined benefit pension plan, which provides a specified monthly benefit on retirement irrespective of individual investment returns. The assumed long-term rate of return on pension plan assets for the purposes of estimating pension expense for 2015 is 5%. This compares to assumed long-term rates of return of 5% used during 2014. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The gain on pension plan assets during 2014 was 3% (2013: gain of 6%).

Market driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the assumed return on the assets causing material changes in consolidated pension expense and funding requirements. Net pension expense is impacted by, among other things, the amortization of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other pension assumptions, including the assumed discount rate, may also result in future consolidated contributions to pension plans that differ significantly from current estimates as well as causing material changes in consolidated pension expense. The discount rate assumed for 2015 is 4.0% compared to the discount rate assumed during 2014 of 4.9%.

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

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

#### *Financial Instruments*

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

*Credit Risk*

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

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

*Liquidity Risk*

The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by the legal requirement under the Licences which requires rates be set to enable the Company to achieve and maintain a sound credit rating in the financial markets of the world. The Company has also secured committed credit facilities to support short-term financing of capital expenditures and seasonal working capital requirements. The cost of renewed and extended credit facilities could increase in the future; however, any increase in interest expense and fees is not expected to materially impact the Company's consolidated financial results in 2015.

*Interest Rate Risk*

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

**FUTURE ACCOUNTING POLICIES**

*Revenue from Contracts with Customers*

In May 2014 the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers. The amendments in this update create Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, including most industry specific revenue recognition guidance throughout the codification. This standard completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This standard was originally effective for annual and interim periods beginning on or after December 15, 2016. In August 2015 FASB issued ASU No. 2015-14, Deferral of the Effective Date. The amendments in this update defer the effective date of ASU No. 2014-09 by one year to annual and interim periods beginning on or after December 15, 2017. The Company and its subsidiary, Datalink Ltd. is assessing the impact that the adoption of this standard will have on its consolidated financial statements.

*Presentation of Debt Issuance Costs*

In April 2015 FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The amendments in this update would require that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of long-term debt, consistent with debt discounts or premiums. This update is effective for annual and interim periods beginning on or after December 15, 2015 and should be applied on a retrospective basis. Early adoption is permitted. The adoption of this update is expected to result in the reclassification of debt issuance costs from long-term other assets to long-term debt on the Company's consolidated balance sheet. As at September 30, 2015, debt issuance costs included in other assets were \$1.4 million (December 31, 2014 - \$1.6 million).

**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, 2015, the amount of unbilled revenue recorded in Electricity Sales was \$2.9 million (September 30, 2014: \$3.2 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, 2015, the amount of estimated kWh sales was 22.6 million kWh (September 30, 2014: 23.5 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, 2015, the Company has a long term liability of \$1.2 million (December 31, 2014: \$1.4 million).

*Property, Plant and Equipment Depreciation*

Depreciation is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the

## Caribbean Utilities Company, Ltd.

anticipated physical life of the assets. As at September 30, 2015, the net book value of the Company's PP&E was \$429.4 million compared to \$394.7 million as at December 31, 2014, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the Third Quarter 2015 was \$6.5million (\$5.9 million for the Third Quarter 2014). 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, 2013 through September 30, 2015. This information has been obtained from CUC's unaudited interim Financial Statements which, in the opinion of Management, have been prepared in accordance with US GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

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

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

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

#### June 2015/June 2014

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

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



*March 2015/March 2014*

Net earnings for the three months ended March 31, 2015 ("First Quarter 2015") totalled \$3.3 million, a decrease of \$0.1 million when compared to net earnings of \$3.4 million for the three months ended March 31, 2014 ("First Quarter 2014"). This decrease was due mainly to higher depreciation and transmission and distribution costs. These items were partially offset by lower consumer service costs and higher other income.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2015 were \$3.2 million, or \$0.11 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$3.3 million or \$0.11 per Class A Ordinary Share for the First Quarter 2014.

*December 2014/December 2013*

Net earnings for the three months ended December 31, 2014 ("Fourth Quarter 2014") were \$5.4 million, a \$0.4 million decrease when compared to \$5.8 million for the three months ended December 31, 2013 ("Fourth Quarter 2013"). This decrease is attributable to a 3% decrease in kWh sales, temporary generation costs and higher consumer services expenses. These items were partially offset by lower maintenance costs and higher other income for the Fourth Quarter 2014 when compared to the Fourth Quarter 2013.

After the adjustment for dividends on the Class B preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2014 were \$4.8 million, or \$0.16 per Class A Ordinary Share, as compared to \$5.2 million, or \$0.18 per Class A Ordinary Share for the Fourth Quarter 2013.

**Disclosure Controls and Procedures**

The President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), together with Management, have evaluated the effectiveness of the Company's disclosure controls and procedures (DC&P). Based on this evaluation, the CEO and CFO conclude that the DC&P of CUC is adequately designed and operating effectively as of September 30, 2015.

**Internal Controls over Financial Reporting ("ICFR")**

There has been no change in the Company's ICFR that occurred during the period beginning on January 1, 2015 and ended on September 30, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Outlook**

In December 2014 the ERA approved CUC's 2015-2019 Capital Investment Plan in the amount of \$234 million. Generation expansion costs related to the competitive bid award to install 39.7 MW of generation capacity are included in the approved CIP in the amount of CUC's competitive bid.

The generation expansion project is on track for the handover of the first generating unit on May 1, 2016 and the second generating unit and steam turbine will be handed over on June 1, 2016. The project cost is estimated at \$85 million.

**Outstanding Share Data**

At November 3, 2015 the Company had issued and outstanding 32,331,901 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).

## Caribbean Utilities Company, Ltd.

### Consolidated Balance Sheets

(expressed in thousands of United States Dollars)

| Unaudited   | Note | As at<br>September 30,<br>2015 | As at<br>December 31,<br>2014 |
|---|------|--------------------------------|-------------------------------|
| <b>Assets</b>                                     |      |                                |                               |
| <i>Current Assets</i>                             |      |                                |                               |
| Cash and Cash Equivalents                         |      | 17,489                         | 21,815                        |
| Accounts Receivable                               | 4    | 13,573                         | 14,272                        |
| Related Party Receivables                         | 21   | 18                             | 12                            |
| Regulatory Assets                                 | 5    | 17,591                         | 23,543                        |
| Inventories                                       | 6    | 3,127                          | 3,517                         |
| Prepayments                                       |      | <u>3,332</u>                   | <u>2,793</u>                  |
|   |      | 55,130                         | 65,952                        |
| Property, Plant and Equipment                     | 7    | 428,733                        | 394,680                       |
| Other Assets                                      | 8    | 1,467                          | 1,594                         |
| Intangible Assets                                 | 9    | <u>3,236</u>                   | <u>3,174</u>                  |
| <b>Total Assets</b>                               |      | <u>488,566</u>                 | <u>465,400</u>                |
| <b>Liabilities and Shareholders' Equity</b>       |      |                                |                               |
| <i>Current Liabilities</i>                        |      |                                |                               |
| Accounts Payable and Accrued Expenses             | 10   | 25,746                         | 26,318                        |
| Related Party Payables                            | 21   | -                              | 16                            |
| Regulatory Liabilities                            | 5    | 151                            | 145                           |
| Current Portion of Long-Term Debt                 |      | 14,000                         | 14,000                        |
| Consumers' Deposits and Advances for Construction |      | <u>6,240</u>                   | <u>5,461</u>                  |
|   |      | 46,137                         | 45,940                        |
| Defined Benefit Pension Liability                 |      | 1,248                          | 1,415                         |
| Long-Term Debt                                    | 14   | 227,000                        | 238,000                       |
| Other Long Term Liabilities                       | 12   | <u>437</u>                     | <u>210</u>                    |
| <b>Total Liabilities</b>                          |      | 274,822                        | 285,565                       |
| <b>Shareholders' Equity</b>                       |      |                                |                               |
| Share Capital                                     |      | 2,175                          | 1,992                         |
| Share Premium                                     |      | 115,736                        | 83,044                        |
| Additional Paid in Capital                        | 12   | 466                            | 463                           |
| Retained Earnings                                 |      | 96,599                         | 95,722                        |
| Accumulated Other Comprehensive Loss              |      | <u>(1,232)</u>                 | <u>(1,386)</u>                |
| <b>Total Shareholders' Equity</b>                 |      | 213,744                        | 179,835                       |
| <b>Total Liabilities and Shareholders' Equity</b> |      | <u>488,566</u>                 | <u>465,400</u>                |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements*

## Caribbean Utilities Company, Ltd.

### 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<br>Months<br>Ended<br>September<br>30, 2015 | Three<br>Months<br>Ended<br>September<br>30, 2014 | Nine<br>Months<br>Ended<br>September<br>30, 2015 | Nine<br>Months<br>Ended<br>September<br>30, 2014 |
|--|------|---|---|--|--|
| <b>Operating Revenues</b>  |      |   |   |  |  |
| Electricity Sales  |      | 21,131  | 19,960  | 57,357   | 55,574   |
| Fuel Factor  |      | <u>29,111</u>                                     | <u>43,477</u>                                     | <u>85,641</u>                                    | <u>117,940</u>                                   |
| <i>Total Operating Revenues</i>  |      | <b>50,242</b>                                     | <b>63,437</b>                                     | <b>142,998</b>                                   | <b>173,514</b>                                   |
| <b>Operating Expenses</b>  |      |   |   |  |  |
| Power Generation   |      | 30,165  | 44,536  | 88,679   | 120,492  |
| General and Administration   |      | 2,164   | 2,154   | 6,674  | 6,631  |
| Consumer Services  |      | 606   | 1,184   | 2,007  | 2,698  |
| Transmission and Distribution  |      | 698   | 1,066   | 2,130  | 1,985  |
| Depreciation   |      | 6,480   | 5,875   | 19,368   | 18,073   |
| Maintenance  |      | 1,609   | 1,435   | 4,495  | 4,332  |
| Amortization of Intangible Assets  |      | <u>121</u>  | <u>85</u>   | <u>367</u>                                       | <u>256</u>                                       |
| <i>Total Operating Expenses</i>  |      | <b>41,843</b>                                     | <b>56,335</b>                                     | <b>123,720</b>                                   | <b>154,467</b>                                   |
| <b>Operating Income</b>  |      | <b>8,399</b>                                      | <b>7,102</b>                                      | <b>19,278</b>                                    | <b>19,047</b>                                    |
| <b>Other (Expenses)/Income:</b>  |      |   |   |  |  |
| Finance Charges  | 16   | (1,644)   | (2,101)   | (6,148)  | (6,934)  |
| Foreign Exchange Gain  | 18   | 401   | 486   | 1,043  | 1,455  |
| Other Income   |      | <u>737</u>  | <u>734</u>  | <u>2,516</u>                                     | <u>1,852</u>                                     |
| <i>Total Net Other (Expenses)/Income</i>   |      | (506)   | (881)   | (2,589)  | (3,627)  |
| <b>Earnings for the Period</b>   |      | <b>7,893</b>                                      | <b>6,221</b>                                      | <b>16,689</b>                                    | <b>15,420</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>7,780</b>                                      | <b>6,108</b>                                      | <b>16,350</b>                                    | <b>15,081</b>                                    |
| Weighted-Average Number of Class A Ordinary<br>Shares Issued and Fully Paid (in thousands) | 13   | 32,289  | 29,158  | 31,041   | 29,131   |
| <i>Earnings per Class A Ordinary Share</i>   | 13   | 0.25  | 0.21  | 0.53   | 0.52   |
| Diluted Earnings per Class A Ordinary Share  | 13   | 0.25  | 0.21  | 0.53   | 0.52   |
| Dividends Declared per Class A Ordinary Share  |      | 0.165   | 0.165   | 0.495  | 0.495  |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements

**Caribbean Utilities Company, Ltd.****Consolidated Statements of Comprehensive Income***(expressed in thousands of United States Dollars)*

| <b>Unaudited</b>                    | <b>Three<br/>Months<br/>Ended<br/>September<br/>30, 2015</b> | <b>Three<br/>Months<br/>Ended<br/>September<br/>30, 2014</b> | <b>Nine<br/>Months<br/>Ended<br/>September<br/>30, 2015</b> | <b>Nine<br/>Months<br/>Ended<br/>September<br/>30, 2014</b> |
|-------------------------------------|--|--|---|---|
| <b>Earnings for the Period</b>      | <b>7,893</b>   | <b>6,221</b>   | <b>16,689</b>   | <b>15,420</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   | -   | 60  |
| Amortization of net actuarial loss  | <u>52</u>  | -  | <u>154</u>  | -   |
| Total Other Comprehensive Income    | 52   | 20   | 154   | 60  |
| <b>Comprehensive Income</b>         | <b>7,945</b>   | <b>6,241</b>   | <b>16,843</b>   | <b>15,480</b>   |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements*

**Caribbean Utilities Company, Ltd.**

**Consolidated Statements of Shareholders' Equity**

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

|   | Class A<br>Ordinary<br>Shares (in<br>thousands) | Class A<br>Ordinary<br>Shares<br>Value (\$) | Preference<br>Shares (\$) | Share<br>Premium<br>(\$) | Additional<br>Paid-in<br>Capital (\$) | Accumulated<br>Other<br>Comprehensive<br>Loss (\$) | Retained<br>Earnings<br>(\$) | Total<br>Equity<br>(\$) |
|---|---|---|---------------------------|--------------------------|---------------------------------------|--|------------------------------|-------------------------|
| <b>As at<br/>January 1,<br/>2015</b>                      | <b>29,260</b>                                   | <b>1,742</b>                                | <b>250</b>                | <b>83,044</b>            | <b>463</b>                            | <b>(1,386)</b>                                     | <b>95,722</b>                | <b>179,835</b>          |
| Net earnings  | -   | -   | -                         | -                        | -                                     | -  | 16,689                       | 16,689                  |
| Common<br>share<br>issuance and<br>stock options<br>plans | 3,073   | 183   | -                         | 32,692                   | 3                                     | -  | -                            | 32,878                  |
| Defined<br>benefit plans                                  | -   | -   | -                         | -                        | -                                     | 154  | -                            | 154                     |
| Dividends on<br>common<br>shares                          | -   | -   | -                         | -                        | -                                     | -  | (15,473)                     | (15,473)                |
| Dividends<br>on<br>preference<br>shares                   | -   | -   | -                         | -                        | -                                     | -  | (339)                        | (339)                   |
| <b>As at<br/>September<br/>30, 2015</b>                   | <b>32,333</b>                                   | <b>1,925</b>                                | <b>250</b>                | <b>115,736</b>           | <b>466</b>                            | <b>(1,232)</b>                                     | <b>96,599</b>                | <b>213,744</b>          |
| <b>As at<br/>January 1,<br/>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<br>share<br>issuance and<br>stock options<br>plans | 137   | 8   | -                         | 1,407                    | (17)                                  | -  | -                            | 1,398                   |
| Defined<br>benefit plans                                  | -   | -   | -                         | -                        | -                                     | 60   | -                            | 60                      |
| Dividends on<br>common<br>shares                          | -   | -   | -                         | -                        | -                                     | -  | (14,410)                     | (14,410)                |
| Dividends on<br>preference<br>shares                      | -   | -   | -                         | -                        | -                                     | -  | (339)                        | (339)                   |
| <b>As at<br/>September<br/>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>          |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements*

**Caribbean Utilities Company, Ltd.**

**Consolidated Statements of Cash Flows**

(expressed in thousands of United States Dollars)

| Unaudited   | Three<br>Months<br>Ended<br>September<br>30, 2015 | Three<br>Months<br>Ended<br>September<br>30, 2014 | Nine<br>Months<br>Ended<br>September<br>30, 2015 | Nine<br>Months<br>Ended<br>September<br>30, 2014 |
|---|---|---|--|--|
| <i>Operating Activities</i>   |   |   |  |  |
| Earnings for the period   | 7,893   | 6,221   | 16,689   | 15,420   |
| Items not affecting cash:   |   |   |  |  |
| Depreciation  | 6,480   | 5,875   | 19,368   | 18,073   |
| Amortization of Intangible Assets                                     | 121   | 85  | 367  | 256  |
| Non-cash Pension Expenses   | -   | -   | -  | 44   |
| Amortization of Deferred Financing Costs                              | 40  | 36  | 119  | 122  |
| Stock-based compensation  | <u>1</u>  | <u>(31)</u>                                       | <u>3</u>   | <u>(17)</u>                                      |
|   | <b>14,535</b>                                     | <b>12,186</b>                                     | <b>36,546</b>                                    | <b>33,898</b>                                    |
| Net change in non-cash working capital balances related to operations | 2,133   | 449   | 1,129  | 6,700  |
| Net Change in Regulatory Deferrals                                    | <u>2,800</u>                                      | <u>287</u>  | <u>5,958</u>                                     | <u>(3,682)</u>                                   |
| <i>Cash flow related to operating activities</i>                      | <b>19,468</b>                                     | <b>12,922</b>                                     | <b>43,633</b>                                    | <b>36,916</b>                                    |
| <i>Investing Activities</i>   |   |   |  |  |
| Purchase of property, plant and equipment                             | (31,890)  | (7,104)   | (52,964)   | (21,105)   |
| Costs related to intangible assets                                    | (214)   | (197)   | (424)  | (267)  |
| Contributions in Aid of Construction                                  | -   | -   | -  | 320  |
| Proceeds on sale of property, plant and equipment                     | -   | <u>9</u>  | -  | <u>21</u>  |
| <i>Cash flow related to investing activities</i>                      | <b>(32,104)</b>                                   | <b>(7,292)</b>                                    | <b>(53,388)</b>                                  | <b>(21,031)</b>                                  |
| <i>Financing Activities</i>   |   |   |  |  |
| Proceeds from debt financing  | -   | -   | -  | 15,000   |
| Repayment of debt   | -   | -   | (11,000)   | (14,000)   |
| Increase / (Decrease) in bank overdraft                               | -   | 286   | -  | (803)  |
| Dividends paid  | (5,503)   | (4,924)   | (16,449)   | (15,247)   |
| Net proceeds from share issues  | <u>500</u>  | <u>461</u>  | <u>32,878</u>                                    | <u>1,417</u>                                     |
| <i>Cash flow related to financing activities</i>                      | <b>(5,003)</b>                                    | <b>(4,177)</b>                                    | <b>5,429</b>                                     | <b>(13,633)</b>                                  |
| Decrease / Increase in net cash and cash equivalents                  | (17,639)  | 1,453   | (4,326)  | 2,252  |
| Cash and cash equivalents - Beginning of period                       | <u>35,128</u>                                     | <u>2,014</u>                                      | <u>21,815</u>                                    | <u>1,215</u>                                     |
| Cash and cash equivalents - End of period                             | <b>17,489</b>                                     | <b>3,467</b>                                      | <b>17,489</b>                                    | <b>3,467</b>                                     |
| Supplemental disclosure of cash flow information:                     |   |   |  |  |
| Interest paid during the period                                       | 16  | 78  | 6,424  | 6,069  |

*See Accompanying Notes to Unaudited Interim Consolidated Financial Statements*

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**Notes to Interim Consolidated Financial Statements**

*Unaudited – September 30, 2015 (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 25 year non-exclusive Generation Licence (collectively the “Licenses”) with the Cayman Islands Government (“Government”), which expire in April 2028 and November 2039 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, 2014, with 2013 comparatives, prepared in accordance with US GAAP included in the Company’s 2014 Annual Report.

In 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 2015, following review and approval by the Electricity Regulatory Authority (“ERA”), the Company increased its base rates by 0.9%. This increase is a result of the 2014 RORB and the increase in the applicable United States and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2014. 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. Future Accounting Policies**

*Revenue from Contracts with Customers*

In May 2014 the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers. The amendments in this update create Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, including most industry specific revenue recognition guidance throughout the codification. This standard completes a joint effort by FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets. This standard was originally effective for annual and interim periods beginning on or after December 15, 2016. In July 2015 FASB decided to defer by one year the effective date of its new revenue recognition standard and allow early adoption as of the original effective date. The standard is to be applied on a full retrospective or modified retrospective basis. The Company is assessing the impact that the adoption of this standard will have on its consolidated financial statements. The Company and its subsidiary, DataLink Ltd. are in the process of identifying contracts with customers and performance obligations in the contracts.

*Presentation of Debt Issuance Costs*

In April 2015 FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The amendments in this update would require that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of long-term debt, consistent with debt discounts or premiums. This update is effective for annual and interim periods beginning on or after December 15, 2015 and should be applied on a retrospective basis. Early adoption is permitted. The adoption of this update is expected to result in the reclassification of debt issuance costs from long-term other assets to long-term debt on the Company's consolidated balance sheet. As at September 30, 2015, debt issuance costs included in other assets were \$1.4 million (December 31, 2014 - \$1.6 million).

**4. Accounts Receivable**

| <b>Accounts Receivable</b>                               | <b>As at September 30,<br/>2015</b> | <b>As at December 31, 2014</b> |
|--|-------------------------------------|--------------------------------|
| Billings to electricity consumers and DataLink customers | 11,348                              | 12,132                         |
| Unbilled revenues  | 2,866                               | 2,343                          |
| Other receivables  | 990                                 | 1,278                          |
| Allowance for doubtful accounts                          | <u>(1,631)</u>                      | <u>(1,481)</u>                 |
| <b>Total accounts receivable</b>                         | <b>13,573</b>                       | <b>14,272</b>                  |

## Caribbean Utilities Company, Ltd.

### 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, 2015 also include billing adjustments for commercial customers.

## 5. Regulatory Assets and Liabilities

| Asset/Liability                     | Description                                    | As at September<br>30, 2015 | As at December<br>31, 2014 |
|-------------------------------------|--|-----------------------------|----------------------------|
| Regulatory Assets                   | Fuel Tracker Account (a)                       | 16,953                      | 21,516                     |
| Regulatory Assets                   | Derivative contract (b)                        | 360                         | 247                        |
| Regulatory Assets                   | Miscellaneous Regulatory Assets (c)            | 278                         | 299                        |
| Regulatory Assets                   | Government & Regulatory Tracker<br>Account (d) | -                           | <u>1,481</u>               |
| <b>Total Regulatory Assets</b>      |  | 17,591                      | 23,543                     |
| Regulatory Liabilities              | Government & Regulatory Tracker<br>Account (d) | (75)                        | -                          |
| Regulatory Liabilities              | Miscellaneous Regulatory Liabilities (e)       | <u>(76)</u>                 | <u>(145)</u>               |
| <b>Total Regulatory Liabilities</b> |  | (151)                       | (145)                      |

- 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 billed to consumers. 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 account 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 July 2016.
- 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.

## Caribbean Utilities Company, Ltd.

- 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 billed to 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:

| Inventories     | As at September 30, 2015 | As at December 31, 2014 |
|-----------------|--------------------------|-------------------------|
| Fuel            | 2,313                    | 2,616                   |
| Lubricating Oil | 521                      | 581                     |
| Line spares     | 76                       | 75                      |
| Datalink, Ltd.  | 211                      | 222                     |
| Other           | <u>6</u>                 | <u>23</u>               |
| <b>Total</b>    | <b>3,127</b>             | <b>3,517</b>            |

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

| Property, plant and equipment                 | Cost                  | Accumulated Depreciation | Net Book Value September 30, 2015 |
|---|-----------------------|--------------------------|-----------------------------------|
| Transmission & Distribution (T&D)             | 305,277               | 109,430                  | 195,847                           |
| Generation                                    | 359,488               | 147,329                  | 212,159                           |
| Other:  |                       |                          |                                   |
| Land  | 5,304                 | -                        | 5,304                             |
| Buildings                                     | 20,167                | 10,962                   | 9,205                             |
| Equipment, motor vehicles and computers       | <u>22,155</u>         | <u>16,423</u>            | <u>5,732</u>                      |
| <i>Total of T&amp;D, Generation and Other</i> | 712,391               | 284,144                  | 428,247                           |
| Datalink, Ltd.                                | <u>532</u>            | <u>46</u>                | <u>486</u>                        |
| <b>Property, plant and equipment</b>          | <b><u>712,923</u></b> | <b><u>284,190</u></b>    | <b><u>428,733</u></b>             |
| Property, plant and equipment                 | Cost                  | Accumulated Depreciation | Net Book Value December 31, 2014  |
| Transmission & Distribution (T&D)             | 295,657               | 103,628                  | 192,029                           |
| Generation                                    | 317,273               | 136,215                  | 181,058                           |
| Other:  |                       |                          |                                   |
| Land  | 5,304                 | -                        | 5,304                             |
| Buildings                                     | 19,945                | 10,577                   | 9,368                             |
| Equipment, motor vehicles and computers       | <u>21,992</u>         | <u>15,581</u>            | <u>6,411</u>                      |
| <i>Total of T&amp;D, Generation and Other</i> | 660,171               | 266,001                  | 394,170                           |
| Datalink, Ltd.                                | <u>510</u>            | -                        | <u>510</u>                        |
| <b>Property, plant and equipment</b>          | <b><u>660,681</u></b> | <b><u>266,001</u></b>    | <b><u>394,680</u></b>             |

Included in PP&E are a number of capital projects in progress with a total cost to date of \$76.2 million (December 31, 2014: \$28.4 million). These projects primarily relate to the 2016

## Caribbean Utilities Company, Ltd.

generation expansion project and various improvements to the Distribution System. Included in the total cost is an amount of \$0.1 million that relates to fibre optic assets for DataLink.

Also included in Generation and T&D is freehold land with a cost of \$5.0 million (December 31, 2014: \$5.0 million). In addition, line inventory with a cost of \$4.0 million (December 31, 2014: \$4.8 million) is included in T&D. Engine spares with a net book value of \$13.9 million (December 31, 2014: \$14.4 million) are included in Generation.

The capitalisation of AFUDC is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for fiscal 2015 is 8.25% (2014: 8.0%) and will be adjusted annually. As a result, during the Third Quarter 2015, the Company recognised \$1.4 million in AFUDC (Third Quarter 2014: \$0.8 million). During the nine month period ended September 30, 2015, the Company recognised \$3.4 million in AFUDC, compared to \$1.9 million for the nine month period ended September 30, 2014.

GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity. GEC totalled \$1.0 million for the Third Quarter 2015, an increase of \$0.1 million when compared to \$0.9 million for the Third Quarter 2014. GEC totalled \$3.1 million for the nine months ended September 30, 2015, compared to GEC of \$2.7 million for the nine months ended September 30, 2014.

Depreciation on DataLink's assets is provided on the cost of PP&E on a straight-line basis over the estimated useful lives ranging from 3 to 30 years. 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 take into consideration the anticipated physical life of the assets.

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

## 8. Other Assets

| Other Assets               | As at September 30, 2015 | As at December 31, 2014 |
|----------------------------|--------------------------|-------------------------|
| Deferred debt issue costs  | 1,443                    | 1,570                   |
| Miscellaneous other assets | <u>24</u>                | <u>24</u>               |
| <b>Total</b>               | <b>1,467</b>             | <b>1,594</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**

| Intangible Assets                            | Cost         | Accumulated Amortisation | Net Book Value September 30, 2015 |
|--|--------------|--------------------------|-----------------------------------|
| Deferred licence renewal costs               | 1,890        | 700                      | 1,190                             |
| Datalink Ltd. deferred licence renewal costs | 200          | 47                       | 153                               |
| Computer Software                            | 6,045        | 4,353                    | 1,692                             |
| Other Intangible Assets in progress          | 126          | -                        | 126                               |
| Trademark Costs                              | <u>75</u>    | -                        | <u>75</u>                         |
| <b>Total</b>                                 | <b>8,336</b> | <b>5,100</b>             | <b>3,236</b>                      |
| Intangible Assets                            | Cost         | Accumulated Amortisation | Net Book Value December 31, 2014  |
| Deferred licence renewal costs               | 1,890        | 629                      | 1,261                             |
| Datalink Ltd. deferred licence renewal costs | 200          | 37                       | 163                               |
| Computer Software                            | 5,615        | 4,067                    | 1,548                             |
| Other Intangible Assets in progress          | 127          | -                        | 127                               |
| Trademark Costs                              | <u>75</u>    | -                        | <u>75</u>                         |
| <b>Total</b>                                 | <b>7,907</b> | <b>4,733</b>             | <b>3,174</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**

| Accounts Payable                          | As at September 30, 2015 | As at December 31, 2014 |
|---|--------------------------|-------------------------|
| Fuel Cost Payable                         | 17,263                   | 20,526                  |
| Trade Accounts Payable & Accrued expenses | 2,509                    | 2,240                   |
| Accrued Interest                          | 4,044                    | 1,051                   |
| Dividends Payable                         | 112                      | 593                     |
| Other Accounts Payable                    | <u>1,818</u>             | <u>1,908</u>            |
| <b>Total Accounts Payable</b>             | <b>25,746</b>            | <b>26,318</b>           |

Included in Other Accounts Payable is an amount related to the fuel option contracts (see Note 14) of \$0.4 million at September 30, 2015 (\$0.2 million at December 31, 2014).

**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 amount was \$46.0 million at September 30, 2015 (\$46.0 million at December 31, 2014).

| Short-Term Financing  | Total Credit Financing Facilities<br>September 30, 2015 | Total Utilised<br>September 30, 2015 | Total Available<br>September 30, 2015 |
|---|---|--------------------------------------|---------------------------------------|
| Corporate Credit Card Line*                                   | 500   | 500                                  | -                                     |
| Letter of Credit  | 500   | 500                                  | -                                     |
| Operating, Revolving Line of Credit                           | 7,500   | -                                    | 7,500                                 |
| Catastrophe Standby Loan                                      | 7,500   | -                                    | 7,500                                 |
| Demand Loan Facility- Interim Funding of Capital Expenditures | <u>31,000</u>   | -                                    | <u>31,000</u>                         |
| <b>Total</b>  | <b>47,000</b>   | <b>1,000</b>                         | <b>46,000</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                      | Number of options | Weighted average exercise price per share | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value (\$ millions) |
|------------------------------------|-------------------|---|---|---|
| Outstanding at beginning of period | 308,470           | 10.58                                     | -   | -                                       |
| Granted                            | -                 | -   | -   | -                                       |
| Exercised                          | (3,750)           | 9.66                                      | -   | -                                       |
| Forfeited/Cancelled                | -                 | -   | -   | -                                       |
| Expired                            | -                 | -   | -   | -                                       |
| Outstanding, end of period         | <u>304,720</u>    | <u>10.59</u>                              | <u>4.59</u>   | <u>0.03</u>                             |
| Vested, end of the period          | 260,470           | 10.75                                     | 4.26  | 0.03                                    |

Under the fair value method, the compensation expense was \$0.01 million for the nine month period ended September 30, 2015 (September 30, 2014: \$0.01 million), resulting in a corresponding increase of Additional Paid in Capital.

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

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

In September 2013, 21,500 PSUs were granted, with additional grants occurring in March 2014 of 26,000 and March 2015 of 27,500. 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 three month period ended September 30, 2015 (September 30, 2014: \$0.05 million), resulting in a corresponding increase to Other Long-Term Liabilities. PSU Compensation expense was \$0.2 million for the nine month period ended September 30, 2015 (September 30, 2014: \$0.1 million), 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 32,289,027 and 29,157,923 for the three month periods ended September 30, 2015 and September 30, 2014 respectively. The weighted average Class A Ordinary Shares outstanding were 31,041,240 and 29,130,536 for the nine month periods ended September 30, 2015 and September 30, 2014 respectively.

The weighted average of Class A Ordinary Shares used for determining diluted earnings were 32,303,489 and 29,170,708 for the three month periods ended September 30, 2015 and September 30, 2014 respectively. The weighted average of Class A Ordinary Shares used for determining diluted earnings were 31,059,294 and 29,142,106 for the nine month periods ended September 30, 2015 and September 30, 2014 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at September 30, 2015 the outstanding options are not materially dilutive as the market price of common shares is below or marginally higher than the exercise price.

|  | Earnings<br>(in thousands) | Weighted average shares<br>(in thousands) | Earnings per<br>common shares<br>September 30, 2015 |
|--|----------------------------|---|---|
| Net earnings applicable to common shares | 7,780                      |   |   |
| Weighted Average share outstanding       |                            | 32,289                                    |   |
| <b>Basic Earnings Per Common Share</b>   |                            |   | 0.25  |
| Effect of potential dilutive securities: |                            |   |   |
| Stock Options                            | -                          | <u>15</u>                                 | -   |
| Diluted Earnings per Common Share        | 7,780                      | 32,304                                    | 0.25  |
|  | Earnings<br>(in thousands) | Weighted average shares<br>(in thousands) | Earnings per<br>common shares<br>September 30, 2014 |
| Net earnings applicable to common shares | 6,108                      |   |   |
| Weighted Average share outstanding       |                            | 29,158                                    |   |
| Rights Offering Adjustment Factor        |                            | 181                                       |   |
| <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                      | 29,352                                    | 0.21  |

## Caribbean Utilities Company, Ltd.

The Company successfully completed a Rights Offering (the "Offering") on May 4, 2015. The Offering raised gross proceeds of \$31,563,639 through the issue of 2,930,700 Class A Ordinary Shares at a price of US\$10.77 per Class A Ordinary Shares. The weighted average number of Class A Ordinary Shares used to calculate the earnings per Class A Ordinary Shares for the nine months ended September 30, 2015 is impacted by the shares issued through the Offering. In accordance with Accounting Standards Codification 260, basic and diluted earnings per Class A Ordinary share shall be adjusted retroactively for the bonus element of a rights issue. A bonus element exists when the exercise price at issuance is less than the fair value of the stock. The fair value per share immediately prior to the exercise of rights for the purpose of calculating the adjustment factor for basic and diluted earnings per Class A Ordinary Shares is US\$10.90. The adjustment factor does not materially impact the earnings per Class A Ordinary Shares for the three month period ending September 30, 2014.

### 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, 2015 |            | As at December 31, 2014 |            |
|---|--------------------------|------------|-------------------------|------------|
|   | Carrying Value           | Fair Value | Carrying Value          | Fair Value |
| Long term debt, including current portion | 241,000                  | 258,297    | 252,000                 | 272,615    |
| Fuel Option Contracts <sup>1</sup>        | 360                      | 360        | 247                     | 247        |

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

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

The Company measures the fair value of commodity contracts on a daily basis using the closing values observed on commodities exchanges and in over-the-counter markets, or through the use of industry-standard valuation techniques, such as option modelling or discounted cash flow methods, incorporating observable valuation inputs. The resulting measurements are the best



## Caribbean Utilities Company, Ltd.

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 July 2016.

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.

| <b>Financial Liability</b>                | <b>September 30,<br/>2015<br/>Total Fair<br/>Value</b> | <b>Level 1 -<br/>Quoted Prices<br/>in active<br/>markets for<br/>identical assets</b> | <b>Level 2 -<br/>Significant<br/>Other inputs</b> | <b>Level 3 -<br/>Significant<br/>unobservable<br/>inputs</b> |
|---|--|---|---|--|
| Long term debt, including current portion | 258,297  | -   | 258,297   | -  |
| Fuel Option Contracts <sup>1</sup>        | 360  | -   | 360   | -  |

<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.

## Caribbean Utilities Company, Ltd.

| (\$millions)                                      | Total        | 2015       | 2016-2017   | 2018-2019   | 2020<br>Onward |
|---|--------------|------------|-------------|-------------|----------------|
| Accounts payable and accrued expenses             | 25.7         | 25.7       | -           | -           | -              |
| Consumer's deposits and advances for construction | 6.2          | 6.2        | -           | -           | -              |
| Letter of credit                                  | 0.5          | 0.5        | -           | -           | -              |
| Long term debt                                    | 241.0        | 14.0       | 27.7        | 27.6        | 171.7          |
| Long term debt interest                           | <u>106.0</u> | <u>6.1</u> | <u>22.7</u> | <u>19.4</u> | <u>57.8</u>    |
| Total   | 379.4        | 52.5       | 50.4        | 47.0        | 229.5          |

### Interest Rate Risk

Long-term debt is issued at fixed interest rates, thereby minimising cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings is nil (nil: December 31, 2014).

## 16. Finance Charges

The composition of finance charges were as follows:

| Financing costs                 | Three Months<br>Ended<br>September 30,<br>2015 | Three Months<br>Ended<br>September 30,<br>2014 | Nine Months<br>Ended<br>September 30,<br>2015 | Nine Months<br>Ended<br>September 30,<br>2014 |
|---------------------------------|--|--|---|---|
| Interest costs - long-term debt | 3,046  | 2,756  | 9,401   | 8,627   |
| Other interest costs            | 46   | 115  | 135   | 249   |
| AFUDC *                         | <u>(1,448)</u>                                 | <u>(770)</u>                                   | <u>(3,388)</u>                                | <u>(1,942)</u>                                |
| <b>Total</b>                    | <b>1,644</b>                                   | <b>2,101</b>                                   | <b>6,148</b>                                  | <b>6,934</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 \$0.1 million was recognised for the nine months ended September 30, 2015 (\$0.06 million: nine months ended September 30, 2014).

The composition of the expense was as follows:

|                                    | Three Months<br>Ended<br>September 30,<br>2015 | Three Months<br>Ended<br>September<br>30, 2014 | Nine Months<br>Ended<br>September 30,<br>2015 | Nine Months<br>Ended<br>September 30,<br>2014 |
|------------------------------------|--|--|---|---|
| Interest cost                      | 77   | 78   | 231   | 234   |
| Expected return on plan assets     | (80)   | (75)   | (240)   | (225)   |
| Amortisation of past service costs | -  | 20   | -   | 60  |
| Amortisation of actuarial losses   | <u>51</u>                                      | -  | <u>153</u>                                    | -   |
| <b>Total</b>                       | <b>48</b>                                      | <b>23</b>                                      | <b>144</b>                                    | <b>69</b>                                     |

This expense has been recorded in general and administrative expenses.

## **18. Foreign Exchange**

The closing rate of exchange on September 30, 2015 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn \$1.3345 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, 2015 for conversion of Cayman Islands dollars into Canadian dollars was Cdn \$1.6014 per CI\$1.00 (December 31, 2014: Cdn \$1.3921).

## **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 \$0.60 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 an 18 month primary fuel supply contract with RUBiS Cayman Islands Limited ("RUBiS") in September 2014 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: 2015 – 19.9, 2016 – 13.3.

The Company also has an 18 month secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") executed in September 2014 and is committed to purchase approximately 40% of the Company's diesel fuel requirements for its generating plant from Sol. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2015 – 10.1, 2016 – 6.7.

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, 2015 was \$2.3 million (December 31, 2014: \$2.6 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.

In December 2014, the Company entered into a design-build contract with the consortium of Burmeister & Wain Scandinavian Contractor A/S ("BWSC") of Denmark and MAN Diesel & Turbo SE ("MAN") of Germany. The agreement covers the purchase and turnkey installation of two 18.5 MW V48/60 medium-speed diesel generating units, one 2.7 MW steam turbine, and associated auxiliary equipment. This contract is valued at approximately \$55 million; the total project cost is estimated at \$85 million to complete. The generating units will be housed in a new purpose built power house at the Company's North Sound Road Power Plant and are expected to be commissioned in June 2016. A total of \$11.6 million was spent in 2014 and an additional \$31.4 million was spent on the project during the nine month period ending September 30, 2015.

**21. Transactions with Related Parties**

Miscellaneous receivables from Newfoundland Power, a subsidiary of Fortis Inc., totaling \$17,800 were outstanding at September 30, 2015 (\$300 as at December 31, 2014). Miscellaneous receivables from Directors of the Company were \$600 at September 30, 2015 (nil as at December 31, 2014) for insurance expenses and are included within Accounts Receivable on the Balance Sheet. Miscellaneous payables to Fortis Inc., the Company's majority shareholder, were nil at September 30, 2015 (\$16,100 as at December 31, 2014). The Company rents office facilities from a related party on a 5 year lease agreement ending June 30, 2019. Rent Expense for the Third Quarter 2015 was \$22,510 and is included within Consumer Services on the Statement of Earnings.

**22. Comparative Figures**

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

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

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### **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.

#### Duplicate Annual Reports

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

Our Registrar and Transfer Agents are as follows:

#### **CST Trust Company**

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

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

Company Secretary  
P.O. Box 38  
Grand Cayman KY1-1101  
CAYMAN ISLANDS  
Tel: (345) 949-5200  
Fax: (345) 949-4621  
E-mail: [investor@cuc.ky](mailto:investor@cuc.ky)  
Website: [www.cuc-cayman.com](http://www.cuc-cayman.com)

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

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

Assistant to the Company Secretary  
P.O. Box 38  
Grand Cayman KY1-1101  
CAYMAN ISLANDS  
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Website: [www.cuc-cayman.com](http://www.cuc-cayman.com)