



Supporting



Assisting



Sponsoring



Hosting

Caribbean Utilities Company, Ltd.
2017 Third Quarter Report
 September 30, 2017



General Data

About the Company

Caribbean Utilities Company, Ltd., known locally as “CUC”, commenced operations as the only electric utility in Grand Cayman on May 10, 1966. The Company currently has an installed generating capacity of 161 megawatts (“MW”). The record peak load of 105.6 MW was experienced on August 29, 2017. CUC is committed to providing a safe and reliable supply of electricity to over 29,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman’s development for over the past 50 years.

About the Cayman Islands

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 61,000, are comprised of three islands: Grand Cayman, Cayman Brac and Little Cayman. Located approximately 150 miles south of Cuba, 460 miles south of Miami and 167 miles northwest of Jamaica, the largest island is Grand Cayman with an area of 76 square miles.

A Governor, presently 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, 2017, Caribbean Utilities Company, Ltd. (“CUC” or “the Company”) continued its focus on delivering competitive costs to its customers and at the same time providing a safe and reliable electricity service.

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

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

Net earnings for the nine months ended September 30, 2017 totalled \$18.3 million, a decrease of \$1.5 million when compared to net earnings of \$19.8 million for the nine months ended September 30, 2016. This decrease was due mainly to higher depreciation and finance charges. These items were partially offset by higher electricity sales.

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, 2017 were \$18.0 million, or \$0.55 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$19.5 million or \$0.60 per Class A Ordinary Share for the nine months ended September 30, 2016.

Sales for the Third Quarter 2017 totalled 173.7 million kilowatt-hours (“kWh”), an increase of 8.3 million kWh in comparison to 165.4 million kWh for the Third Quarter 2016.

Sales for the nine months ended September 30, 2017 totalled 471.3 million kWh, an increase of 14.1 million kWh in comparison to 457.2 million kWh for the nine months ended September 30, 2016. Sales for the nine months ended September 30, 2017 were positively impacted by an increase in average Residential consumption and higher overall customer numbers when compared to the same period last year. For the nine months ended September 30, 2017 average consumption per Residential customer was 1,083 kWh in comparison to 1,035 kWh for the nine months ended September 30, 2016, an increase of 5%.

The total number of customers as at September 30, 2017 were 29,017, an increase of 519 customers, or 2%, compared to 28,498 customers as at September 30, 2016.

On August 29, 2017, CUC experienced a new system peak load of 105.6 MW. CUC’s installed generating capacity is 161 MW.

The Company’s average cost per Imperial Gallon (“IG”) of fuel for the Third Quarter 2017 increased 7% to \$2.46, compared to \$2.31 for the Third Quarter 2016. The Company’s average cost per IG of lubricating oil for the nine months ended September 30, 2017 decreased to \$9.48 when compared to \$10.69 for the nine months ended September 30, 2016. All fuel and lubricating oil costs are passed through to customers without mark-up.

Net generation was 182.2 million kWh for the Third Quarter 2017, a 3% increase when compared to 177.3 million kWh for the Third Quarter 2016. Net fuel efficiency for the Third Quarter 2017 of 19.54 kWh per IG increased when compared to net fuel efficiency for the Third Quarter 2016 of 19.51 kWh per IG.

Net generation was 496.8 million kWh for the nine months ended September 30, 2017 compared to 490.0 million kWh for the nine months ended September 30, 2016. Net fuel efficiency for the nine months ended September 30, 2017 of 19.39 kWh per IG increased when compared to net fuel efficiency for the nine months ended September 30, 2016 of 18.83 kWh per IG. This increase in net fuel efficiency is due primarily to the new generating units that were installed in June 2016, and the discontinuation of the use of temporary mobile generation.

During the Third Quarter 2017, following a rigorous review process conducted by Investors in People International of the United Kingdom, the Company achieved the Investors in People Gold standard. This standard is a business improvement tool designed to advance an organisation's performance through its people. CUC is one of just three organisations in the Cayman Islands to have been officially recognised as having attained this Gold standard.

As part of his ongoing commitment to the Caribbean subsidiaries, Fortis Inc. President and CEO Mr. Barry Perry visited the CUC operations during Third Quarter 2017. During his visit Mr. Perry met with the Island's Premier, key business leaders and members of the CUC Board of Directors and CUC employees.

During the Third Quarter 2017, the Company was part of the response efforts in the Turks and Caicos Islands following the aftermath of Hurricane Irma which hit the Islands in September. The nine member CUC team joined the Fortis group and spent three weeks working quickly and safely to ensure that the Turks and Caicos Islands can be ready to be open for business and that electricity service is restored to customers as soon as possible.

The Company remains committed to the development of the island's youth. During Third Quarter 2017. It welcomed 16 students to the annual Summer Internship programme. The programme, now in its 17th year, continues to expose students to different career opportunities and provides them with valuable experience and hands-on training in a professional setting.

In August 2017, the Cayman Islands Government released the Second Quarter 2017 Consumer Price Index ("CPI") Report. The average CPI for June 2017 increased 2.2% from the average CPI in June 2016. In comparison to the quarter ending March 2017, CPI declined by 0.5%. Of the 12 divisions monitored in the CPI calculation, two divisions saw price declines in the second quarter of 2017 compared to the quarter ending March 2017: Transport and Health. The divisions with the largest increases were: Restaurants and hotels, clothing and footwear, housing and utilities, communication, alcohol and tobacco and food and non-alcoholic beverages.

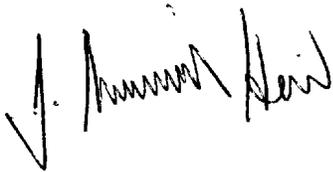
According to the First Quarter Economic Report from the Cayman Islands Economics and Statistics office ("ESO") which was released in September 2017, overall economic activity in the Cayman Islands grew by an estimated 2.0% for the first three months of 2017. The report stated that construction, electricity and water supply, wholesale and retail trade, repair and installation of machinery led the growth, and growth rates were indicated for a number of other sectors including transport, storage and communication, producers of government services, mining and quarrying, manufacturing, other services and financing and insurance services. The ESO is forecasting Annual GDP growth of 2.1% for 2017. The Company's annual sales growth and resource requirements,

including number of employees, have historically been heavily influenced by changes in the level of economic activity in the country as illustrated by the GDP.

Third Quarter 2017 air arrivals increased by 9% when compared to 2016 and cruise arrivals saw a decrease of 2% when compared to the same period in 2016. Air arrivals have a direct impact on the Company's sales growth as these visitors are stay-over visitors who occupy local accommodation services. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

The tourism industry is expected to be positively impacted by the expansion of the Owen Roberts International Airport in Grand Cayman. This project is scheduled to be completed by 2018. The new design expands the current facility and will feature a larger terminal which will accommodate the projected growth in air arrivals.

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.



J.F. Richard Hew

President & Chief Executive Officer
November 3, 2017

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, 2016 ("Fiscal 2016"). 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 2016 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.

November 3, 2017

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, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Nine Months Change	Nine Months % Change
Electricity Sales Revenues	22,736	21,778	61,963	60,387	1,576	3%
Fuel Factor	23,068	21,095	64,318	60,134	4,184	7%
Renewables	349	-	349	-	349	100%
Operating Revenues	46,153	42,873	126,630	120,521	6,109	5%
Fuel and Lube Costs	23,068	21,095	64,318	60,134	4,184	7%
Renewables Costs	349	-	349	-	349	100%
Other Operating Expenses	14,135	13,383	40,514	39,685	829	2%
Total Operating Expenses	37,552	34,478	105,181	99,819	5,362	5%
Net Earnings for the Period	7,707	7,371	18,301	19,846	(1,545)	-8%
Cash Flow from Operating Activities	15,711	18,322	38,227	48,131	(9,904)	-21%
<i>Per Class A Ordinary Share:</i>						
Basic Earnings	0.23	0.22	0.55	0.60	(0.05)	-8%
Dividends Paid	0.170	0.170	0.510	0.505	0.005	1%
Total Customers	29,017	28,498	29,017	28,498	519	2%
Total Employees*	218	206	218	206	12	6%
Customer per Employee (#)	133	138	133	138	(5)	-4%
System Availability (%)	99.92	99.96	99.92	99.92	-	0%
Peak Load Gross (MW)	105.6	103.4	105.6	103.4	2.2	2%
<i>Millions of kWh:</i>						
Net Generation	182.2	177.3	496.8	490.0	6.8	1%
Kilowatt-Hour Sales	173.7	165.4	471.3	457.2	14.1	3%
Sales per employee	0.80	0.80	2.16	2.22	(0.06)	-3%

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

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 2016 was 7.4% (2015: 7.4%). CUC’s RORB for 2017 is targeted in the 6.75% to 8.75% range (2016: 6.75% to 8.75%).

CUC’s base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour (“kWh”) electricity charges and fixed facilities charges. Fuel, lube and renewables cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2017, following review and approval by the OfReg, the Company increased its base rates by 1.6%. This increase was a result of the 2016 RORB and the increase in the applicable United States (“US”) and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2016. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80% based on the range of the RORB values. The required rate adjustment of 1.6% can be calculated by applying 80% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 2.0%. All fuel, lubricating oil and renewables costs are passed through to customers without mark-up as a per kWh charge. Rate base is the value of capital upon which the Company is permitted an opportunity to earn a return. The value of this capital is the average of the beginning and ending values for the applicable financial year of: fixed assets less accumulated depreciation, plus the allowance for working capital, plus regulatory assets less regulatory liabilities.

In June 2016, the Company commissioned its newest power plant, one of the most fuel efficient in the Caribbean. The new engine room houses two 18.5 megawatts (“MW”) diesel generating units, one 2.7 MW waste heat recovery steam turbine, and associated auxiliary equipment. The total project cost for the 40 MW power plant was \$79.0 million.

In December 2016 the ERA approved CUC’s 2017-2021 Capital Investment Plan in the amount of \$219 million.

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

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

Performance standards provide a balanced framework of potential penalties or rewards compared to historical performance in the areas of planning, reliability, operating and overall performance. Standards include “zones of acceptability” where no penalties or rewards would apply. In April 2017, the OfReg approved a penalty related to the Company’s performance for 2015-2016 in accordance with the T&D Licence. The total Z factor performance penalty of \$0.15 million was applied to customer billings as a per kWh credit on a one time-basis in June 2017.

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

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

Consolidation Accounting Policy

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

Sales

Sales for the three months ended September 30, 2017 ("Third Quarter 2017") totalled 173.7 million kWh, an increase of 8.3 million kWh in comparison to 165.4 million kWh for the three months ended September 30, 2016 ("Third Quarter 2016".)

Sales for the nine months ended September 30, 2017 totalled 471.3 million kWh, an increase of 14.1 million kWh in comparison to 457.2 million kWh for the nine months ended September 30, 2016. Sales for the nine months ended September 30, 2017 were positively impacted by an increase in average residential consumption and large commercial development, in addition to an increase in the number of customers when compared to the same period last year. For the nine months ended September 30, 2017 average consumption per residential customer was 1,083 kWh in comparison to 1,035 kWh for the nine months ended September 30, 2016, an increase of 5%.

Total customers as at September 30, 2017 were 29,017, an increase of 519 customers, or 2%, compared to 28,498 customers as at September 30, 2016.

The following tables present customer and sales highlights:

Customers (#)	September 30, 2017	September 30, 2016	Change %
Residential	24,721	24,241	2%
Commercial	<u>4,296</u>	<u>4,257</u>	<u>1%</u>
Total Customers	29,017	28,498	2%

Caribbean Utilities Company, Ltd.

Sales (thousands kWh)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Change	% Change
Residential	90,109	84,674	239,331	224,947	14,384	6%
Commercial	81,925	79,032	226,860	227,096	(236)	0%
Other (street lighting, etc.)	1,713	1,696	5,120	5,106	14	0%
Total Sales	173,747	165,402	471,311	457,149	14,162	3%

Average Consumption per Customer	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Change	% Change
Residential	1,219	1,166	1,083	1,035	48	5%
Commercial	62,827	61,790	57,925	59,330	(1,405)	-2%

Earnings

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

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

Net earnings for the nine months ended September 30, 2017 totalled \$18.3 million, a decrease of \$1.5 million when compared to net earnings of \$19.8 million for the nine months ended September 30, 2016. This decrease was due mainly to higher depreciation and finance charges. The higher depreciation and interest on long term debt are as anticipated by the Company and are driven by the completion of the 40 MW Generation Project in June 2016. These items were partially offset by higher electricity sales.

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, 2017 were \$18.0 million, or \$0.55 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$19.5 million or \$0.60 per Class A Ordinary Share for the nine months ended September 30, 2016.

Operating Revenues

Total operating revenues were as follows:

Revenues (\$ thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Change	% Change
Residential	11,845	10,969	31,317	29,239	2,078	7%
Commercial	10,730	10,637	30,156	30,659	(503)	-2%
Other (street lighting, etc.)	161	172	490	489	1	0%
Electricity Sales Revenues	22,736	21,778	61,963	60,387	1,576	3%
Fuel Factor	23,068	21,095	64,318	60,134	4,184	7%
Renewables	349	-	349	-	349	100%
Total Operating Revenues	46,153	42,873	126,630	120,521	6,109	5%

Operating revenues for the Third Quarter 2017 were \$46.2 million, an increase of \$3.3 million from \$42.9 million for the Third Quarter 2016. Operating revenues for the nine months ended September 30, 2017 were \$126.6 million, an increase of \$6.1 million from \$120.5 million for the nine months ended September 30, 2016. The increase in operating revenues for the three and nine months ended September 30, 2017 was due to higher fuel factor revenues and higher electricity sales revenues.

Other revenues (street lighting, etc.) for the Third Quarter 2017 totalled \$0.2 million, comparable to Third Quarter 2016 of \$0.2 million. Other revenues for the nine months ended September 30, 2017 totalled \$0.5 million, comparable to \$0.5 million for the nine months ended September 30, 2016.

Electricity sales revenues were \$62.0 million for the nine months ended September 30, 2017, an increase of \$1.6 million from \$60.4 million for the nine months ended September 30, 2016. Electricity sales revenues for the nine months ended September 30, 2017 increased when compared to the same period last year due to a 2% increase in kWh sales, a 1.6% base rate increase effective June 1, 2017 and a 0.1% base rate increase effective June 1, 2016.

Fuel factor revenues for the Third Quarter 2017 totalled \$23.1 million, an increase of \$2.0 million, compared to fuel factor revenues of \$21.1 million for the Third Quarter 2016. The average Fuel Cost Charge rate billed to consumers for the Third Quarter 2017 was \$0.14 per kWh, compared to the average Fuel Cost Charge rate of \$0.13 per kWh for the Third Quarter 2016. 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, 2017 totalled \$64.3 million, an increase of \$4.2 million compared to fuel factor revenues of \$60.1 million for the nine months ended September 30, 2016. Fuel factor revenues for the nine months ended September 30, 2017 increased when compared to the nine month period ended September 30, 2016 due to an increase in global oil prices.

Renewables revenues for the three and nine months ended September 30, 2017 totalled \$0.3 million. The Company started to record renewables revenues in September 2017. The renewables revenues are a combination of charges from the Customer Owned Renewable Energy ("CORE") programme and Entropy Cayman Solar Limited which are passed-through to consumers on a two-month lag basis

with no mark-up. During 2015, the Company entered into a Power Purchase Agreement (“PPA”) with Entropy Cayman Solar Limited for a 25-year term. This 5 MW solar project was completed in June 2017 and in July 2017 the solar farm launched production.

Operating Expenses

Operating expenses were as follows:

Operating Expenses (\$ thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Change	% Change
Power Generation Expenses	24,252	21,955	67,203	63,042	4,161	7%
General and Administration	2,442	2,095	6,696	6,555	141	2%
Consumer Service	764	487	2,448	1,839	609	33%
Transmission and Distribution	687	912	1,941	2,533	(592)	-23%
Depreciation	7,741	7,319	22,845	20,917	1,928	9%
Maintenance	1,517	1,559	3,643	4,480	(837)	-19%
Amortization of Intangible Assets	149	151	405	453	(48)	-11%
Total Operating Expenses	37,552	34,478	105,181	99,819	5,362	5%

Operating expenses for the Third Quarter 2017 totalled \$37.6 million, a \$3.1 million increase from \$34.5 million for the Third Quarter 2016. This increase was due primarily to higher power generation and depreciation expenses, partially offset by lower transmission and distribution expenses for the Third Quarter 2017 when compared to the Third Quarter 2016.

Operating expenses for the nine months ended September 30, 2017 totalled \$105.2 million, a \$5.4 million increase from \$99.8 million for the nine months ended September 30, 2016. This increase was due primarily to higher power generation, depreciation and consumer service expenses, partially offset by lower transmission and distribution and maintenance expenses.

Power Generation

Power generation costs for the Third Quarter 2017 increased \$2.3 million to \$24.3 million when compared to \$22.0 million for the Third Quarter 2016. This increase is as a result of higher fuel costs.

Power generation costs for the nine months ended September 30, 2017 increased \$4.2 million to \$67.2 million when compared to \$63.0 million for the nine months ended September 30, 2016. This increase is as a result of higher fuel costs.

Power generation expenses were as follows:

Power Generation (\$ thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Change	% Change
Fuel costs (net of deferred fuel charges)	22,719	20,627	63,292	58,501	4,791	8%
Lubricating Oil costs (net of deferred lubricating oil charges)	348	468	1,026	1,636	(610)	-37%
Renewables costs	349	-	349	-	349	100%
Temporary generation costs	-	2	-	364	(364)	-100%
Other generation expenses	836	858	2,536	2,541	(5)	-
Total power generation expenses	24,252	21,955	67,203	63,042	4,161	7%

The Company's average cost per IG of fuel for the Third Quarter 2017 increased 7% to \$2.46, compared to \$2.31 for the Third Quarter 2016.

Net generation was 182.2 million kWh for the Third Quarter 2017, a 3% increase when compared to 177.3 million kWh for the Third Quarter 2016. Net fuel efficiency for the Third Quarter 2017 of 19.54 kWh per IG increased when compared to net fuel efficiency for the Third Quarter 2016 of 19.51 kWh per IG.

Net generation was 496.8 million kWh for the nine months ended September 30, 2017 compared to 490.0 million kWh for the nine months ended September 30, 2016. Net fuel efficiency for the nine months ended September 30, 2017 of 19.93 kWh per IG increased when compared to net fuel efficiency for the nine months ended September 30, 2016 of 18.83 kWh per IG. This increase in net fuel efficiency is due primarily to the new generating units installed in 2016 and the discontinuation of the use of temporary mobile generation.

The Company's average cost per IG of lubricating oil for the Third Quarter 2017 decreased to \$9.63 when compared to \$9.98 for the Third Quarter 2016. The Company's average price per IG of lubricating oil for the nine months ended September 30, 2017 decreased to \$9.48 when compared to \$10.69 for the nine months ended September 30, 2016.

The Fuel Tracker Account (see Note 5 of the condensed consolidated interim financial statements) is comprised of total diesel fuel, lubricating oil costs, and renewables 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 2016 utilize call options and call spreads to promote transparency in pricing. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

Renewables costs for the three and nine months ended September 30, 2017 totalled \$0.3 million. This represents September 2017 when the Company started recording Renewables revenues as a separate item on customers' bills. The renewables costs are a combination of charges from the CORE programme and Entropy Cayman Solar Limited.

CUC had 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 2017 totalled \$nil, a \$2,000 decrease when compared with temporary generation expenses for the Third Quarter 2016 of \$2,000. Temporary generation expenses for the nine months ended September 30, 2017 totalled \$nil, a \$0.4 million decrease when compared to \$0.4 million for the nine months ended September 30, 2016. All temporary generating units were returned to the supplier in June 2016.

Other generation expenses for the Third Quarter 2017 totalled \$0.8 million, a decrease of \$0.1 million when compared to other generation expenses of \$0.9 million for the Third Quarter 2016. Other generation expenses for the nine months ended September 30, 2017 totalled \$2.5 million, comparable to other generation expenses of \$2.5 million for the nine months ended September 30, 2016.

General and Administration (“G&A”)

G&A expenses for the Third Quarter 2017 totalled \$2.4 million, an increase of \$0.3 million when compared to the Third Quarter 2016 G&A expenses of \$2.1 million. This increase is due mainly to the increase in legal fees, payroll related costs, IT outsourcing costs, partially offset by a decrease in performance stock compensation. General Expenses Capitalised (“GEC”) totalled \$1.1 million for the Third Quarter 2017, comparable to \$1.1 million for the Third Quarter 2016.

G&A expenses for the nine months ended September 30, 2017 totalled \$6.7 million, an increase of \$0.1 million when compared to G&A expenses for the nine months ended September 30, 2016 of \$6.6 million. This increase is due mainly to the increase in legal fees and performance stock compensation, partially offset by lower property insurance premiums.

Included in G&A are legal fees recorded by Datalink in the amount of \$ 0.3 million for the nine months ended September 30, 2017. On July 11, 2017 OfReg issued ICT 2017-1 Determination Pole Attachment Reservation Fees. OfReg’s decision was that Datalink’s charge of Reservation Fees in the manners provided for in the current contracts, in its view, was contrary to the ICT Law. Under the determination, Datalink is required to remove references to reservation fees in its contracts with other telecommunications providers and provide a refund to the telecommunications companies of fees charged, including fees charged prior to 2017. Datalink is to amend the contracts within 30 days of the determination and negotiate the amounts to be refunded within 60 days of the determination. In August 2017 DataLink sought and was granted a stay of the decision and permission to apply for Judicial Review.

GEC totalled \$3.3 million for the nine months ended September 30, 2017, an increase of \$0.1 million when compared to \$3.2 million for the nine months ended September 30, 2016.

Consumer Services (“CS”)

CS expenses for the Third Quarter 2017 totalled \$0.8 million, a \$0.3 million increase compared to \$0.5 million for the Third Quarter 2016. CS expenses for the nine months ended September 30, 2017 totalled \$2.4 million, a \$0.6 million increase compared to \$1.8 million for the nine months ended September 30, 2016. This increase is primarily attributable to increases in fees paid to payment agents and allowance for doubtful accounts.

In accordance with its Allowance for Doubtful Accounts (“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.

Trade and other accounts receivable (\$ thousands)	As at September 30, 2017	As at December 31, 2016
Current	7,864	6,535
Past due 31-60 days	557	592
Past due 61-90 days	307	153
Past due over 90 days	<u>5,324</u>	<u>5,073</u>
Total Accounts Receivable	14,052	12,353
Less: Allowance for doubtful accounts	(2,412)	(1,987)
Less: Consumer Deposits	<u>(8,243)</u>	<u>(7,754)</u>
Trade Receivables less allowance for doubtful accounts and consumer deposits	3,397	2,612

Trade receivables less allowance for doubtful accounts and consumer deposits as at September 30, 2017 totalled \$3.4 million, an increase of \$0.8 million, or 31% when compared to \$2.6 million as at December 31, 2016. This increase was primarily related to an increase in customer receivables and partially offset by an increase in consumer deposits. Customer receivables increased by \$1.7 million due to the increase in the fuel factor billed to consumers.

Transmission and Distribution (“T&D”)

T&D expenses for the Third Quarter 2017 totalled \$0.7 million, a decrease of \$0.2 million compared to T&D expenses for the Third Quarter 2016 of \$0.9 million. T&D expenses for the Third Quarter 2017 were impacted by an increase in the T&D department’s capital projects.

T&D expenses for the nine months ended September 30, 2017 totalled \$1.9 million, a decrease of \$0.6 million compared to T&D expenses for the nine months ended September 30, 2016 of \$2.5 million. T&D expenses for the nine months ended September 30, 2017 were impacted by an increase in T&D department’s capital projects.

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

Depreciation expenses for the Third Quarter 2017 totalled \$7.7 million, an increase of \$0.4 million from \$7.3 million for the Third Quarter 2016. Depreciation expenses for the nine months ended September 30, 2017 totalled \$22.8 million, an increase of \$1.9 million, from \$20.9 million for the nine months ended September 30, 2016.

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

Maintenance

Maintenance expenses for the Third Quarter 2017 totalled \$1.5 million, a decrease of \$0.1 million from Third Quarter 2016 maintenance expenses of \$1.6 million.

Maintenance expenses for the nine months ended September 30, 2017 totalled \$3.6 million, a decrease of \$0.9 million from \$4.5 million for the nine months ended September 30, 2016. This decrease was partially because a larger portion of the scheduled maintenance for the nine months ended September 30, 2017 was of a capital nature than what was experienced during the same period last year. Certain types of major maintenance result in improvements to the life of the equipment and therefore the costs of such maintenance are capitalised.

Amortization

Amortization of intangible assets for the Third Quarter 2017 totalled \$0.1 million, a decrease of \$0.1 million when compared to Third Quarter 2016 expenses of \$0.2 million.

Amortization of intangible assets for the nine months ended September 30, 2017 totalled \$0.4 million, a decrease of \$0.1 million when compared to \$0.5 million for the nine months ended September 30, 2016.

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 2017 totalled \$1.0 million, comparable to \$1.0 million for the Third Quarter 2016. Net Other Expenses for the nine months ended September 30, 2017 totalled \$3.1 million, an increase of \$2.2 million from \$0.9 million for the nine months ended September 30, 2016.

Other Income & Expenses (\$ thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Change	%
Total interest costs	(3,324)	(3,030)	(9,681)	(9,137)	(544)	6%
AFUDC	<u>1,239</u>	<u>831</u>	<u>3,220</u>	<u>4,477</u>	<u>(1,257)</u>	-28%
Total finance charges	(2,085)	(2,199)	(6,461)	(4,660)	(1,801)	39%
Foreign exchange gain	383	293	996	840	156	19%
Other income	808	882	2,317	2,964	(647)	-22%
Total Net Other Expense	(894)	(1,024)	(3,148)	(856)	(2,292)	268%

Finance charges for the Third Quarter 2017 totalled \$2.1 million, a \$0.1 million decrease from \$2.2 million for the Third Quarter 2016. This decrease is as a result of higher Allowance for Funds Used During Construction ("AFUDC") and lower interest on short term debt, partially offset by higher interest costs on long term debt for Third Quarter 2017.

Finance charges for the nine months ended September 30, 2017 totalled \$6.5 million, a \$1.8 million increase from \$4.7 million for the nine months ended September 30, 2016. This increase is as a result of lower Allowance for Funds Used During Construction ("AFUDC") and higher interest on long-term debt, partially offset by lower interest costs on short term debt for the nine month period ended September 30, 2017.

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 2017 is 7.75% (2016: 7.75%) as agreed with the OfReg, in accordance with the T&D Licence, and will be reviewed annually.

The AFUDC amount for the Third Quarter 2017 totalled \$1.2 million, an increase of \$0.4 million from \$0.8 million for the Third Quarter 2016. This increase is due to the increase in the work in progress assets driven primarily by the generation and distribution system extension upgrades in 2017.

The AFUDC amount for the nine months ended September 30, 2017 totalled \$3.2 million, a decrease of \$1.3 million from \$4.5 million for the nine months ended September 30, 2016. This decrease is due mainly to a decreased work in progress value for nine months ended September 30, 2017 when compared to the nine months ended September 30, 2016, driven primarily by the generation expansion project completed in 2016.

Foreign exchange gains and losses are the result of monetary assets and liabilities denominated in foreign currencies that are translated into United States dollars at the exchange rate prevailing on the Balance Sheet date. Revenue and expense items denominated in foreign currencies are translated into United States dollars at the exchange rate prevailing on the transaction date.

Foreign exchange gains for the Third Quarter 2017 totalled \$0.4 million, a \$0.1 million increase when compared to \$0.3 million in the Third Quarter 2016. Foreign exchange gains for the nine months ended September 30, 2017 totalled \$1.0 million, a \$0.2 million increase when compared to \$0.8 million for the nine months ended September 30, 2016.

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

Other income totalled \$0.8 million for the Third Quarter 2017, a decrease of \$0.1 million from \$0.9 million for the Third Quarter 2016. Other income totalled \$2.3 million for the nine months ended September 30, 2017, a \$0.7 million decrease when compared to other income of \$3.0 million for the nine months ended September 30, 2016. This decrease is mainly due to a decrease in the revenue recorded by Datalink and the Z Factor performance penalty which was netted with other income in Second Quarter 2017.

The Economy

In August 2017, the Cayman Islands Government released the second quarter 2017 Consumer Price Index (“CPI”) Report. The average CPI for June 2017 increased 2.2% from the average CPI in June 2016. In comparison to the quarter ending March 2017, CPI declined by 0.5%. Of the 12 divisions monitored in the CPI calculation, two divisions saw price declines in the second quarter of 2017 compared to the quarter ending March 2017: Transport and Health. The divisions with the largest increases were: Restaurants and hotels, clothing and footwear, housing and utilities, communication, alcohol and tobacco and food and non-alcoholic beverages.

According to the First Quarter Economic Report from the Cayman Islands Economics and Statistics office (“ESO”) that was released in September 2017, overall economic activity in the Cayman Islands grew by an estimated 2.0% for the first three months of 2017. According to the report, construction, electricity and water supply, wholesale and retail trade, repair and installation of machinery led the growth, and growth rates were indicated for a number of other sectors including transport, storage

and communication, producers of government services, mining and quarrying, manufacturing, other services and financing and insurance services. The ESO is forecasting Annual GDP growth of 2.1% for 2017. The Company's annual sales growth and resource requirements, including number of employees, have historically been heavily influenced by changes in the level of economic activity in the country as illustrated by the GDP.

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 September 30, 2017	As at December 2016	As at December 2015	As at December 2014	As at December 2013
Bank Licences	155	159	184	198	213
Mutual Funds	10,630	10,586	10,940	11,010	11,379
Mutual Fund Administrators	100	106	108	115	121
Registered Companies	99,341	96,248	98,838	99,459	95,530
Captive insurance companies	733	740	739	788	788

The tourism sector is the second main pillar of the Cayman Islands economy. The Cayman Islands tourism demographic is largely comprised of visitors from the United States of America ("US"). For 2016, 78% of air arrivals to the country were citizens of the US. As such the US economy has a large impact on the economy of the Cayman Islands.

Third Quarter 2017 air arrivals increased by 9% when compared to 2016 and cruise arrivals saw a decrease of 2% when compared to the same period in 2016. Air arrivals have a direct impact on the Company's sales growth as these visitors are stay-over visitors who occupy local accommodation services. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

The tourism industry is expected to be positively impacted by the expansion of the Owen Roberts International Airport in Grand Cayman. The expansion is expected to be completed in 2018 and will accommodate the anticipated growth in air arrivals. The expanded airport will provide a vastly improved airlift service for Grand Cayman's tourists. The new design expands the current facility and will feature a larger terminal which will accommodate the projected growth in air arrivals. In addition to the airport expansion, the tourism sector received a boost by the completion of the Kimpton Seafire Resort and Residences. The luxury resort hotel was completed in November 2016, and hosts five restaurants and six beach front bungalows in addition to the 10 storey, 265 room ocean front complex. Both projects are expected to create additional employment opportunities and increase stay over tourism.

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

Arrivals	2017	2016	2015	2014	2013
By Air	93,875	85,957	81,974	83,161	69,175
By Sea	<u>301,109</u>	<u>306,931</u>	<u>302,116</u>	<u>313,598</u>	<u>193,421</u>
Total	394,984	392,888	384,090	396,759	262,596

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

Liquidity

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

Cash Flows (\$ thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Change	% Change
Beginning cash	21,770	9,345	9,861	1,365	8,496	622%
Cash provided by/(used in):						
Operating activities	15,711	18,322	38,227	48,131	(9,904)	-21%
Investing activities	(9,951)	(8,470)	(33,191)	(36,956)	3,765	-10%
Financing activities	(4,782)	(4,321)	7,851	2,336	5,515	236%
Ending cash	22,748	14,876	22,748	14,876	7,872	53%

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for the Third Quarter 2017, was \$15.7 million, a \$2.6 million decrease when compared to \$18.3 million for the Third Quarter 2016. This decrease is primarily attributable to the movement in regulatory deferrals, accounts payable, accounts receivable and customer deposits in the Third Quarter 2017 when compared to the same period last year.

Cash flow provided by operations, after working capital adjustments, for the nine months ended September 30, 2017 was \$38.2 million, a \$9.9 million decrease when compared to \$48.1 million for the nine months ended September 30, 2016. This decrease is primarily attributable to the movement in Regulatory deferrals for the period partially offset by accounts payable for the nine month period ending September 30, 2017 when compared to the same period last year.

Investing Activities:

Cash used in investing activities for the Third Quarter 2017 totalled \$10.0 million, an increase of \$1.5 million from \$8.5 million for the Third Quarter 2016. This increase is due mainly to higher expenditures related to PP&E, partially offset by Contributions in Aid of Construction for the Third Quarter 2017 when compared to the Third Quarter 2016.

Cash used in investing activities for the nine months ended September 30, 2017 totalled \$33.2 million, a decrease of \$3.8 million from \$37.0 million for the Third Quarter 2016. This decrease is due mainly to lower expenditures related to PP&E and Contributions in Aid of Construction.

Financing Activities:

Cash used in financing activities for the Third Quarter 2017 totalled \$4.8 million, an increase of \$0.5 million compared to cash used in financing activities of \$4.3 million for the Third Quarter 2016. This increase in cash used in financing activities is primarily attributable to an increase in dividends paid to shareholders.

Cash provided by financing activities for the nine months ended September 30, 2017 totalled \$7.9 million, an increase of \$5.6 million compared to cash provided by financing activities of \$2.3 million

for the nine months ended September 30, 2016. This increase in cash provided by financing activities is attributable to proceeds from debt financing and shares issued, partially offset by repayment of long term debt and short term financing in 2017.

Cash Flow Requirements:

The Company expects that operating expenses and interest costs will generally be paid from the Company's operating cash flows, with residual cash flows available for capital expenditures and dividend payments. Borrowings under credit facilities may be required from time to time to support seasonal working capital requirements. Cash flows required to complete planned capital expenditures are expected to be financed from a combination of proceeds from operating cash, debt and equity transactions. The Company expects to be able to source the cash required to fund its 2017 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 \$7,286 were outstanding at September 30, 2017 (\$10,526 as at December 31, 2016). Miscellaneous receivables from Fortis Inc., the Company's majority shareholder, was \$nil at September 30, 2017 (\$5,952 as at December 31, 2016). Miscellaneous payables to Fortis Inc., the Company's majority shareholder, was \$13,176 at September 30, 2017 (\$4,485 as at December 31, 2016) for travel expenses, hurricane preparedness, membership fees and insurance premiums. The Company rents office facilities from a related party, Adare Investments Ltd., a Company owned by the retired Chairman of the Company's Board of Directors, on a 5 year lease agreement ending June 30, 2019. Rent expenses totaled \$61,564 for the nine months ended September 30, 2017.

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at September 30, 2017, are outlined in the following table:

<i>(\$ millions)</i>	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt ¹	276.0	16.7	27.6	32.7	199.0
Long-term debt interest	127.7	13.4	23.4	22.0	68.9
Defined benefit pension ²	<u>0.2</u>	<u>0.2</u>	-	-	-
Total	403.9	30.3	51.0	54.7	267.9

1. Relates to principal payments on long-term debt only.

2. The defined benefit pension funding contribution is based on an estimate provided under the latest completed actuarial valuation.

Power Purchase Obligation

During 2015, the Company entered into a Power Purchase Agreement ("PPA") with Entropy Cayman Solar Limited for a 25-year term. The PPA was approved by the ERA during the Fourth Quarter 2015. This 5 MW solar project was completed in June 2017. It is expected to significantly reduce emissions into the atmosphere through the avoidance of diesel fuel consumption. The PPA will also provide renewable energy at a competitive initial price of \$0.17 cents per kWh. The PPA qualifies for the Normal Purchase Normal Sale exemption under ASC 815 and does not qualify as a derivative.

Fuel Purchase Obligation

The Company has a primary fuel supply contract with RUBiS Cayman Islands Limited (“RUBiS”). Under the agreement the Company is committed to purchase approximately 60% of its diesel fuel requirements for its generating plant from RUBiS. The Company also has a secondary fuel supply contract with Sol Petroleum Cayman Limited (“Sol”) and is committed to purchase approximately 40% of the Company’s fuel requirements for its generating plant from Sol. Contracts with RUBiS and Sol were executed in September 2012. Both contracts expired on July 31, 2014 with the option to renew for two additional 18 month terms. The Company executed 18 month fuel supply contracts in September 2014 upon the expiration of its previous fuel supply contract with both RUBiS and Sol. The Company renewed its contract with RUBiS on September 1, 2016 for the final term which expired on August 31, 2017. The contract with Sol was renewed for the final term on March 1, 2016 which expired on August 31, 2017. The fuel supply contracts are currently under negotiations. 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, 2016 to September 30, 2017:

Significant changes in Balance Sheets between December 31, 2016 and September 30, 2017 (\$ millions)	Increase (Decrease)	Explanation
Cash	12.9	Increase due to cash provided by operating activities of \$38.2 million and cash provided by financing activities of \$7.9 million, partially offset by cash used in investing activities of \$33.2 million.
Accounts Receivable	1.3	Higher billings due to increased fuel costs.
Regulatory Assets	3.1	Change attributable to an increase in fuel costs.
PP&E	10.6	Net increase is comprised of capital expenditures of (1) \$34.4 million (2) depreciation expense of \$22.8 million (3) \$0.7 million in accrued capital expenditure and (4) \$1.7 in funds received in aid of construction.
Accounts Payable and Accrued Expenses	5.1	Change mainly attributable to increases in accruals and increases in fuel costs.
Short Term Debt	(30.0)	Repayment of Scotiabank capital expenditure credit facility in Second Quarter 2017.
Current Portion of Long Term Debt	5.7	Increase due to debt payment schedule.
Long-Term Debt	46.1	Increase due to proceeds from debt issuance in March and May partially offset by principal payments made on the Company's Senior Unsecured Notes in the Second Quarter 2017.
Share Premium	3.4	The Company issued 273,685 shares through its share purchase plans.

Capital Resources

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

To 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, 2017, the Company was in compliance with all debt covenants.

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

Capital Structure	September 30, 2017	%	December 31, 2016	%
	(\$ millions)		(\$ millions)	
Total debt	274.6	55	252.7	53
Shareholder's equity	<u>224.8</u>	<u>45</u>	<u>220.1</u>	<u>47</u>
Total	499.4	100	472.8	100

The change in the Company's capital structure between December 31, 2016 and September 30, 2017 was driven by an increase in equity resulting from the issuance of Class A Ordinary Shares under its share purchase plans and an increase in Long Term Debt.

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 June 2017, S&P affirmed the Company's "A-" rating with a stable outlook. The stable outlook reflects S&P Global Ratings's expectation that the Company will continue to generate stable cash from its regulated utility operations. 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. The recent formation of the new regulatory agency, OfReg will not negatively affect the company's rate-setting decisions.

In March 2017, DBRS affirmed the Company's "A" credit rating while maintaining the categorisation of low with a Stable trend. Considerations for the rating were a supportive regulatory regime, solid credit metrics and a stable island economy and the demand for electricity. Impacting the rating were such factors as hurricane event risk and the small size of the Company's customer base.

Credit Facilities

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

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

Of the total above, \$49.0 million was available at September 30, 2017.

Capital Expenditures

Capital expenditures for the three months ended September 30, 2017 were \$11.0 million, a \$2.6 million, or 31% increase from \$8.4 million in capital expenditures for the three months ended September 30, 2016.

Capital expenditures for the nine months ended September 30, 2017 were \$34.3 million, a \$2.4 million, or 7% decrease from \$36.7 million in capital expenditures for the nine months ended September 30, 2016. The capital expenditures for the nine months ended September 30, 2017 primarily relate to:

- Distribution system extension and upgrades - \$14.8 million.
- Generation Replacement Cost – \$9.6 million
- Auxiliary Asset Replacement & Upgrade – \$1.0 million.
- REC 580 Upgrade North Sound - \$1.6 million
- Facility Asset Replacement & Upgrades Structural & Mechanical- \$0.8 million
- AFUDC of \$3.2 million was capitalized in the nine months ended September 30, 2017

Capital expenditures (\$ Millions)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine months Ended September 30, 2017	Nine months Ended September 30, 2016
Transmission	0.9	0.2	2.8	1.0
Distribution	5.3	2.0	16.2	10.2
Generation	3.8	5.5	13.3	23.8
Other	<u>1.0</u>	<u>0.7</u>	<u>2.0</u>	<u>1.7</u>
Total	11.0	8.4	34.3	36.7

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, 2017.

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, the coverage offered by this programme is limited (see the "Insurance" section for discussion of insurance terms and coverage). In the event of a large uninsurable loss, the Company would apply to the OfReg for recovery of these costs through higher rates. However, there is no assurance that the OfReg will approve any such application (see the "Regulation" section for discussion of regulatory risk).

Economic Conditions

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

Regulation

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

Weather

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

Environmental Matters

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

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

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

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

Insurance - Terms and Coverage

The Company renewed its insurance policy as at July 1, 2017 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include \$100.0 million in property and machinery breakdown insurance and business interruption insurance per annum with a 24-month indemnity period and a waiting period on Non-Named Wind, Quake and Flood of 60-days. Any named Wind, Quake and Flood deductible has a 45-day waiting period. All T&D assets outside of 1,000 feet from the boundaries of the main power plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss

occurrence” is subject to a deductible of \$1.0 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1.0 million and maximum deductible of \$4.0 million for all interests combined.

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

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

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

Defined Benefit Pension Plan

The Company maintains a defined benefit pension plan, which provides a specified monthly benefit on retirement, irrespective of individual investment returns. The assumed long-term rate of return on pension plan assets for the purposes of estimating pension expense for 2017 is 5%, same as during 2016. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The loss on pension plan assets during 2016 was 1% (2015: loss of 2%).

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 2017 is 4.3% compared to the discount rate assumed during 2016 of 4.5%.

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 2017.

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 (\$30 million as at December 31, 2016).

FUTURE ACCOUNTING POLICIES

The Company considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The following updates have been issued by FASB, but have not yet been adopted by the Company. Any ASUs not included below were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the consolidated financial statements.

Revenue from Contracts with Customers

ASU No. 2014-09 was issued in May 2014 and 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 clarifies the principles for recognizing revenue and can be applied consistently across various transactions, industries and capital markets. In 2016 a number of additional ASUs were issued that clarify implementation guidance in ASC Topic 606. This standard, and all related ASUs, is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted for annual and interim periods beginning after December 15, 2016. The Company has elected not to early adopt.

The new guidance permits two methods of adoption: (i) the full retrospective method and (ii) the modified retrospective method. The Company expects to use the modified retrospective approach, under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption, January 1, 2018.

The majority of the Company’s revenue is generated from energy sales to retail customers based on published tariff rates, as approved by the respective regulators, and from transmission services and is considered to be in the scope of ASU No. 2014-09. The Company does not expect that the adoption of this standard, and all related ASUs, will have a material impact on the recognition of revenue; however, the Company does expect it will impact its required disclosures.

As part of its effort to adopt the new revenue recognition standard, Fortis is monitoring its adoption process under its existing internal controls over financial reporting (“ICFR”), including accounting processes and the gathering and evaluation of information used in assessing the required disclosures. As the implementation process continues, Fortis will assess any necessary changes to ICFR.

Recognition and Measurement of Financial Assets and Financial Liabilities

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

Leases

ASU No. 2016-02 was issued in February 2016 and the amendments in this update create ASC Topic 842, *Leases*, and supersede lease requirements in ASC Topic 840, *Leases*. The main provision of ASC Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. For operating leases, a lessee is

required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; (ii) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and (iii) classify all cash payments within operating activities in the statement of cash flows. These amendments also require qualitative disclosures along with specific quantitative disclosures. This update is effective for annual and interim periods beginning after December 15, 2018 and is to be applied using a modified retrospective approach with practical expedients options. Early adoption is permitted. The Company is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

Measurement of Credit Losses on Financial Instruments

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

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, was issued in March 2017 and the amendments in this update require that an employer disaggregate the current service costs component of net benefit cost and present it in the same statement of earnings line item(s) as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization when applicable. This update is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The amendments in this update should be applied retrospectively for the presentation of the net periodic benefit costs and prospectively, on and after the effective date, for the capitalization in assets of only the service cost component of net periodic benefit costs. The Company is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

Critical Accounting Estimates

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

Revenue Recognition

Following the recent completion of the AMI meter change-out project which allows for all customer meters to be read on the same date, during the Second Quarter 2017 the Company amended its billing processes to have all meters read on the last day of each month. As a result Revenues/kWhs recorded as at September 30, 2017 are based upon actual bills-rendered during the period.

Prior to May 2017, revenue was 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, 2017, the amount of unbilled revenue recorded in Electricity Sales was \$nil (September 30, 2016: \$2.7 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, 2017, the amount of estimated kWh sales was nil (September 30, 2016: 20.4 million kWh).

Employee Future Benefits

The Company's defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation. There are currently two participants in the Company's defined benefit pension plan. The main assumptions utilized by Management in determining pension expense and obligations were the discount rate for the accrued benefit obligation, pension commencement date, inflation and the expected rate of return on plan assets. As at September 30, 2017, the Company has a long term liability of \$0.9 million (December 31, 2016: \$1.0 million).

PP&E and Depreciation

Depreciation is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at September 30, 2017, the net book value of the Company's PP&E was \$477.8 million compared to \$467.2 million as at December 31, 2016, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the nine months ended September 30, 2017 was \$22.8 million (\$20.9 million for the nine months ended September 30, 2016). Due to the value of the Company's PP&E, 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, 2015 through September 30, 2017. This information has been obtained from CUC’s unaudited interim Financial Statements which, in the opinion of Management, have been prepared in accordance with US GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarterly results (\$ thousands, except basic and diluted earnings per ordinary share)	Operating Revenue	Net earnings	Income applicable to ordinary shares	Earnings per ordinary share	Diluted earnings per ordinary share
September 30, 2017	46,153	7,707	7,594	0.23	0.23
June 30, 2017	42,159	6,136	6,023	0.19	0.19
March 31, 2017	38,319	4,461	4,348	0.13	0.13
December 31, 2016	41,181	5,368	4,760	0.15	0.15
September 30, 2016	42,873	7,371	7,258	0.22	0.22
June 30, 2016	37,915	7,544	7,431	0.23	0.23
March 31, 2016	39,732	4,975	4,862	0.15	0.15
December 31, 2015	45,882	6,151	5,558	0.18	0.18

September 2017/September 2016

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

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

June 2017/June 2016

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

Despite the factors positively impacting operating income, net earnings decreased \$1.4 million from \$7.5 million in Second Quarter 2016 to \$6.1 million in Second Quarter 2017. This was due primarily to a \$1.0 million increase in Finance charges in Second Quarter 2017. This increase in Finance charges was as a result of a reduction in Allowance for Funds Used During Construction (“AFUDC”) upon completion of the 40 MW power plant in June 2016. AFUDC is the capitalisation of Financing Cost which is calculated by multiplying the Company’s Cost of Capital rate by the average construction work in progress for each month.

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

compared to earnings on Class A Ordinary Shares of \$7.4 million or \$0.23 per Class A Ordinary Share for the Second Quarter 2016.

March 2017/March 2016

Operating income for First Quarter 2017 totalled \$5.4 million, an increase of \$0.3 million when compared to operating income of \$5.1 million for the three months ended March 31st, 2016 ("First Quarter 2016"). The increase was attributable to a 1% increase in kilowatt hour ("kWh") sales and lower maintenance expenses resulting from lower overtime costs in First Quarter 2017. Overtime costs in 2016 were impacted by a series of system outages that occurred prior to the completion of the Company's 40 MW power plant in June 2016. These items were partially offset by higher depreciation costs.

Despite the factors positively impacting operating income, net earnings decreased \$0.5 million from \$5.0 million in First Quarter 2016 to \$4.5 million in First Quarter 2017. This was due primarily to a \$1.0 million increase in Finance charges in First Quarter 2017. This increase in Finance charges was as a result of a reduction in Allowance for Funds Used During Construction ("AFUDC") upon completion of the 40 MW power plant in June 2016. AFUDC is the capitalisation of Financing Cost which is calculated by multiplying the Company's Cost of Capital rate by the average construction work in progress for each month.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2017 were \$4.3 million, or \$0.13 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$4.9 million or \$0.15 per Class A Ordinary Share for the First Quarter 2016.

December 2016/December 2015

Net earnings for the three months ended December 31, 2016 ("Fourth Quarter 2016") were \$5.4 million, a \$0.8 million decrease when compared to \$6.2 million for the three months ended December 31, 2015 ("Fourth Quarter 2015"). This decrease was attributable to higher depreciation and finance charges. These items were partially offset by lower consumer service costs for the Fourth Quarter 2016 when compared to the Fourth Quarter 2015.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2016 were \$4.7 million, or \$0.15 per Class A Ordinary Share, as compared to \$5.6 million, or \$0.18 per Class A Ordinary Share for the Fourth Quarter 2015

Disclosure Controls and Procedures

The President and Chief Executive Officer ("CEO") and the VP Finance and Chief Financial Officer ("CFO"), together with Management, have established and maintained the Company's disclosure controls and procedures (DC&P), to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the year ending December 31, 2016; and information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Based on the evaluation performed over disclosure controls and procedures, it was concluded that the DC&P of CUC is adequately designed and operating effectively as of September 30, 2017.

Internal Controls over Financial Reporting (“ICFR”)

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

The design of CUC’s internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated 2013 Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, it was concluded that CUC’s internal controls over financial reporting are adequately designed and operating effectively as of September 30, 2017.

Outlook

In December 2016 the ERA approved CUC’s 2017-2021 Capital Investment Plan in the amount of \$219 million. Approved projects for the upcoming period include completion of ongoing generation and T&D system replacements and upgrades.

During the First Quarter 2017 the Company closed on the first tranche in the amount of US\$40 million of an aggregate US\$60 million private placement at favourable rates. The second tranche of US\$20 million closed in May 2017. The debt offering was privately placed with institutional investors in the United States. Proceeds from the offering were used to repay short-term indebtedness and to finance ongoing capital expenditures.

The Company launched the Integrated Resource Plan (“IRP”) study in 2016. The study analyses all energy resources that are viable and considers their cost, reliability, environmental impact and other aspects and provides a recommended portfolio of energy resources for the market. The Company’s goal is to ensure that all energy options are explored before decisions are made on what the grid can accommodate in a safe, reliable and efficient manner. The final Integrated Resource Plan was submitted to OfReg for review, comment and approval in August 2017.

The Cayman Islands Government approved the National Energy Policy 2017-2037 in February 2017. The objective of the policy is to ensure the security, reliability and affordability of energy supplies in Grand Cayman and to reduce the carbon footprint and diversify power sources.

Effective 16 January 2017 as a consequence of the commencement of the Utility Regulation and Competition Office, Law 2016, along with other sector specific laws, the Electricity Regulatory Authority (“ERA”), the Information & Communication Technology Authority (“ICTA”) and the Cayman Petroleum Inspectorate merged into one entity - Utility Regulation and Competition Office abbreviated to OfReg. This merger did not impact the terms and conditions of the T&D Licence, the Generation Licence, nor the DataLink License.

Outstanding Share Data

At November 3, 2017 the Company had issued and outstanding 32,920,963 Ordinary Shares and 250,000 9% cumulative Participating Class B Preference Shares.

The number of common shares of the Company that would be issued if all outstanding stock options were converted as at November 3, 2017 is as follows.

Conversion of Securities into Common Shares	Number of Common Shares
As at November 3, 2017 (Unaudited)	
Stock Options	61,000

Additional information, including CUC's Annual Information Form, is available on SEDAR at www.sedar.com and on the Company's website at www.cuc-cayman.com.

Caribbean Utilities Company, Ltd.

Condensed Consolidated Interim Balance Sheets

(expressed in thousands of United States Dollars)

Unaudited	Note	As at September 30, 2017	As at December 31, 2016
Assets			
<i>Current Assets</i>			
Cash		22,748	9,861
Accounts Receivable	4	11,640	10,366
Related Party Receivables	14	7	17
Regulatory Assets	5	16,750	13,605
Inventories		2,909	3,136
Prepayments		<u>3,604</u>	<u>2,599</u>
Total Current Assets		<u>57,658</u>	<u>39,584</u>
Property, Plant and Equipment, net	6	477,783	467,214
Intangible Assets, net		3,160	3,039
Other Assets		<u>12</u>	<u>24</u>
Total Assets		<u>538,613</u>	<u>509,861</u>
Liabilities and Shareholders' Equity			
<i>Current Liabilities</i>			
Accounts Payable and Accrued Expenses		28,572	23,471
Related Party Payables	14	13	4
Regulatory Liabilities	5	-	1,625
Short-Term Debt		-	30,000
Current Portion of Long-Term Debt	10	16,714	11,000
Consumers' Deposits and Advances for Construction		<u>9,082</u>	<u>10,231</u>
Total Current Liabilities		<u>54,381</u>	<u>76,331</u>
Defined Benefit Pension Liability		938	1,036
Long-Term Debt	10	257,853	211,746
Other Long Term Liabilities		<u>615</u>	<u>626</u>
Total Liabilities		<u>313,787</u>	<u>289,739</u>
Commitments	15		
Shareholders' Equity			
Share Capital	8	2,210	2,193
Share Premium		122,481	119,096
Additional Paid in Capital		467	467
Retained Earnings		100,403	99,156
Accumulated Other Comprehensive Loss		<u>(735)</u>	<u>(790)</u>
Total Shareholders' Equity		<u>224,826</u>	<u>220,122</u>
Total Liabilities and Shareholders' Equity		<u>538,613</u>	<u>509,861</u>

See accompanying Notes to Condensed Consolidated Interim Financial Statements

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

Unaudited	Note	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Operating Revenues					
Electricity Sales		22,736	21,778	61,963	60,387
Fuel Factor		23,068	21,095	64,318	60,134
Renewables		<u>349</u>	-	<u>349</u>	-
<i>Total Operating Revenues</i>		46,153	42,873	126,630	120,521
Operating Expenses					
Power Generation		24,252	21,955	67,203	63,042
General and Administration		2,442	2,095	6,696	6,555
Consumer Services		764	487	2,448	1,839
Transmission and Distribution		687	912	1,941	2,533
Depreciation		7,741	7,319	22,845	20,917
Maintenance		1,517	1,559	3,643	4,480
Amortization of Intangible Assets		<u>149</u>	<u>151</u>	<u>405</u>	<u>453</u>
<i>Total Operating Expenses</i>		37,552	34,478	105,181	99,819
Operating Income		8,601	8,395	21,449	20,702
Other (Expenses)/Income:					
Finance Charges	12	(2,085)	(2,199)	(6,461)	(4,660)
Foreign Exchange Gain	13	383	293	996	840
Other Income		<u>808</u>	<u>882</u>	<u>2,317</u>	<u>2,964</u>
<i>Total Net Other (Expenses)/Income</i>		(894)	(1,024)	(3,148)	(856)
Net Earnings for the Period		7,707	7,371	18,301	19,846
<i>Preference Dividends Paid- Class B</i>		<u>(113)</u>	<u>(113)</u>	<u>(339)</u>	<u>(339)</u>
Earnings on Class A Ordinary Shares		7,594	7,258	17,962	19,507
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)		32,854	32,528	32,796	32,483
Earnings per Class A Ordinary Share		0.23	0.22	0.55	0.60
Diluted Earnings per Class A Ordinary Share		0.23	0.22	0.55	0.60
Dividends Declared per Class A Ordinary Share		0.170	0.170	0.510	0.505

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Condensed Consolidated Interim Statements of Comprehensive Income*(expressed in thousands of United States Dollars)*

Unaudited	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net Earnings for the Period	7,707	7,371	18,301	19,846
Defined Benefit Pension plans:				
Amortization of Net Actuarial Loss	<u>18</u>	<u>56</u>	<u>55</u>	<u>168</u>
Total Other Comprehensive Income	18	56	55	168
Comprehensive Income	7,725	7,427	18,356	20,014

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Caribbean Utilities Company, Ltd.

Condensed Consolidated Interim Statements of Shareholders' Equity

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

	Class A Ordinary Shares (in thousands)	Class A Ordinary Shares Value (\$)	Preference Shares (\$)	Share Premium (\$)	Additional Paid-in Capital (\$)	Accumulated Other Comprehensive Loss (\$)	Retained Earnings (\$)	Total Equity (\$)
As at January 1, 2017	32,647	1,943	250	119,096	467	(790)	99,156	220,122
Net earnings	-	-	-	-	-	-	18,301	18,301
Common share issuance and stock options plans	274	17	-	3,385	-	-	-	3,402
Defined benefit plans	-	-	-	-	-	55	-	55
Dividends on common shares	-	-	-	-	-	-	(16,715)	(16,715)
Dividends on preference shares	-	-	-	-	-	-	(339)	(339)
As at September 30, 2017	32,921	1,960	250	122,481	467	(735)	100,403	224,826
As at January 1, 2016	32,382	1,927	250	116,201	467	(1,178)	96,822	214,489
Net earnings	-	-	-	-	-	-	19,846	19,846
Common share issuance and stock options plans	209	13	-	2,270	-	-	-	2,283
Defined benefit plans	-	-	-	-	-	167	-	167
Dividends on common shares	-	-	-	-	-	-	(16,391)	(16,391)
Dividends on preference shares	-	-	-	-	-	-	(339)	(339)
As at September 30, 2016	32,591	1,940	250	118,471	467	(1,011)	99,938	220,055

See accompanying Notes to Condensed Consolidated Interim Financial Statements

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

Unaudited	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
<i>Operating Activities</i>				
Net Earnings for the period	7,707	7,371	18,301	19,846
Items not affecting cash:				
Depreciation	7,741	7,319	22,845	20,917
Amortization of Intangible Assets	149	151	405	453
Non-cash Pension Expenses	-	(125)	(43)	(3)
Amortization of Deferred Financing Costs	37	33	107	113
stock-based Compensation	=	=	=	<u>1</u>
	15,634	14,749	41,615	41,327
Net change in non-cash working capital balances related to operations	57	4,463	1,383	4,533
Net Change in Regulatory Deferrals	<u>20</u>	<u>(890)</u>	<u>(4,771)</u>	<u>2,271</u>
<i>Cash flow related to operating activities</i>	15,711	18,322	38,227	48,131
<i>Investing Activities</i>				
Purchase of Property, Plant & Equipment	(10,506)	(8,388)	(34,306)	(36,692)
Costs Related to Intangible Assets	(373)	(82)	(528)	(264)
Contributions in Aid of Construction	<u>928</u>	=	<u>1,643</u>	=
<i>Cash flow related to investing activities</i>	(9,951)	(8,470)	(33,191)	(36,956)
<i>Financing Activities</i>				
Proceeds from Long-Term Debt Financing	-	-	60,000	-
Short-Term Borrowings	-	-	(30,000)	30,000
Repayment of Long-Term Debt	-	-	(8,000)	(11,000)
Decrease in Bank Overdraft	-	-	-	(1,735)
Dividends Paid	(5,734)	(5,166)	(17,550)	(17,209)
Net Proceeds from Share Issues	<u>952</u>	<u>845</u>	<u>3,401</u>	<u>2,280</u>
<i>Cash flow related to financing activities</i>	(4,782)	(4,321)	7,851	2,336
Increase in net cash	978	5,531	12,887	13,511
Cash - Beginning of period	<u>21,770</u>	<u>9,345</u>	<u>9,861</u>	<u>1,365</u>
Cash- End of period	22,748	14,876	22,748	14,876
Supplemental disclosure of cash flow information:				
Interest paid during the period	10	152	5,796	6,233

See Accompanying Notes to Condensed Consolidated Interim Financial Statements

Unaudited – September 30, 2017 (expressed in thousands of United States dollars unless otherwise stated)

1. Nature of Operations and Consolidated Financial Statement Presentation

These condensed consolidated interim financial statements include the regulated operations and the accounts of the wholly owned subsidiary DataLink Ltd. (“DataLink”), and reflect the decisions of Utility Regulation and Competition Office (“OfReg”). These decisions affect the timing of the recognition of certain transactions resulting in the recognition of regulatory assets and liabilities, which Caribbean Utilities Company, Ltd., (“CUC” or the “Company”) considers it is probable to recover or settle subsequently through the rate-setting process.

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

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

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

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

Rate Regulated Operations

CUC’s base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour (“kWh”) electricity charges and fixed facilities charges. Fuel cost charges, renewables costs and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the Rate Cap and Adjustment Mechanism (“RCAM”). Effective June 2017, following review and approval by the OfReg, the Company increased its base rates by 1.6%. This increase was a result of the 2016 Return on Rate Base (“RORB”) and the increase in the applicable United States (“US”) and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2016. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80% based on the range of the RORB values. The required rate adjustment of 1.6% can be calculated by applying 80% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 2.02%. All fuel, lubricating oil, and renewables costs are passed through to customers without mark-up as a per kWh charge.

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

Seasonality

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

Taxation

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

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

2. Summary of Significant Accounting Policies

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim financial information. Accordingly, these Condensed Consolidated Interim Financial Statements do not include all information and notes required by US GAAP for annual financial statements. Since the Condensed Consolidated Interim Financial Statements and Notes do not include all information and notes required by US GAAP for annual financial statements, the Condensed Consolidated Interim Financial Statements and other information included in this quarterly report should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2016.

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

3. Future Accounting Policies

Revenue from Contracts with Customers

ASU No. 2014-09 was issued in May 2014 and the amendments in this update create 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 clarifies the principles for recognizing revenue and can be applied consistently across various transactions, industries and capital markets. In 2016 a number of additional ASUs were issued that clarify implementation guidance in ASC Topic 606. This standard, and all related ASUs, is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted for annual and interim periods beginning after December 15, 2016. The Company has elected not to early adopt.

The new guidance permits two methods of adoption: (i) the full retrospective method and (ii) the modified retrospective method. The Company expects to use the modified retrospective approach, under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption, January 1, 2018.

The majority of the Company's revenue is generated from energy sales to retail customers based on published tariff rates, as approved by the respective regulators, and from transmission services and is considered to be in the scope of ASU No. 2014-09. The Company does not expect that the adoption of this standard, and all related ASUs, will have a material impact on the recognition of revenue; however, the Company does expect it will impact its required disclosures.

As part of its effort to adopt the new revenue recognition standard, Fortis is monitoring its adoption process under its existing internal controls over financial reporting ("ICFR"), including accounting processes and the gathering and evaluation of information used in assessing the required disclosures. As the implementation process continues, Fortis will assess any necessary changes to ICFR.

Recognition and Measurement of Financial Assets and Financial Liabilities

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

Leases

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

Measurement of Credit Losses on Financial Instruments

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

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, was issued in March 2017 and the amendments in this update require that an employer disaggregate the current service costs component of net benefit cost and present it in the same statement of earnings line item(s) as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization when applicable. This update is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The amendments in this update should be applied retrospectively for the presentation of the net periodic benefit costs and prospectively, on and after the effective date, for the capitalization in assets of only the service cost component of net periodic benefit costs. The Company is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

4. Accounts Receivable

Accounts Receivable (\$ thousands)	As at September 30, 2017	As at December 31, 2016
Billings to consumers	12,135	8,915
Unbilled revenues	-	2,241
Other receivables	1,917	1,197
Allowance for doubtful accounts	<u>(2,412)</u>	<u>(1,987)</u>
Total accounts receivable	11,640	10,366

Unbilled Revenues

Following the recent completion of the AMI meter change-out project which allows for all customer meters to be read on the same date, during the Second Quarter 2017 the Company amended its billing processes to have all meters read on the last day of each month. As a result, revenues and accounts receivables as at September 30, 2017 are based on actual bills-rendered during the period.

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

Caribbean Utilities Company, Ltd.
Notes to Condensed Consolidated Interim Financial Statements

from the estimates. Consumers were billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue.

Other receivables

Other receivables relate to amounts due outside of the normal course of operations. Items in other receivables include sale of inventory and machine break-down costs covered by warranties. Other receivables at September 30, 2017 also include billing adjustments for commercial customers.

5. Regulatory Assets and Liabilities

Asset/Liability (\$ thousands)	Description	As at September 30, 2017	As at December 31, 2016
Regulatory Assets	Fuel Tracker Account	16,331	13,244
Regulatory Assets	Derivative contract	5	116
Regulatory Assets	Miscellaneous Regulatory Assets	225	245
Regulatory Assets	Government & Regulatory Tracker Account	<u>189</u>	-
Total Regulatory Assets		16,750	13,605
Regulatory Liabilities	Government & Regulatory Tracker Account	-	<u>(1,625)</u>
Total Regulatory Liabilities		-	(1,625)

6. Property, Plant and Equipment

Property, Plant and Equipment (\$ thousands)	Cost	Net Book Value September 30, 2017
Transmission & Distribution (T&D)	342,304	212,007
Generation	426,247	243,142
Other:		
Land	5,304	5,304
Buildings	20,942	9,023
Equipment, Motor Vehicles and Computers	<u>26,870</u>	<u>7,863</u>
<i>Total of T&D, Generation and Other</i>	821,667	477,339
Telecommunications assets	<u>546</u>	<u>444</u>
Property, Plant and Equipment	<u>822,213</u>	<u>477,783</u>

Property, Plant and Equipment (\$ thousands)	Cost	Net Book Value December 31, 2016
Transmission & Distribution (T&D)	322,512	201,363
Generation	413,515	244,356
Other:		
Land	5,304	5,304
Buildings	20,167	8,618
Equipment, Motor Vehicles and Computers	<u>25,158</u>	<u>7,114</u>
<i>Total of T&D, Generation and Other</i>	786,656	466,755
Telecommunications assets	<u>541</u>	<u>459</u>
Property, Plant and Equipment	<u>787,197</u>	<u>467,214</u>

Caribbean Utilities Company, Ltd.
Notes to Condensed Consolidated Interim Financial Statements

7. Short-Term Financing

The Company has \$50.0 million of unsecured credit financing facilities with Scotiabank & Trust (Cayman) Limited (“Scotia”) and Royal Bank of Canada (“RBC”). The total available amount was \$49.0 million at September 30, 2017 (\$19 million at December 31, 2016).

(\$ thousands)	Total Credit Financing Facilities September 30, 2017	Total Utilized September 30, 2017	Total Available September 30, 2017
Provided by Scotia:			
Letter of Credit	1,000	500	500
Operating, Revolving Line of Credit	10,000	-	10,000
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>31,000</u>	-	<u>31,000</u>
Total	49,500	500	49,000
Provided by RBC:			
Corporate Credit Card Line*	<u>500</u>	<u>500</u>	-
Total	500	500	-

*Included in Accounts payable and accrued expenses

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

8. Capital Stock

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

Capital Stock	As at September 30, 2017	As at December 31, 2016
Authorised:		
Class A Ordinary Shares of CI\$0.05 each	60,000,000	60,000,000
9% Cumulative Participating Class B Preference Shares of \$1.00 each	250,000	250,000
Class C Preference Shares of \$1.00	419,666	419,666
Cumulative Participating Class D Share of CI\$0.56	1	1
Issued and Outstanding:		
Class A Ordinary Shares	32,920,963	32,647,278
Class B Preference Shares	250,000	250,000

9. 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.

Share Options	Nine Months Ended September 30, 2017 Weighted average exercise price per share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ millions)
Outstanding at beginning of period	193,500	10.92	-
Granted	-	-	-
Exercised	(132,500)	11.23	0.27
Forfeited/Cancelled	-	-	-
Expired	-	-	-
Outstanding, end of period	<u>61,000</u>	<u>10.25</u>	<u>0.02</u>
Vested, end of the period	61,000	10.25	0.02

Under the fair value method, the compensation expense was \$nil for the nine month period ended September 30, 2017 (September 30, 2016: \$0.001 million).

10. 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.

Caribbean Utilities Company, Ltd.
Notes to Condensed Consolidated Interim Financial Statements

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

There have been no changes in the methodologies used at September 30, 2017. The estimated fair values of the Company's financial instruments, including derivative financial instruments, are as follows:

(\$ thousands)	As at September 30, 2017		As at December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long term debt, including current portion	274,567	287,619	222,746	232,369
Fuel Option Contracts ¹	5	5	116	116

¹ Carrying value of fuel option contracts included in Accounts Payable and Accrued expenses

The Company's long term debt and fuel derivative contracts, based on the three levels that distinguish the level of pricing observability utilized in measuring fair value, have been classified as Level 2. There were no transfer between levels for the period ended September 30, 2017.

11. 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

Caribbean Utilities Company, Ltd.
Notes to Condensed Consolidated Interim Financial Statements

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.

(\$millions)	Total	2017	2018- 2019	2020- 2021	2022 Onward
Accounts payable and accrued expenses	28.6	28.6	-	-	-
Consumer's deposits and advances for construction	9.1	9.1	-	-	-
Letter of credit	0.5	0.5	-	-	-
Long term debt	276.0	16.7	27.6	32.7	199.0
Long term debt interest	<u>127.7</u>	<u>13.4</u>	<u>23.4</u>	<u>22.0</u>	<u>68.9</u>
Total	441.9	68.3	51.0	54.7	267.9

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 (\$30 million: December 31, 2016).

12. Finance Charges

The composition of finance charges were as follows:

Financing costs (\$ thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Interest costs - long-term debt	3,277	2,878	9,378	8,795
Other interest costs	47	152	303	342
AFUDC	<u>(1,239)</u>	<u>(831)</u>	<u>(3,220)</u>	<u>(4,477)</u>
Total	2,085	2,199	6,461	4,660

13. Foreign Exchange

The closing rate of exchange on September 30, 2017 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn \$1.248 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, 2017 for conversion of Cayman Islands dollars into Canadian dollars was Cdn \$1.4976 per CI\$1.00 (December 31, 2016: Cdn \$1.6112).

14. Transactions with Related Parties

Miscellaneous receivables from Newfoundland Power, a subsidiary of Fortis Inc., totaling \$7,286 were outstanding at September 30, 2017 (\$10,526 as at December 31, 2016). Miscellaneous receivables from Fortis Inc., the Company's majority shareholder, was \$nil at September 30, 2017 (\$5,952 as at December 31, 2016). Miscellaneous payables to Fortis Inc., the Company's majority shareholder, was \$13,176 at September 30, 2017 (\$4,485 as at December 31, 2016) for travel expenses, hurricane preparedness, membership fees and insurance premiums. The Company rents office facilities from a related party, Adare Investments Ltd., a Company owned by the retired Chairman of the Company's Board of Directors, on a 5 year lease agreement ending June 30, 2019. Rent expenses totaled \$61,564 for the nine months ended September 30, 2017.

15. Commitments

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

The Company's bulk fuel inventory, the value of CUC's closing stock of fuel at September 30, 2017 was \$2.1 million (December 31, 2016: \$2.3 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.

16. Subsequent Events

The Company has evaluated the possibility of subsequent events existing in the Company's financial statements through November 3, 2017, the date the financial statements were available to be issued. The Company has determined that no material subsequent events occurred that would require recognition or additional disclosure in these financial statements.

Shareholder Information

Shareholder Plans

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

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

Our Registrar and Transfer Agents are as follows:

AST Trust Company (Canada)

P.O. Box 4229
Station A
Toronto, ON
M5W 0G1
North America toll free – 1-800-387-0825
Direct – 416-682-3860
Fax – 1-888-249-6189
E-mail: inquiries@astfinancial.com

Caribbean Utilities Company, Ltd.

Company Secretary
P.O. Box 38
Grand Cayman KY1-1101
CAYMAN ISLANDS
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E-mail: investor@cuc.ky
Website: www.cuc-cayman.com

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

Caribbean Utilities Company, Ltd.

Assistant to the Company Secretary
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