



Caribbean Utilities Company, Ltd.

2014 First Quarter Report

March 31, 2014



About the Company

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

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

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

The Company's registered office address is 457 North Sound Road, P.O. Box 38, Grand Cayman KY1-1101 and employs 193 employees.

About the Cayman Islands

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

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

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

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

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Fellow Shareholders,

The Company recorded an increase in net earnings and an increase in sales for the first three months of 2014, when compared to the same period for 2013.

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

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

Sales for the First Quarter 2014 totalled 130.7 million kilo-watt hours ("kWh"), an increase of 5.2 million kWh, or 4%, in comparison to 125.5 million kWh for the First Quarter 2013. First Quarter 2014 kWh sales were positively impacted by growth in customer numbers and warm weather conditions that affected customer air conditioning load during that period more significantly than when compared to the same period last year. The average monthly temperature for the First Quarter 2014 was 80.0 degrees Fahrenheit as compared to average monthly temperature of 79.3 degrees for First Quarter 2013.

During the First Quarter 2014, there was an increase in the number of customers connected to the CUC grid. The total number of customers as at March 31, 2014 was 27,438, an increase of 352 customers, or 1.3%, when compared to 27,086 customers as at March 31, 2013.

According to the 2013 Third Quarter Economic Report from the Cayman Islands Economics and Statistics Office ("ESO") that was issued in March 2014, overall economic activity in the Cayman Islands grew by an estimated 1.0 percent in the first nine months of 2013. The report confirmed that construction indicators continued to improve in the first nine months of 2013 with the value of building permissions increasing. The uptick in permit values reflects the impact of multi-million dollar projects, such as the Health City Cayman Islands facility which opened in 2014. The tourism industry is also a key contributor to economic and electricity sales growth. Air arrivals increased by 5% for the First Quarter 2014 when compared to First Quarter 2013.

The Company remains ready to invest in the growth and ongoing development of Grand Cayman as the economy steadily improves. Capital Expenditures totaled \$6.5 million and reliability of service, as measured by the average service availability index, was 99.98% for the First Quarter 2014.

The Electricity Regulatory Authority ("ERA") cancelled the solicitation process for firm generation in July 2013. This process had been initiated by a Certificate of Need ("CON") issued by CUC in November 2011. The CON was driven primarily by the upcoming retirement of some of the Company's generating units due to begin this year.

The ERA has since restarted the process and announced the listing of qualified bidders resulting from its solicitation for Statements of Qualifications. Bids are due in mid-May and an announcement of the winning bidder is expected to be made in July 2014 for 36 MW of firm capacity to be on-line by June 2016.

In the meantime, the ERA and CUC have agreed to a temporary generation plan which will allow CUC to meet the expected reserve margin requirements for the peak periods, and until the firm capacity needs can be met.

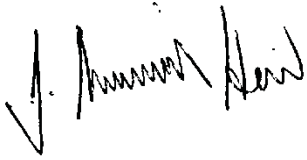
CUC has secured the rental supply of approximately 7.5 MW of mobile generation for this summer. This will complement existing generation and satisfy ongoing customer needs and help to ensure a continued reliable supply of power to consumers.

The Company is also constantly evaluating technologies that will reduce the cost of electricity and it is committed to bringing them to the business as and if they make economic sense and provide benefits to Grand Cayman. Wind and solar are non-firm power and will continue to be supported with firm power such as diesel generation.

In August 2011 CUC sought expressions of interest from developers and subsequently selected two companies, International Electric Power ("IEP") and New Generation Power ("NGP"), to provide 13 MW of renewable generation capacity. Technical interconnection studies are now being undertaken for proposed generation sites and CUC anticipates connecting the projects by the end of 2015.

Caribbean Utilities Company, Ltd.

The Company remains committed to serving the people of Grand Cayman and is focused on providing a safe and reliable electricity service to its customers in an efficient and effective manner while meeting stakeholder expectations.

A handwritten signature in black ink, appearing to read "J.F. Richard Hew". The signature is written in a cursive style with a large initial "J" and "H".

J.F. Richard Hew
President & Chief Executive Officer

May 6, 2014

Interim Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or "the Company") audited consolidated financial statements and notes thereto for the year ended December 31, 2013. The material has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to Management's Discussion and Analysis.

Additional information in this MD&A has been prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, which are disclosed in the notes to the Company's 2013 annual financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation the amount and timing of the recovery or refund would not be subject to regulatory approval.

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

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

Financial and Operational Highlights

<i>(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)</i>	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Change	% Change
Electricity Sales	16,905	15,946	959	6%
Fuel Factor Revenues	36,600	36,579	21	0%
Operating Revenues	53,505	52,525	980	2%
Fuel and Lube Costs	36,600	36,579	21	0%
Other Operating Expenses	11,967	11,835	132	1%
Total Operating Expenses	48,567	48,414	153	0%
Earnings for the Period	3,448	2,898	550	19%
Basic Earnings per Class A Ordinary Share	0.11	0.10	0.01	10%
Dividends paid per Class A Ordinary Share	0.165	0.165	-	0%
Peak Load Gross (MW)	93.4	88.6	4.8	5%
Net Generation (millions of kWh)	140.1	134.4	5.7	4%
Kilowatt-Hour Sales (millions of kWh)	130.7	125.5	5.2	4%
Total Customers	27,438	27,086	352	1%
System Availability (%)	99.98	99.97	0.01	0%
Customers per Employee (#)	143	138	5	4%
Sales per employee (millions of kWh)	0.68	0.64	0.04	6%

Corporate and Regulatory Overview

The principal activity of the Company is to generate, transmit and distribute electricity in its licence area of Grand Cayman, Cayman Islands pursuant to a 20-year exclusive Transmission & Distribution ("T&D") Licence and a 21.5 year non-exclusive Generation Licence ("the Licences") granted by the Cayman Islands Government ("Government"), which expire in April 2028 and September 2029 respectively.

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

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2013, following review and approval by the Electricity Regulatory Authority ("ERA"), the Company increased its base rates by 1.8% as

a result of the 2012 RORB and the increase in the applicable United States and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2012. All fuel and lubricating oil costs are passed through to customers without mark-up as a per kWh charge.

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

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

The ERA also annually reviews and approves CUC's capital investment plan ("CIP"). \$143.0 million of proposed non-generation installation expenditures in the 2014-2018 CIP was approved by the ERA. The remaining \$74.0 million of the CIP relates to new generation installation, which is subject to a competitive bid process and would only be incurred if CUC were the successful bidder.

A Certificate of Need ("CON") for generation capacity was issued to the ERA by the Company in November 2011, driven primarily by the upcoming retirements of some of the Company's generating units due to begin in 2014.

In March 2012, the ERA solicited Request for Proposals ("RFP") for an additional 36 megawatts ("MW") of generation capacity from qualified bidders, including CUC. In February 2013, the Company was advised that another local company, DECCO Ltd., had won the bid.

In April 2013 the ERA announced that it would be engaging an independent party to conduct an investigation into the 36 MW bid process following public statements being made by its former managing director concerning alleged irregularities with the process. In July 2013 the ERA announced that, in its view, as a result of unavoidable and unforeseen delays, the timetable and various milestones provided for in the solicitation cannot now be achieved and that it had taken the decision to cancel the solicitation process.

In October 2013, the Company issued a new CON for generation capacity. The CON listed a requirement of 36 MW of generating capacity, in two 18 MW instalments to be operational April 2016 and May 2016.

In November 2013 the ERA issued a solicitation for Statements of Qualifications from prospective bidders. In January 2014 the ERA announced the parties selected as qualified bidders and released the request for proposal document to all qualified bidders. Bids are due in mid-May, 2014 with a decision from the ERA on the top ranked bidder to be published in July 2014.

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

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

In March 2012 CUC's wholly owned subsidiary, DataLink, Ltd. ("DataLink"), received its license from the Information and Communications Technology Authority ("ICTA") which permits DataLink to provide fibre optic infrastructure and other information and communication technology (ICT) services to the ICT industry. The term of the license is 15 years and expires on March 27, 2027.

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

Consolidation Accounting Policy

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

Earnings

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

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

Sales

Sales for the First Quarter 2014 totalled 130.7 million kWh, an increase of 5.2 million kWh in comparison to 125.5 million kWh for the First Quarter 2013. First Quarter 2014 kWh sales were positively impacted by warm weather conditions that affected customer air conditioning load during that period more significantly when compared to the same period last year. The average monthly temperature for the First Quarter 2014 was 80.03 degrees Fahrenheit as compared to average monthly temperature of 79.30 degrees for First Quarter 2013.

Total customers as at March 31, 2014 were 27,438, an increase of 352 customers, or 1%, compared to 27,086 customers as at March 31, 2013.

The following tables present customer and sales highlights:

Customers (#)	March 31, 2014	March 31, 2013
Residential	23,454	23,098
Commercial	<u>3,984</u>	<u>3,988</u>
Total Customers	27,438	27,086

Sales (thousands kWh)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Change	% Change
Residential	59,992	56,761	3,231	6%
Commercial	68,994	67,075	1,919	3%
Other (street lighting, etc.)	<u>1,687</u>	<u>1,619</u>	<u>68</u>	4%
Total Sales	130,673	125,455	5,218	4%

Operating Revenues

Total operating revenues were as follows:

Revenues (thousands \$)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Change	% Change
Residential	8,045	7,493	552	7%
Commercial	8,729	8,343	386	5%
Other (street lighting, etc.)	<u>131</u>	<u>110</u>	<u>21</u>	19%
Electricity Sales Revenues	16,905	15,946	959	6%
Fuel Factor Revenues	<u>36,600</u>	<u>36,579</u>	<u>21</u>	0%
Total Operating Revenues	53,505	52,525	980	2%

Operating revenues for the First Quarter 2014 were \$53.5 million, an increase of \$1.0 million from \$52.5 million for the First Quarter 2013. Increases in operating revenues for the three months ended March 31, 2014 were due primarily to higher electricity sales revenues. Other (street lighting, etc.) revenue for the First Quarter 2014 increased by 19% when compared to the First Quarter 2013 due to an increase in the number of street lights.

Electricity sales revenues were \$16.9 million for the First Quarter 2014, an increase of \$1.0 million from \$15.9 million for the First Quarter 2013. Electricity sales revenues for the First Quarter 2014 increased when compared to electricity sales revenue for the First Quarter 2013 due to a 4% increase in kWh sales period over period, in addition to a 1.8% base rate increase effective June 1, 2013.

Fuel factor revenues for the First Quarter 2014 totalled \$36.6 million, comparable to fuel factor revenues for the First Quarter 2013. The average Fuel Cost Charge for the three months ended March 31, 2014 was \$0.26 per kWh, compared to the average Fuel Cost Charge rate of \$0.28 per kWh for the three months ended March 31, 2013. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

Operating Expenses

Operating expenses were as follows:

<i>Operating Expenses (\$ thousands)</i>	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Change	% Change
Power Generation Expenses	37,339	37,323	16	0%
General and Administration	2,266	2,080	186	9%
Consumer Service	974	409	565	138%
Transmission and Distribution	497	601	(104)	-17%
Depreciation	6,113	6,376	(263)	-4%
Maintenance	1,293	1,546	(253)	-16%
Amortization of Intangible Assets	85	79	6	8%
Total Operating Expenses	48,567	48,414	153	0%

Operating expenses for the First Quarter 2014 totalled \$48.6 million, a \$0.2 million increase from \$48.4 million for the First Quarter 2013. This increase was due primarily to higher consumer service and general and administration expenses which were partially offset by lower depreciation, maintenance and transmission and distribution costs for the First Quarter 2014 when compared to the First Quarter 2013.

Power Generation

Power generation costs for the First Quarter 2014 were comparable to the First Quarter 2013 as higher net generation was partially offset by lower fuel costs.

Power generation expenses were as follows:

<i>Power Generation (\$ thousands)</i>	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Change	% Change
Fuel costs (net of deferred fuel charges)	36,015	35,996	19	0%
Lubricating Oil costs (net of deferred lubricating oil charges)	585	583	2	0%
Other generation expenses	739	744	-5	-1%
Total power generation expenses	37,339	37,323	16	0%

The Company's average price per IG of fuel for the First Quarter 2014 decreased 3% to \$4.75, compared to \$4.90 for the First Quarter 2013. Net generation was 140.1 million kWh for the First Quarter 2014 a 4% increase when compared to 134.4 million kWh for the First Quarter 2013. Net fuel efficiency for the First Quarter 2014 of 18.44 kWh per IG decreased when compared to net fuel efficiency for the First Quarter 2013 of 18.69 kWh per IG.

The Company's average price per IG of lubricating oil for the First Quarter 2014 declined 6% to \$12.30 when compared to \$13.12 for the First Quarter 2013.

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

In March 2011 the ERA approved the Fuel Price Volatility Management Program. The objective of the program is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's

Caribbean Utilities Company, Ltd.

customers for the fuel that the Company must purchase in order to provide electric service. Contracts initiated in March 2014 utilize call spreads to promote transparency in pricing. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

Other generation expenses for the First Quarter 2014 of \$0.7 million were comparable to other generation expenses for the First Quarter 2013.

General and Administration ("G&A")

G&A expenses for the First Quarter 2014 totalled \$2.3 million, a \$0.2 million increase compared to \$2.1 million for the First Quarter 2013. This increase was due primarily to the Company's short term incentive plan and the introduction of the Company's Performance Share Unit ("PSU") plan (see Note 12 of the consolidated financial statements).

General Expenses Capitalised ("GEC") totalled \$1.0 million for the First Quarter 2014, an increase of \$0.1 million compared to \$0.9 million for the First Quarter 2013.

Consumer Services ("CS")

CS expenses for the First Quarter 2014 totalled \$1.0 million a \$0.6 million increase compared to \$0.4 million for the First Quarter 2013. This increase is attributable to an adjustment to the provision for bad debt and increased transaction fees associated with customer payments.

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. During the First Quarter 2014, the Company commenced a full review of its outstanding Accounts Receivables balance and the reasonableness of its methodology of applying a flat percentage to total receivables in calculating AFDA. This review has initially indicated an increase in days outstanding for receivable balances and management has determined the estimation process related to the AFDA would be refined to include a risk element for aging of accounts receivable. The effect of this change in estimate was to increase the provision by \$0.5 million.

Trade and other accounts receivables (\$ thousands)	As at March 31, 2014	As at December 31, 2013
Current	9,698	11,914
Past due 31-60 days	1,326	2,018
Past due 61-90 days	477	594
Past due over 90 days	<u>4,242</u>	<u>4,314</u>
Total Accounts Receivables	15,743	18,840
Less: allowance for doubtful accounts	(705)	(195)
Less: Consumer Deposits	<u>(5,133)</u>	<u>(4,998)</u>
Net Exposure	9,905	13,647

Transmission and Distribution ("T&D")

T&D expenses for the First Quarter 2014 totalled \$0.5 million, a decrease of \$0.1 million compared to T&D expenses for the First Quarter 2013 of \$0.6 million. T&D expenses for the First Quarter 2013 were impacted by maintenance projects that led to higher labour costs than were seen in the First Quarter 2014.

Depreciation

Depreciation expenses for the First Quarter 2014 totalled \$6.1 million, a decrease of \$0.3 million, from \$6.4 million for the First Quarter 2013. This decrease in depreciation is related to the book retirement of a 7.59 MW generating unit during 2013.

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

Maintenance

Maintenance expenses for the First Quarter 2014 totalled \$1.3 million, a decrease of \$0.2 million when compared to \$1.5 million for the First Quarter 2013. This decrease was due to a decline in maintenance costs associated with the generating units as this group remains focused on capital activity. This decline was partially offset by increased maintenance on the information technology ("I.T.") systems. These I.T. systems have increased productivity and efficiencies throughout the organization.

Amortization

Amortization of intangible assets for the First Quarter 2014 totalled \$0.09 million, an 8% increase when compared to \$0.08 million for the First Quarter 2013. The increase in amortization is attributable to software purchases made in prior periods.

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

Other Income and Expenses

Net Other Expenses for the First Quarter 2014 totalled \$1.5 million, an increase of \$0.3 million from \$1.2 million for the First Quarter 2013.

<i>Other Income & Expenses (\$ thousands)</i>	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Change	% Change
Total interest costs	(3,030)	(3,032)	2	0%
AFUDC	<u>543</u>	<u>789</u>	<u>(246)</u>	-31%
Total finance charges	(2,487)	(2,243)	(244)	11%
Foreign exchange gain	491	472	19	4%
Other income	<u>506</u>	<u>558</u>	<u>(52)</u>	-9%
Total Net Other Expense	(1,490)	(1,213)	(277)	23%

Finance charges for the First Quarter 2014 totalled \$2.5 million, a \$0.3 million increase from \$2.2 million for the First Quarter 2013 as a result of lower capitalization of financing costs in 2014.

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

The AFUDC amount for the First Quarter 2014 totalled \$0.5 million, a \$0.3 million decrease from \$0.8 million for the First Quarter 2013. This decrease is attributable to a decreased work in progress value for First Quarter 2014 when compared to First Quarter 2013. Work in progress balances will vary depending upon the nature and longevity of projects.

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

Foreign exchange gains for the First Quarter 2014 totalled \$0.5 million, comparable to the First Quarter 2013.

Other income is comprised of pole rental fees, income from pipeline operations, sale of meter sockets, sale of recyclable materials and other miscellaneous income.

Other income totalled \$0.5 million for the First Quarter 2014, a \$0.1 million decrease when compared to other income of \$0.6 million for the First Quarter 2013.

In March 2012 the ERA acknowledged the creation of DataLink Ltd., CUC's wholly owned subsidiary. Subsequently the ICTA granted DataLink a licence to provide fibre optic infrastructure in Grand Cayman. Revenues from DataLink for the First Quarter 2014 are recorded in Other Income in the amount of \$0.2 million, compared to \$0.07 for the First Quarter 2013.

CUC and DataLink have entered into three agreements;

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

All three agreements have been approved by the ERA. The ICT licence allowed DataLink to assume full responsibility for the existing Pole Attachment Agreements and Optical Fiber Lease Agreement with third party information and communications technology service providers. The novation and reassignment of existing contracts was completed in 2012.

The Economy

In March 2014 the Cayman Islands Government released the 2013 Consumer Price Index ("CPI") Report, the average CPI for 2013 increased by 2.2 percent from the average CPI in 2012. This increase was the result of increasing inflation in all quarters of 2013, the highest being seen in the third quarter at 2.8 percent. Of the twelve divisions monitored in the CPI calculation all saw an increase for 2013 with the exception of three: Housing and Utilities, Health and Recreation and Culture.

According to the 2013 Third Quarter Economic Report from the Cayman Islands Economics and Statistics office ("ESO") that was issued in March 2014, overall economic activity in the Cayman Islands grew by an estimated 1.0 percent in the first nine months of 2013. GDP growth for 2013 is forecasted at 1.5%.

The Cayman Islands have two main industries; financial services and tourism. In December 2013, Moody's Investors Service issued a credit analysis of the Cayman Islands, rating the country overall at Aa3. The Moody's report notes that in relation to the finance industry the country has a well established offshore center, one of the largest in the world. The report goes on to note that the Cayman Islands is one of the world's largest banking centers in terms of assets. The report states that international scrutiny on tax transparency is likely in the future and asserts that Cayman's authorities have proven adept at satisfying all such requirements and indicates a belief that such compliance will continue.

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

	As at March 2014	As at December 2013	As at December 2012	As at December 2011	As at December 2010
Bank Licences	212	213	222	234	246
Mutual Funds *	11,205	11,379	10,841	9,258	9,438
Mutual Fund Administrators	120	121	124	129	134

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

The other major industry in Cayman is tourism. The tourist demographic is largely comprised of visitors from the United States of America ("US"). For the first three months of 2014 77% of air arrivals to the country were citizens of the US. As such the US economy largely impacts that of the Cayman Islands. First quarter 2014 air arrivals were up 5% when compared to 2013 and cruise arrivals increased by 2% when compared to 2013. Air arrivals have a direct impact on the Company's sales growth as these visitors are stay-over visitors who occupy local accommodation services. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

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

Arrivals	2014	2013	2012	2011	2010
By Air	109,406	104,029	96,187	93,822	87,841
By Sea	<u>543,017</u>	<u>532,263</u>	<u>553,347</u>	<u>510,648</u>	<u>472,036</u>
Total	652,423	636,292	649,534	604,470	559,877

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 and Capital Resources

The following table outlines the summary of cash flows:

Caribbean Utilities Company, Ltd.

<i>Cash Flows (\$ thousands)</i>	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Change	% Change
Beginning cash	1,215	694	521	75%
Cash provided by/(used in):				
Operating activities	13,688	15,333	(1,645)	-11%
Investing activities	(6,555)	(6,402)	(153)	2%
Financing activities	(6,153)	(6,675)	522	-8%
Ending cash	2,195	2,950	(755)	-26%

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for the First Quarter 2014, was \$13.7 million, a decrease of \$1.6 million from \$15.3 million for the First Quarter 2013.

This decrease is attributable to the movement in non-cash working capital balances and regulatory deferrals in the First Quarter 2014 when compared to the same period last year.

Investing Activities:

Cash used in investing activities for the First Quarter 2014 totalled \$6.6 million, an increase of \$0.2 million from \$6.4 million for the First Quarter 2013. This increase is attributable to expenditures related to property, plant and equipment for the period.

Financing Activities:

Cash used in financing activities for the First Quarter 2014 totalled \$6.2 million, a decrease of \$0.5 million compared to cash used in financing activities of \$6.7 million for the First Quarter 2013. This decrease in cash used in financing activities is attributable to a lower bank overdraft utilised in the First Quarter 2014.

Transactions with Related Parties

Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totaling \$0.013 million were outstanding at March 31, 2014 (\$0.010 million as at December 31, 2013) for labor, software subscriptions and travel expenses and are included within the Related Party Payables on the Balance Sheet.

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at March 31, 2014, are outlined in the following table:

<i>(\$ millions)</i>	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	219.0	17.0	28.0	27.7	146.3
Defined benefit pension	0.1	0.1	=	=	=
Total	219.1	17.1	28.0	27.7	146.3

The Company executed a primary fuel supply contract with Rubis Cayman Islands Limited ("Rubis") in September 2012 upon the expiration of its previous fuel supply contracts. Under the agreement the Company is committed to purchase approximately 60% of its diesel fuel requirements for its generating plant from Rubis. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2014 – 11.3.

The Company also has a secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") (previously Esso Cayman Limited) executed in September 2012 and is committed to purchase approximately 40% of the Company's diesel fuel requirements for its generating plant from Sol. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2014 – 7.6. Both contracts expire July 2014 with the option to renew for two additional 18 month terms. Renewal cannot occur more than 6 months in advance of the current contract expiry date.

Financial Position

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

Significant changes in Balance Sheets between December 31, 2013 and March 31, 2014 (\$ millions)	Increase (Decrease)	Explanation
Cash and Cash Equivalents	1.0	Increase due to cash provided by operating activities of \$13.7 million offset by cash used in financing activities of \$6.1 million and by cash used in investing activities of \$6.6 million.
Accounts Receivable	(3.6)	Increased collection efforts led to a reduction in Accounts Receivable. The estimation process for the doubtful debts provision was amended and led to an increased provision (see "Consumer Services" section for greater detail).
Regulatory Assets	2.2	In accordance with regulatory treatment the fuel tracker account is classified as a regulatory asset. This amount represents fuel costs incurred by the Company that are recoverable from the customer.
Prepayments	(0.8)	Decrease due to recognition of the Company's property and machinery breakdown insurance policy
Property, Plant and Equipment	0.6	Net increase is comprised of capital expenditures of (1) \$6.5 million (2) depreciation expense of \$6.1 million (3) \$0.2 million in accrued capital expenditure
Bank Overdraft	(1.3)	Repayment of bank overdraft.
Share Premium	0.5	The Company issued 46,009 shares through its share purchase plans.

Capital Resources

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

To help ensure access to capital, the Company targets a long-term capital structure containing approximately 45 per cent equity, including preference shares, and 55 per cent debt. The Company's objective is to maintain investment-grade credit ratings. The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the rights offering that occurred in 2008 and through the Company's Share Purchase Plans.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65 per cent of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at March 31, 2014, the Company was in compliance with all debt covenants.

Caribbean Utilities Company, Ltd.

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

Capital structure	March 31, 2014 (\$ millions)	%	December 31, 2013 (\$ millions)	%
Total debt	219.0	55	219.0	55
Shareholder's equity	<u>177.4</u>	<u>45</u>	<u>178.3</u>	<u>45</u>
Total	396.4	100	397.3	100

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

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

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

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

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

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

In February 2014 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 small size of customer base.

Liquidity Risk

The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by allowances in the Licences for review of the RCAM by the ERA in order to enable the Company to maintain sound credit ratings.

Credit Facilities

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

Caribbean Utilities Company, Ltd.

Credit Facilities	(\$ millions)
Corporate Credit Card Line	\$0.4
Letters of Credit	\$0.6
Operating, Revolving Line of Credit	\$7.5
Catastrophe Standby Loan	\$7.5
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>\$31.0</u>
Total	\$47.0

Of the total above, \$46.0 million was available at March 31, 2014.

Capital Expenditures

Capital expenditures for the three months ended March 31, 2014 were \$6.5 million a \$0.1 million increase when compared to capital expenditures of \$6.4 million for the three months ended March 31, 2013. The capital expenditures for the three months ended March 31, 2014 primarily relate to:

- Distribution system extension and upgrades - \$2.9 million.
- Generation Replacement Cost - \$2.3 million
- Facility Asset Replacements & Upgrade – Structural & Mechanical – \$0.2 million
- AFUDC of \$0.5 million was capitalized in the three months ended March 31, 2014

Capital expenditures (\$ Millions)	Three months ended March 31, 2014	Three months Ended March 31, 2013
Transmission	0.0	0.0
Distribution	3.1	3.4
Generation	3.2	2.9
Other	<u>0.2</u>	<u>0.1</u>
Total	6.5	6.4

Off Balance-Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at March 31, 2014.

Business Risks

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

Operational Risks

Operational risks are those risks normally inherent in the operation of generating, transmission and distribution facilities. The Company's facilities are subject to the risk of equipment failure due to deterioration of the asset from use or age, latent defects and design or operator error, among other factors. These risks could lead to longer-than-forecast equipment downtimes for maintenance and repair, disruptions of power generation, customer service interruptions and

could result in injury to employees and the public. Accordingly, to ensure the continued safe and efficient performance of the physical assets, the Company determines expenditures that must be made to maintain and replace the assets.

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

Economic Conditions

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

Regulation

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

Weather

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

Environmental Matters

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

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

In March 2007 the Kyoto Protocol was signed by the Cayman Islands; this framework aims to reduce Greenhouse Gas ("GHG") emissions produced by certain industries. As an overseas territory the Cayman Islands are required to give available national statistics on an annual basis to the UK which will be added to its inventory and reported to the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat. Under the Convention governments are obligated to gather and report information on GHG emissions through the preparation of a

national greenhouse gas inventory. The inventory primarily requires the Cayman Islands Government to quantify as best as possible the country's fuel consumption across a variety of sectors, production processes and distribution means. CUC has been in full cooperation with the Cayman Islands Government with supplying information requested for our industry to address this inventory.

Through adhering to local environmental legislation, cooperating with the Cayman Islands government departments and authorities, and by registering our EMS with an international standard CUC has determined that its exposure to environmental risks is not significant and does not have an impact on financial reporting including the recording of any Asset Retirement Obligations ("ARO's").

Insurance – Terms and Coverage

The Company renewed its insurance policy as at July 1, 2013 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include \$100.0 million in property and machinery breakdown insurance and business interruption insurance per annum with a 24-month indemnity period and a waiting period on Non-Named Wind, Quake and Flood of 60-days. Any named Wind, Quake and Flood deductible has a 45-day waiting period. All T&D assets outside of 1,000 feet from the boundaries of the main plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$1.0 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1.0 million and maximum deductible of \$4.0 million for all interests combined.

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

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

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

Defined Benefit Pension Plan

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

Market driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the assumed return on the assets causing material changes in consolidated pension expense and funding requirements. Net pension expense is impacted by, among other things, the amortization of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other pension assumptions, including the assumed discount rate, may also result in future consolidated contributions to pension plans that differ significantly from current estimates as well as causing material changes in consolidated pension expense. The discount rate assumed for 2014 is 4.9% compared to the discount rate assumed during 2013 which was 3.7%.

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

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

CHANGES IN ACCOUNTING ESTIMATES

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

In accordance with its PP&E policy, the Company reviews the estimated useful lives of its fixed assets on an ongoing basis. A review concluded during the First Quarter 2014 indicated that the actual lives of certain Transmission and Distribution ("T&D") and Generation assets were longer than the estimated useful lives used for depreciation purposes in the Company's financial statements. As a result, effective 1 January 2014, the Company changed its estimates of the useful lives of these assets to better reflect the estimated periods during which these assets will remain in service. The affected assets previously averaged useful lives of twenty years which were increased to an average of twenty-five to thirty-five years. The effect of this change in estimate was to reduce First Quarter 2014 depreciation expense by \$0.4 million, increase First Quarter 2014 net earnings by \$0.4 million, and increase First Quarter 2014 basic and diluted earnings per share by \$0.01.

Allowance for Doubtful Accounts ("AFDA")

In accordance with its AFDA policy, the Company maintains an accumulated provision for uncollectible customer accounts receivable that is estimated based on known accounts, historical experience and other currently available information, including the economic environment. During the First Quarter 2014, the Company commenced a full review of its outstanding Accounts Receivables balance and the reasonableness of its methodology of applying a flat percentage to total receivables in calculating AFDA. This review has initially indicated an increase in days outstanding for receivable balances and management has determined the estimation process related to the AFDA would be refined to include a risk element for aging of accounts receivable. The effect of this change in estimate was to increase the provision by \$0.5 million, decrease First Quarter 2014 net earnings by \$0.5 million, and decrease First Quarter 2014 basic and diluted earnings per share by \$0.02.

Critical Accounting Estimates

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

Revenue Recognition

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in

adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at March 31, 2014, the amount of unbilled revenue recorded in Electricity Sales was \$3.5 million (March 31, 2013: \$3.7 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 March 31, 2014, the amount of estimated kWh sales was 24.8 million kWh (March 31, 2013: 26.4 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 March 31, 2014, the Company has a long term liability of \$0.3 million (December 31, 2013: \$0.3 million).

Property, Plant and Equipment Depreciation

Depreciation, by its very nature is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at March 31, 2014, the net book value of the Company's PP&E was \$379.9 million compared to \$379.3 million as at December 31, 2013, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the First Quarter 2014 was \$6.1 million (\$6.4 million First Quarter 2013). Due to the value of the Company's property, plant and equipment, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

Quarterly Results

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended June 30, 2012 through March 31, 2014. This information has been obtained from CUC's unaudited interim Financial Statements which, in the opinion of Management, have been prepared in accordance with US GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

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
March 31, 2014	53,505	3,448	3,335	0.11	0.11
December 31, 2013	58,801	5,760	5,169	0.18	0.18
September 30, 2013	59,547	6,048	5,935	0.21	0.21
June 30, 2013	55,346	5,716	5,603	0.19	0.19
March 31, 2013	52,525	2,898	2,785	0.10	0.10
December 31, 2012	59,087	4,061	3,468	0.12	0.12
September 30, 2012	58,870	6,582	6,469	0.22	0.22
June 30, 2012	53,940	5,146	5,033	0.18	0.18

March 2014/March 2013

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

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

December 2013/December 2012

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

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

September 2013/September 2012

Net earnings for the three months ended September 30, 2013 ("Third Quarter 2013") totalled \$6.0 million, a decrease of \$0.6 million when compared to \$6.6 million for the three months ended September 30, 2012 ("Third Quarter 2012"). This decrease was due primarily to higher depreciation and finance charges, while electricity sales revenues were flat. These items were partially offset by lower general and administration and maintenance costs. Maintenance costs declined as a result of the Company's focus in 2013 on capital-related upgrade projects that improve the efficiency of its generating units.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2013 were \$5.9 million, or \$0.21 per Class A Ordinary Share, a decrease of \$0.6 million from the \$6.5 million, or \$0.22 per Class A Ordinary Share for the Third Quarter 2012.

June 2013/June 2012

Net earnings for the three months ended June 30, 2013 ("Second Quarter 2013") totalled \$5.7 million, an increase of \$0.6 million when compared to \$5.1 million for the three months ended June 30, 2012 ("Second Quarter 2012"). This increase was due primarily to a 3% increase in kWh sales and lower financing costs. Maintenance costs also declined as a result of the focus in the Second Quarter 2013 on capital-related upgrade projects that improve the efficiency of the Company's generating units. These items were partially offset by higher depreciation costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2013 were \$5.6 million, or \$0.19 per Class A Ordinary Share, an increase of \$0.6 million from the \$5.0 million, or \$0.18 per Class A Ordinary Share for the Second Quarter 2012.

Disclosure Controls and Procedures

The President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), together with Management, have established and maintained the Company's disclosure controls and procedures, to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the quarter ending March 31, 2014 and information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls over Financial Reporting ("ICFR")

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

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the original Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). There was no material weakness relating to design existing as of March 31, 2014. There has been no change in the Company's ICFR that occurred during the period beginning on January 1, 2014 and ended on March 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

In October 2013 the Company issued a Certificate of Need ("CON") for generation capacity driven primarily by the upcoming retirements of some of the Company's generating units due to begin in 2014. The CON listed a requirement of 36 MW of generating capacity, with 18 MW to be operational no later than April 2016 and the remaining 18 MW to be operational no later than May 2016.

The ERA issued a solicitation for Statements of Qualifications from prospective bidders in November 2013. The deadline for submissions was December 20, 2013. In January 2014 the ERA announced the listing of qualified bidders and issued a request for proposals. Bids are due in May 2014 and a decision on the top ranked bidder is expected in July 2014.

Outstanding Share Data

At March 31, 2014 the Company had issued and outstanding 29,105,771 Ordinary Shares and 250,000 9% cumulative Participating Class B Preference Shares.

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



Letitia T. Lawrence
Vice-President Finance & Chief Financial Officer
May 6, 2014

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

Unaudited	Note	As at March 31, 2014	As at December 31, 2013
Assets			
<i>Current Assets</i>			
Cash and Cash Equivalents		2,195	1,215
Accounts Receivable	4	15,038	18,645
Regulatory Assets	5	26,643	24,373
Inventories	6	4,055	5,185
Prepayments		<u>1,899</u>	<u>2,703</u>
		49,830	52,121
Property, Plant and Equipment	7	379,936	379,329
Other Assets	8	1,465	1,509
Intangible Assets	9	<u>2,879</u>	<u>2,791</u>
Total Assets		<u>434,110</u>	<u>435,750</u>
Liabilities and Shareholders' Equity			
<i>Current Liabilities</i>			
Bank Overdraft		-	1,258
Accounts Payable and Accrued Expenses	10	32,048	31,633
Related Party Payables	21	13	10
Regulatory Liabilities	5	218	242
Current Portion of Long-Term Debt		17,000	17,000
Consumers' Deposits and Advances for Construction		<u>5,133</u>	<u>4,998</u>
		<u>54,412</u>	<u>55,141</u>
Defined Benefit Pension Liability	17	285	283
Long-Term Debt	14	202,000	202,000
Other Long-Term Liabilities	12	<u>63</u>	<u>34</u>
Total Liabilities		256,760	257,458
Shareholders' Equity			
Share Capital		1,982	1,980
Share Premium		81,512	81,023
Additional Paid in Capital	12	486	479
Retained Earnings		93,604	95,064
Accumulated Other Comprehensive Loss		<u>(234)</u>	<u>(254)</u>
Total Shareholders' Equity		<u>177,350</u>	<u>178,292</u>
Total Liabilities and Shareholders' Equity		<u>434,110</u>	<u>435,750</u>

See accompanying Notes to Interim Consolidated Financial Statements

Consolidated Statements of Earnings

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

Unaudited	Note	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Operating Revenues			
Electricity Sales		16,905	15,946
Fuel Factor		<u>36,600</u>	<u>36,579</u>
<i>Total Operating Revenues</i>		53,505	52,525
Operating Expenses			
Power Generation		37,339	37,323
General and Administration		2,266	2,080
Consumer Services		974	409
Transmission and Distribution		497	601
Depreciation		6,113	6,376
Maintenance		1,293	1,546
Amortization of Intangible Assets		<u>85</u>	<u>79</u>
<i>Total Operating Expenses</i>		48,567	48,414
Operating Income		4,938	4,111
Other (Expenses)/Income:			
Finance Charges	16	(2,487)	(2,243)
Foreign Exchange Gain	18	491	472
Other Income		<u>506</u>	<u>558</u>
<i>Total Net Other (Expenses)</i>		(1,490)	(1,213)
Earnings for the Period		3,448	2,898
<i>Preference Dividends Paid- Class B</i>		<u>(113)</u>	<u>(113)</u>
<i>Earnings on Class A Ordinary Shares</i>		3,335	2,785
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)	13	29,062	28,806
<i>Earnings per Class A Ordinary Share</i>	13	0.11	0.10
Diluted Earnings per Class A Ordinary Share	13	0.11	0.10
Dividends Declared per Class A Ordinary Share		0.165	0.165

See accompanying Notes to Interim Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net Earnings for the Period	3,448	2,898
Other Comprehensive Income/(Loss):		
Amounts arising during the period		
Defined Benefit Pension plans:		
Net actuarial (loss)/gain	-	-
Reclassification to net income		
Defined Benefit Pension plans:		
Amortization of prior service costs	20	62
Amortization of net actuarial loss	=	<u>33</u>
Total Other Comprehensive Income	20	95
Comprehensive Income	3,468	2,993

See accompanying Notes to Interim Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

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

	Common Shares (in thousands)	Common Shares Value (\$)	Preference Shares (\$)	Share Premium (\$)	Additional Paid-in Capital (\$)	Retained Earnings (\$)	Accumulated Other Comprehensive Loss (\$)	Total Equity (\$)
As At January 1, 2014	29,060	1,730	250	81,023	479	95,064	(254)	178,292
Net Earnings	-	-	-	-	-	3,448	-	3,448
Common Share Issuance & stock options plans	46	2	-	489	7	-	-	498
Defined benefit plans	-	-	-	-	-	-	20	20
Dividends on common shares	-	-	-	-	-	(4,795)	-	(4,795)
Dividends on preference shares	-	-	-	-	-	(113)	-	(113)
As At March 31, 2014	29,106	1,732	250	81,512	486	93,604	(234)	177,350
As At January 1, 2013	28,806	1,715	250	78,524	450	94,647	(1,720)	173,866
Net Earnings	-	-	-	-	-	2,898	-	2,898
Common Share Issuance & stock options plans	47	2	-	490	7	-	-	499
Defined benefit plans	-	-	-	-	-	-	95	95
Dividends on common shares	-	-	-	-	-	(4,752)	-	(4,752)
Dividends on preference shares	-	-	-	-	-	(113)	-	(113)
As At March 31, 2013	28,853	1,717	250	79,014	457	92,680	(1,625)	172,493

See accompanying Notes to Interim Consolidated Financial Statements

Consolidated Statements of Cash Flows

(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
<i>Operating Activities</i>		
Earnings for the period	3,448	2,898
Items not affecting cash:		
Depreciation	6,113	6,376
Amortization of Intangible Assets	85	79
Non-cash Pension Expenses	22	(87)
Amortization of Deferred Financing Costs	44	49
Stock-based compensation	<u>7</u>	<u>7</u>
	9,719	9,322
Net change in non-cash working capital balances related to operations	6,263	7,220
Net Change in Regulatory Deferrals	<u>(2,294)</u>	<u>(1,209)</u>
<i>Cash flow related to operating activities</i>	13,688	15,333
<i>Investing Activities</i>		
Purchase of property, plant and equipment	(6,511)	(6,399)
Costs related to intangible assets	(53)	(18)
Proceeds on sale of property, plant and equipment	<u>9</u>	<u>15</u>
<i>Cash flow related to investing activities</i>	(6,555)	(6,402)
<i>Financing Activities</i>		
Decrease in bank overdraft	(1,258)	(1,822)
Dividends paid	(5,387)	(5,345)
Net proceeds from share issues	<u>492</u>	<u>492</u>
<i>Cash flow related to financing activities</i>	(6,153)	(6,675)
Increase in net cash and cash equivalents	980	2,256
Cash and cash equivalents - Beginning of period	<u>1,215</u>	<u>694</u>
Cash and cash equivalents - End of period	2,195	2,950
Supplemental disclosure of cash flow information:		
Interest paid during the period	14	62

See accompanying Notes to Interim Consolidated Financial Statements

Notes to Interim Consolidated Financial Statements

Unaudited – March 31, 2014 (expressed in thousands of United States dollars unless otherwise stated)

1. Nature of Operations and Consolidated Financial Statement Presentation

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

The principal activity of the Company is to generate and distribute electricity in its licence area of Grand Cayman, Cayman Islands, pursuant to a 20-year exclusive Transmission & Distribution ("T&D") Licence and a 21.5 year non-exclusive Generation Licence (collectively the "Licenses") with the Cayman Islands Government ("Government"), which expire in April 2028 and September 2029 respectively. These consolidated interim financial statements do not include all of the disclosures normally found in the Company's annual financial statements and should be read in conjunction with the MD&A and audited financial statements and notes thereto for the year ended December 31, 2013, with 2012 comparatives, prepared in accordance with US GAAP included in the Company's 2013 Annual Report.

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

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

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

Rate Regulated Operations

CUC's base rates are designed to recover and earn a return on all non-fuel and regulatory costs and include per kWh electricity charges and fixed facilities charges. Fuel cost charges and license 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"). The ERA reviewed and approved a rate increase for June 2013 of 1.8% as a result of the 2012 RORB and the slight increase in the applicable United States and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2012. All fuel and lubricating oil costs are passed through to customers without markup as a per kWh charge.

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

Seasonality

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

2. Summary of Significant Accounting Policies

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

3. Changes in Accounting Estimates

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

In accordance with its PP&E policy, the Company reviews the estimated useful lives of its fixed assets on an ongoing basis. A review concluded during the First Quarter 2014 indicated that the actual lives of certain Transmission and Distribution ("T&D") and Generation assets were longer than the estimated useful lives used for depreciation purposes in the Company's financial statements. As a result, effective 1 January 2014, the Company changed its estimates of the useful lives of these assets to better reflect the estimated periods during which these assets will remain in service. The affected assets previously averaged useful lives of twenty years which were increased to an average of twenty-five to thirty-five years. The effect of this change in estimate was to reduce depreciation expense by \$0.4 million for the three months ended March 31, 2014 ("First Quarter 2014"), increase First Quarter 2014 net earnings by \$0.4 million, and increase First Quarter 2014 basic and diluted earnings per share by \$0.01.

Allowance for Doubtful Accounts ("AFDA")

In accordance with its AFDA policy, the Company maintains an accumulated provision for uncollectible customer accounts receivable that is estimated based on known accounts, historical experience and other currently available information, including the economic environment. During the First Quarter 2014, the Company commenced a full review of its outstanding Accounts Receivables balance and the reasonableness of its methodology of applying a flat percentage to total receivables in calculating AFDA. This review has initially indicated an increase in days outstanding for receivable balances and management has determined the estimation process related to the AFDA would be refined to include a risk element for aging of accounts receivable. The effect of this change in estimate was to increase the provision by \$0.5 million, decrease First Quarter 2014 net earnings by \$0.5 million, and decrease First Quarter 2014 basic and diluted earnings per share by \$0.02.

4. Accounts Receivable

	As at March 31, 2014	As at December 31, 2013
Billings to consumers	9,871	12,979
Unbilled revenues	3,531	3,661
Other receivables	2,341	2,200
Allowance for doubtful accounts	(705)	(195)
Total Accounts Receivable	15,038	18,645

Unbilled Revenues

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

Other receivables

Other receivables relate to amounts due outside of the normal course of operations. Items in other receivables include sale of inventory and machine break-down costs covered by warranties. Other receivables at March 31, 2014 also include billing adjustments for commercial customers.

5. Regulatory Assets and Liabilities

Asset/Liability	Description	As at March 31, 2014	As at December 31, 2013
Regulatory Assets	Fuel Tracker Account (a)	24,523	22,867
Regulatory Assets	Derivative contract (b)	463	-
Regulatory Assets	Miscellaneous Regulatory Assets (c)	320	329
Regulatory Assets	Government & Regulatory Tracker Account (d)	<u>1,337</u>	<u>1,177</u>
Total Regulatory Assets		26,643	24,373
Regulatory Liabilities	Miscellaneous Regulatory Liabilities (e)	(218)	(242)
Total Regulatory Liabilities		<u>(218)</u>	<u>(242)</u>

- a) Fuel Tracker Account – The 2008 T&D Licence established a fuel tracker mechanism to ensure the Company and the consumers neither gain nor lose from the pass through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from or reimbursed to the consumers. The receivable or payable value represents a regulatory asset or liability. The net position of the fuel tracker accounts fluctuates monthly and is affected by fuel prices and electricity consumption.
- b) Derivative contract - The Company’s purpose of hedging is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company’s customers in the face of price volatility for the fuel that the Company must purchase in order to provide electric service. This account represents the fair value adjustments for the call options. The Company’s current call option contracts will expire in February 2015.
- c) Miscellaneous regulatory assets represent costs incurred by the Company, other than fuel and the specifically itemised licence and regulatory fees, to be recovered through the Company’s base rates on terms as agreed with the ERA.
- d) Government and Regulatory Tracker Account - A licence fee of 1% of gross revenues applies to customer billings for consumption over 1,000 kWh per month as a pass-

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through charge on a per kWh basis. Additionally, a regulatory fee of ½ of 1% is charged on gross revenues then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The government and regulatory tracker account is the actual fee incurred less the amount of funds received from consumers.

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

6. Inventories

The composition of inventories is shown in the table below:

Inventories	As at March 31, 2014	As at December 31, 2013
Fuel	3,319	4,591
Lubricating Oil	643	499
Line spares	78	79
Other	<u>15</u>	<u>16</u>
Total	4,055	5,185

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

Property, Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value March 31, 2014
Transmission & Distribution (T&D)	286,639	96,928	189,711
Generation	294,437	126,440	167,997
Other:			
Land	5,304	-	5,304
Buildings	19,941	10,200	9,741
Equipment, motor vehicles and computers	<u>21,626</u>	<u>14,825</u>	<u>6,801</u>
<i>Total</i>	627,947	248,393	379,554
Datalink, Ltd.	<u>382</u>	=	<u>382</u>
Property, plant and equipment	<u>628,329</u>	<u>248,393</u>	<u>379,936</u>

Property, Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value December 31, 2013
Transmission & Distribution (T&D)	283,944	95,368	188,576
Generation	291,459	122,883	168,576
Other:			
Land	5,304	-	5,304
Buildings	19,993	10,068	9,925
Equipment, motor vehicles and computers	<u>21,244</u>	<u>14,676</u>	<u>6,568</u>
<i>Total</i>	621,944	242,995	378,949
Datalink, Ltd.	<u>380</u>	=	<u>380</u>
Property, plant and equipment	<u>622,324</u>	<u>242,995</u>	<u>379,329</u>

Included in PP&E are a number of capital projects in progress with a total cost to date of \$25.8 million (December 31, 2013: \$29.8 million). These projects primarily relate to various

improvements to the Distribution System. Included in the total cost is an amount of \$0.4 million that relates to DataLink capital projects in progress for the construction of fibre optic assets.

Also included in Generation and T&D is freehold land with a cost of \$5.0 million (December 31, 2013: \$5.0 million). In addition, line inventory with a cost of \$4.4 million (December 31, 2013: \$4.5 million) is included in T&D. Engine spares with a net book value of \$15.7 million (December 31, 2013: \$15.7 million) are included in Generation.

The capitalisation of 'Financing Costs' is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for fiscal 2014 is 8.0% (2013: 7.5%) and will be adjusted annually. As a result, during the three month period ended March 31, 2014, the Company recognised \$0.5 million in AFUDC. The Company recognised an amount of \$0.8 million for the three month period ended March 31, 2013 under the provision for AFUDC.

GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity. GEC totalled \$1.0 million for the three months ended March 31, 2014, compared to GEC for the three months ended March 31, 2013 of \$0.9 million.

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

8. Other Assets

Other Assets	As at March 31, 2014	As at December 31, 2013
Deferred debt issue costs	1,440	1,483
Miscellaneous other assets	<u>25</u>	<u>26</u>
Total	1,465	1,509

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

9. Intangible Assets

Intangible Assets	Cost	Accumulated Amortisation	Net Book Value March 31, 2014
Deferred licence renewal costs	1,890	558	1,332
Datalink Ltd. deferred licence renewal costs	200	27	173
Computer Software	5,083	3,909	1,174
Other Intangible Assets in progress	125	-	125
Trademark Costs	<u>75</u>	-	<u>75</u>
Total	7,373	4,494	2,879

Intangible Assets	Cost	Accumulated Amortisation	Net Book Value December 31, 2013
Deferred licence renewal costs	1,890	534	1,356
Datalink Ltd. deferred licence renewal costs	200	23	177
Computer Software	4,877	3,819	1,058
Other Intangible Assets in progress	125	-	125
Trademark Costs	<u>75</u>	-	<u>75</u>
Total	7,167	4,376	2,791

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

10. Accounts Payable and Accrued Expenses

	As at March 31, 2014	As at December 31, 2013
Fuel Cost Payable	22,683	25,478
Trade Accounts Payable & Accrued expenses	2,580	2,246
Accrued Interest	3,910	938
Dividends Payable	113	592
Other Accounts Payable	<u>2,762</u>	<u>2,379</u>
Total Accounts Payable	32,048	31,633

Included in Other Accounts Payable is an amount related to the fuel option contracts (see Note 14) of \$0.4 million at March 31, 2014 (nil at December 31, 2013).

11. Short-Term Financing

The Company has \$47.0 million of unsecured credit financing facilities with the Royal Bank of Canada ("RBC"). The total available was \$46.0 million at March 31, 2014 (\$44.7 million at December 31, 2013).

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	Total Credit Financing Facilities March 31, 2014	Total Utilised March 31, 2014	Total Available March 31, 2014
Corporate Credit Card Line*	400	400	-
Letter of Credit	602	602	-
Operating, Revolving Line of Credit	7,500	-	7,500
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>31,000</u>	=	<u>31,000</u>
Total	47,002	1,002	46,000

*. Included in Accounts payable and accrued expenses

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

12. Share Based Compensation Plans

Share Options:

The shareholders of the Company approved an Executive Stock Option Plan 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	March 31, 2014 Number of options	March 31, 2014 Weighted average exercise price per share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$ millions)
Outstanding at beginning of period	332,950	10.49	-	-
Granted	-	-	-	-
Exercised	(5,600)	8.76	-	-
Forfeited/Cancelled	-	-	-	-
Expired	=	=	=	=
Outstanding, end of period	<u>327,350</u>	<u>10.52</u>	<u>6.23</u>	<u>0.09</u>
Vested, end of the period	242,600	10.82	5.60	0.14

Under the fair value method, the compensation expense was \$0.01 million for the three month period ended March 31, 2014 (March 31, 2013: \$0.01 million), resulting in a corresponding increase of Additional Paid in Capital.

Performance Share Unit ("PSU") Plan:

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

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

PSU Compensation expense was \$0.01 million for the three month period ended March 31, 2014 (March 31, 2013: nil), resulting in a corresponding increase to Other Long-Term Liabilities.

13. Earnings per Share

The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average Class A Ordinary Shares outstanding were 29,061,629 and 28,805,956 for the three month period ended March 31, 2014 and March 31, 2013 respectively.

The weighted average of Class A Ordinary Shares used for determining diluted earnings were 29,070,883 and 28,882,691 for the three month period ended March 31, 2014 and March 31, 2013 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at March 31, 2014 the outstanding options are not materially dilutive as the market price of common shares is below or marginally higher than the exercise price.

	Earnings (in \$ thousands) March 31, 2014	Weighted average shares (in thousands) March 31, 2014	Earnings per Common Shares March 31, 2014
Net earnings applicable to common shares	3,335		
Weighted Average share outstanding		29,062	
Basic Earnings Per Common Share			0.11
Effect of potential dilutive securities:			
Stock Options	=	9	=
Diluted Earnings per Common Share	3,335	29,071	0.11
	Earnings (in \$ thousands) March 31, 2013	Weighted average shares (in thousands) March 31, 2013	Earnings per Common Shares March 31, 2013
Net earnings applicable to common shares	2,785		
Weighted Average share outstanding		28,806	
Basic Earnings Per Common Share			0.10
Effect of potential dilutive securities:			
Stock Options	=	17	=
Diluted Earnings per Common Share	2,785	28,823	0.10

14. Fair Value Measurement

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market

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

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

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

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

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

	As at March 31, 2014		As at December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long term debt, including current portion	219,000	221,800	219,000	214,110
Fuel Option Contracts ¹	463	463	-	-

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

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

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

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

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

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

Financial Liability	March 31, 2014 Total Fair Value	Level 1 - Quoted Prices in active markets for identical assets	Level 2 - Significant Other inputs	Level 3 - Significant unobservable inputs
Long term debt, including current portion	221,800	-	221,800	-
Fuel Option Contracts ¹	463	-	463	-

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

15. Financial Risk Management

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

Credit Risk

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

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

Liquidity Risk

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

(\$millions)	Total	2014	2015-2016	2017-2018	2019 Onward
Accounts payable and accrued expenses	32.0	32.0	-	-	-
Consumer's Deposits and Advances for Construction	5.1	5.1	-	-	-
Letter of Credit	0.6	0.6	-	-	-
Long term debt	219.0	17.0	28.0	27.7	146.3
Long term debt interest	<u>87.5</u>	<u>11.5</u>	<u>20.3</u>	<u>17.2</u>	<u>38.5</u>
Total	344.2	66.2	48.3	44.9	184.8

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.

16. Finance Charges

The composition of finance charges were as follows:

<i>(\$ thousands)</i>	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Interest costs - long-term debt	3,016	2,884
Other interest costs	14	148
AFUDC *	<u>(543)</u>	<u>(789)</u>
Total	2,487	2,243

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

17. Defined Benefit Pension Plan

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. Compensation expense of \$0.02 million was recognised for the three months ended March 31, 2014 (\$0.09 million: three months ended March 31, 2013).

The composition of the expense was as follows:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Interest cost	78	67
Expected return on plan assets	(75)	(75)
Amortisation of past service costs	20	62
Amortisation of actuarial losses	=	<u>33</u>
Total	23	87

This expense has been recorded in general and administrative expenses.

18. Foreign Exchange

The closing rate of exchange on March 31, 2014 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn \$1.1055 per US\$1.00. The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by the Cayman Islands Monetary Authority is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of March 31, 2014 for conversion of Cayman Islands dollars into Canadian dollars was Cdn \$1.3266 per CI\$1.00 (December 31, 2013: Cdn \$1.2763).

19. Taxation

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

The Company is levied custom duties of \$0.89 per IG of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports.

20. Commitments

The Company executed a primary fuel supply contract with Rubis Cayman Islands Limited ("Rubis") in September 2012 upon the expiration of its previous fuel supply contracts. Under the agreement the Company is committed to purchase approximately 60% of its diesel fuel requirements for its generating plant from Rubis. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2014 – 11.3.

The Company also executed a secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") (previously Esso Cayman Limited) in September 2012 and is committed to purchase approximately 40% of the Company's diesel fuel requirements for its generating plant from Sol. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2014 – 7.6.

Both contracts expire July 31, 2014 with the option to renew for two additional 18 month terms. Renewal cannot occur more than 6 months in advance of the current contract expiry date. The point of delivery for fuel billing purposes remains at the Company's North Sound Plant compound. The Company is also responsible for the management of the fuel pipeline and ownership of bulk fuel inventory at the North Sound Plant.

As a result of the Company's bulk fuel inventory, the value of CUC's closing stock of fuel at March 31, 2014 was \$3.3 million (December 31, 2013: \$4.6 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Plant.

21. Transactions with Related Parties

Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totalling \$0.013 were outstanding at March 31, 2014 (\$0.010 million as at December 31, 2013) for labor, software subscriptions and travel expenses and are shown as Related Parties Payables on the Balance Sheet.

22. Comparative Figures

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

Caribbean Utilities Company, Ltd.

Shareholder Information

Shareholder Plans

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

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

Shareholder Information

Duplicate Annual Reports

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

Our Registrar and Transfer Agents are as follows:

CST Trust Company

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

Caribbean Utilities Company, Ltd.

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