Caribbean Utilities Company, Ltd.

2018 Annual Report

About the Company

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

About the Cayman Islands

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 63,000, are comprised of three islands: Grand Cayman, Cayman Brac and Little Cayman. Located approximately 150 miles south of Cuba, 460 miles south of Miami and 167 miles northwest of Jamaica, the largest island is Grand Cayman with an area of 76 square miles.

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

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Readers should review the Note on page 9 in this Annual Report, in the Management's Discussion and Analysis section, concerning the use of forward-looking statements, which applies to the entirety of this Annual Report to shareholders.

Highlights

Financial Results in Brief

(Expressed in thousands of United States dollars unless stated otherwise)

	Year ended December 31, 2018	Year ended December 31, 2017	Change %
Operating Revenues	**194,578**	170,941	14%
Electricity Sales Revenues	**86,335**	81,784	6%
Fuel Factor Revenues	**104,170**	86,391	21%
Renewables Revenues	**4,073**	2,766	47%
Total operating expenses	**166,192**	143,561	16%
Finance Charges	**7,677**	8,539	-10%
Net Earnings for the year	**26,770**	23,775	13%
Total assets	**562,754**	530,895	6%
Total shareholders' equity	**230,382**	224,423	3%
Cash flow related to operating activities	**64,239**	50,731	27%
The following items are fully stated, not in thousands:			
Earnings per Class A Ordinary Share	**0.78**	0.70	11%
Dividends per Class A Ordinary Share (paid and declared)	**0.695**	0.680	2%
Book value per Class A Ordinary Share	**6.92**	6.78	2%
Class A Ordinary Shares			
Market Price: High	**14.01**	18.89	-26%
Low	**11.75**	12.58	-7%
Year-end	**12.25**	13.79	-11%

Performance

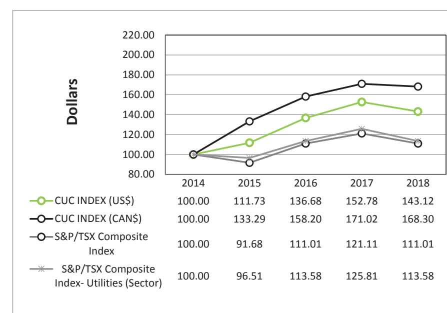
Net earnings for the year ended December 31, 2018 were $26.8 million, a $3.0 million increase from net earnings of $23.8 million for the year ended December 31, 2017. This increase is attributable to higher electricity sales revenues and lower finance charges. These items were partially offset by higher depreciation and transmission and distribution expenses. Dividends paid and declared on Class A Ordinary Shares were $0.695 per share. The Class A Ordinary Shares (CUP.U) traded on the Toronto Stock Exchange at a high of $14.01per share in 2018.

Rate of Exchange

The closing rate of exchange on December 31, 2018 as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was Cdn$1.3642 per US$1.00. The official exchange rate for the conversion of Cayman Islands dollars into United States 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 December 31, 2018 for conversion of Cayman Islands dollars into Canadian dollars was Cdn$1.6370 per CI$1.00 (December 31, 2017: Cdn$1.5054).

Share Performance

The following chart compares the five-year cumulative total returns between Cdn$100.00 and US$100.00 invested in CUC Class A Ordinary Shares and the S&P/TSX Composite Index - Utilities and S&P/TSX Composite Index.



Information reflected in this Highlights section should be read in conjunction with the disclosure contained in the Management's Discussion and Analysis section and its associated cautions beginning on page 9. All dollar amounts in this Annual Report are stated in United States dollars unless otherwise indicated.

Letter to Fellow Shareholders

J.F. Richard Hew
President & Chief Executive Officer

David E. Ritch , OBE, JP
Chairman of the Board of Directors

It is our pleasure to report on the financial performance and operational progress of Caribbean Utilities Company, Ltd. ("CUC" or the "Company") for the year ended December 31, 2018 ("Fiscal 2018").

Financial Performance

Operating income for Fiscal 2018 totalled $28.4 million, a $1.0 million increase from operating income of $27.4 million for the year ended December 31, 2017 ("Fiscal 2017"). This increase is attributable to higher electricity sales revenues driven primarily by a 1.0% increase in kilowatt per hour ("kWh") sales, and 1.6% and 1.8% base rate increases effective June 1, 2017 and June 1, 2018, respectively. These items were partially offset by higher depreciation and transmission and distribution expenses in 2018.

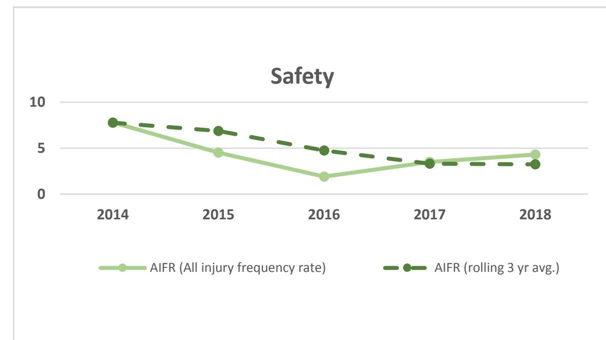
Net earnings for Fiscal 2018 were $26.8 million, a $3.0 million increase from net earnings of $23.8 million for Fiscal 2017. This increase is primarily attributable to higher operating income and lower finance charges.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Fiscal 2018 were $25.8 million, or $0.78 per Class A Ordinary Share as compared to $22.8 million, or $0.70 per Class A Ordinary Share for Fiscal 2017. The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average number of Class A Ordinary Shares outstanding were 33,078,944 and 32,796,012 for the years ended December 31, 2018 and December 31, 2017, respectively.

Safety and the Environment

The safety of all of our employees as well as of contractors and members of the public remained a high priority during 2018. Improvements continued in relation to work methods and practices to ensure that jobs were being performed safely. Numerous training programmes which focused specifically on safety were provided to employees in an effort to keep the workforce safe. Employees took part in an annual Safety Time-Out where targets for health and safety were set and training conducted on completing investigations. The session was aimed at refocusing and reminding employees of the steps they need to take to stay safe on the job.

The All-Injury Frequency Rate ("AIFR") which measures incidents involving lost time or medical treatment was 4.3 for 2018. The figure to the right illustrates CUC's continued improvement in the 3-year average safety performance from 2014 to 2018. The AIFR is the total number of lost time incidents involving medical treatment per 200,000 person hours worked for the year.



Although environmental regulations in the Cayman Islands are less onerous than those in North America, the Company acts responsibly in environmental matters and in compliance with all material aspects of the environmental regulations of the Cayman Islands. Registration to the standards as outlined below show the Company's commitment to the environment.

In June 2018, CUC conducted its internal audit of the Occupational Health and Safety Management System ("OHSMS") to the Occupational Health and Safety Assessment Series ("OHSAS") 18001 standard. The audit was led by an external auditor with a team of trained CUC staff. The independent auditor stated in its report that CUC had implemented and is maintaining an OHSMS that is consistent with the requirements of OHSAS 18001:2007.

The Company's Environmental Management System ("EMS") successfully passed the re-certification audit of the system in 2018, with two minor non-conformances identified. CUC's EMS is registered to the International Organization for Standardization ("ISO") environmental standard (ISO 14001:2015) which requires that an external audit of the system be conducted on an annual basis. The 2018 external audit showed that the system was in compliance with the standard. As a requirement of the standard, an internal audit of the EMS is also required. This audit was conducted in October 2018 and the system was shown to be functioning in compliance with the standard.

The Company's long-term strategy is to increase the use of renewable energy and reduce its greenhouse gas emissions where economically viable and maintaining reliability. During the period under review, the Company made significant strides to improve the environment and reduce our carbon footprint.

Through the Customer Owned Renewable Energy ("CORE") programme, the 5 megawatts ("MW") Entropy solar farm and the Company's 40MW combined cycle power plant, the Company reduced its CO_2 equivalent emissions by a total of 18,828 Tons for 2018. Solar Energy reduced CO_2 emissions by 10,182 Tons and the 40MW combined cycle power plant's steam turbine utilized the waste heat from the diesel generating units to generate power and reduce CO_2 emissions by a further 8,648 Tons.

In collaboration with the National Roads Authority, the Company launched a project in 2018 to replace all of its street lamps with Light Emitting Diodes ("LED"). The project will span the next five years and has already begun in George Town with the installation of over 2,000 LED lights as part of the first phase. Over 7,000 LEDs will be installed across Grand Cayman delivering numerous benefits, including an estimated 26% savings in overall street lighting costs billed to the NRA and other customers. The reduction in energy use by the LED lights for the total project will be approximately 3.78 gigawatt hour ("GWh") per year for a reduction of 195,000 imperial gallons of diesel burnt. The new lights will also bring about a cut of 5.2 million pounds in excess CO_2 emissions which will help Grand Cayman meet its emissions target as outlined in the National Energy Policy.

Capital Projects

The Company broke ground for the new 69/13 kilovolt ("kV") substation on Seven Mile Beach. The project will cost approximately $16.7 million and will be the first substation in the English speaking Caribbean to incorporate medium voltage GIS technology. The medium voltage GIS will increase safety, system reliability and resiliency and will accommodate load growth within the popular Seven Mile Beach tourist area for decades to come. The substation will be constructed by Siemens who are contracted to build a similar substation in Prospect to serve residential growth. Ground breaking for this project is expected in the second quarter of 2019.

Significant progress was achieved on the replacement of the Supervisory Control and Data Acquisition ("SCADA") system, which controls CUC generation and transmission and distribution systems from the central control room at the North Sound Road Plant. This project requires extensive work to the substations and when completed will give the Company improved monitoring and control of the grid and enhance the ability to detect and locate grid faults when they occur.

Renewable Energy

The Company continues to facilitate the connection of renewable energy sources to the grid.

Renewable energy on the CUC grid for 2018 totalled 16.1 million kWh which amounts to 2.5% of the total energy supplied. The Company's aim is to have 25% of renewable energy on the grid by 2025 and to meet the objectives and targets of the National Energy Policy over the longer term.

The CORE programme, remains popular with residential and commercial customers who have been connecting their solar panels or wind turbines to the CUC grid. As at December 31, 2018, there were 343 customers connected in the programme with an aggregate installed capacity of 4,917.14 kilowatts.

In 2015, the Company entered into a Power Purchase Agreement ("PPA") with Entropy Cayman Solar Limited which will provide a minimum generated energy of 8.8 GWh per year for a 25-year term. In December 2018, Entropy Cayman Solar Limited was acquired by BMR Energy Limited ("BMR Energy"). At December 31, 2018 the total energy purchased from BMR Energy was 9.4 million kWh, compared to 5.5 million kWh for the period from July 1, 2017 to December 31, 2017. The solar project was completed in June 2017 and the solar farm launched production in July 2017.

The Company was pleased with the acceptance by the Cayman Islands Utility Regulation and Competition Office ("OfReg") of CUC's 2017 Integrated Resource Plan ("IRP"). The study, which was completed by PACE Global on behalf of CUC, recommended a portfolio of 60% renewable energy and natural gas replacing diesel by 2037. CUC fully embraces this transition to cleaner energy from proven technologies such as solar and wind with costs projected to be lower and more stable than today's conventional diesel technology.

Human Resources and Training

CUC's compliment of 226 full-time employees, approximately 90% of whom are Caymanians, has increased from 208 employees in 2016. This growth over the past 2 years was necessary to meet the significant transmission and distribution construction activity and to improve safety and reliability performance.

CUC remains dedicated to being a top employer in Grand Cayman, and a number of initiatives led to increased employee engagement survey results in 2018. The 2018 results in comparison to 2017 showed an increase in both the completion rate by 7% based on number of persons completing the survey, and the engagement score increased by 2%.

Throughout 2018, the Company continued its training programmes, which provided employees with the training necessary to excel in their respective fields and to ensure their advancement within the organization. Over 11,800 hours were devoted to the training and development of staff to perform their jobs in a safe and efficient manner as well as to improve performance and skills.

A major focus for 2018 was to continue to support CUC's leadership development framework for current and aspiring leaders within the Company. This was achieved through the continuation of the Institute of Leadership and Management certificate programme for those at the Foreman, Supervisor, and Manager levels. In 2018, 20 employees completed the programme, and the aim to enhance their management and business acumen skills.

During the year in review, as a part of an ongoing initiative to maintain a skilled workforce, CUC partnered with FortisAlberta, a subsidiary of Fortis Inc., to launch a new power line technician apprentice programme. As part of this programme, four of our apprentices, spent four and a half months in Alberta, Canada. While there, they were assigned to a mentor who assisted them during their specialized training.

In 2018, CUC awarded two new academic scholarships through its scholarship programme. Mr. Odayne Lynch, a CUC employee, was granted a scholarship and study leave to undertake additional studies for his Electrical Engineering Technologist qualification at Conestoga College in Canada. Ms. Sarafina Mitchell began her studies at Cayman Prep & High School in September 2018 through the assistance of a CUC A-level scholarship.

In May 2018, the Company celebrated with 22 employees who received long service awards for having careers spanning from 10 years to 35 years. Together, they gave CUC 520 years of service. We are grateful to them for the significant contribution that they have made to the Company over these many years. The quality and diversity of our people are vital to the success of our business.

The Company also congratulated six individuals who were recognized with special awards in 2018: James Moore (Employee of the Year), Raymond Stewart (Supervisor of the Year), Jarron Conolly (Excellence in Safety), Anthony Verhoeven (Jeffrey Broderick Bright Spark Award), Karan Andrew (Team Spirit Award) and Anika Conolly (Wellness Advocate Award). These individuals were nominated in the various categories by their colleagues, with the winners voted on by management.

Community Involvement

The Community Involvement programme provides the opportunity for a wide cross section of the Company's employees to give of their time and talent to the Cayman community through volunteerism.

At the end of December 2018, employees had volunteered over 1,600 hours participating in a number of the Company's Community Involvement projects. These projects included Meals on Wheels, CUC's Primary Football League, the Cayman Islands Scout Association and the Swimming Association. The Company also continues to sponsor a Mangrove Environmental Education Programme, which exposes primary school children to Grand Cayman's marine environment. The Company also provides support to the Lighthouse School and the Sunrise Adult Training Centre, two facilities which cater to adults and children with special needs. CUC remains committed to the ongoing development of the community in which we live and work.

Summary

As we move forward, we are focused on the Company's vision of "Empowering Cayman to be a Global Leader."

The Cayman economy is estimated to have grown by 3.4% in 2018 with future growth projected at 2.7% in 2019 and 2.2% in 2020.

The construction sector is expected to continue leading the economic expansion through 2020. Approved public sector projects include the on-going expansion of the Owen Roberts International Airport, the Linford Pierson highway, a long-term residential mental health facility, and a solid waste management system. Discussions on a cruise berthing facility also form part of the Government's plans to expand public infrastructure capacity which should facilitate development and further economic growth.

In addition to these public sector projects, the Cayman Islands Government also expects that growth over the medium-term will be driven in large part by the private sector, with recently completed and forthcoming projects that will increase the accommodation capacity for tourist arrivals and other commercial activities. A new 351-room Grand Hyatt hotel and residences has also recently been announced and is expected to be completed in 2020. The sector is also expected to be boosted by the construction of new high-end apartment and condominium complexes across Grand Cayman.

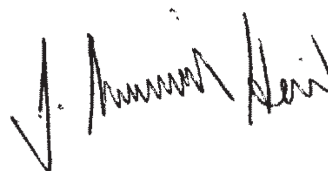
Overall our customer base increased 2% from 29,160 as at December 31, 2017 to 29,822 as at December 31, 2018.

The utility industry continues to change and the Company recognizes that it must make the necessary changes to remain viable and competitive. This means concentrating on four key areas: developing leaders at every level of the organization; enhancing the customer experience; adding cleaner energy generation; and strengthening our grid. This shift will require us to explore gaps and create new lines of business, which will enable our Company to remain robust and nimble, and produce strong financial results for you, our Shareholders, and to continue to invest in the island's growth.

During the fourth quarter of 2018, the Company submitted its 2019-2023 capital investment plan ("CIP") in the amount of $273 million to the Utility Regulation and Competition Office (the "OfReg") for annual approval. The Company has also submitted an additional $77 million in proposed grid enhancement projects for regulatory review. These projects, which include battery storage and infrastructure upgrades are expected to be outside of the Company's rate cap and adjustment mechanism, with shared financial and service benefits to consumers.

The Board of Directors continues to provide guidance and support and we thank them for their ongoing contributions. We are also grateful to our employees for their loyalty to the Company as the achievements of Fiscal 2018 would not be possible without their hard work, commitment and dedication.

David E. Ritch, OBE, JP
Chairman of the Board of Directors
February 14, 2019



J.F. Richard Hew
President & Chief Executive Officer

Management's Discussion and Analysis

Letitia Lawrence
Vice President Finance, Corporate Services & Chief Financial Officer

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or the "Company") consolidated financial statements for the year ended December 31, 2018 (the "2018 Financial Statements"). The material has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to the MD&A.

The accounting practices, which are disclosed in the notes to the 2018 Financial Statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation, the amount and timing of recovery or refund by the Company of costs of providing services, including a fair return on rate base assets, from customers through appropriate billing rates would not be subject to regulatory approval.

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements concerning anticipated future events, results, circumstances, performance or expectations with respect to the Company and its operations, including its strategy, 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", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedules", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward-looking statements are based on underlying assumptions and management's beliefs, estimates and opinions, and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and

estimates. Some of the important risks and uncertainties that could affect forward-looking statements are described in the MD&A in the sections labelled "Business Risks", "Capital Resources" and "Corporate and Regulatory Overview" and include but are not limited to operational, general economic, market and business conditions, regulatory developments and weather. CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

Financial information is presented in United States dollars unless otherwise specified. The 2018 Financial Statements and MD&A in this Annual Report were approved by the Audit Committee and the Board of Directors.

In December 2017, the Ontario Securities Commission ("OSC") issued a relief order which permits CUC to continue to prepare its financial statements in accordance with U.S. GAAP. The relief extends until the earliest of: (i) January 1, 2024; (ii) the first date of the financial year that commences after the Company ceases to have activities subject to rate regulation; and (iii) the effective date prescribed by the International Accounting Standards Board (the "IASB") for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation. The OSC relief order effectively replaces and extends OSC's previous relief order, which was due to expire effective January 1, 2019.

Canadian securities laws allow a reporting issuer to prepare and file its financial statements in accordance with U.S. GAAP by qualifying as a U.S. Securities and Exchange Commission ("SEC") registrant. Without OSC relief, the Company would be required to become an SEC registrant in order to continue reporting under U.S. GAAP, or adopt IFRS. The IASB has released an interim, optional standard on Regulatory Deferral Accounts and continues to work on a project focusing on accounting specific to rate-regulated activities. It is not yet known when the project will be completed or whether IFRS will, as a result, include a permanent, mandatory standard to be applied by entities with activities subject to rate regulation. In the absence of a permanent standard for rate-regulated activities, the application of IFRS could result in volatility in earnings and earnings per share as compared to that which would otherwise be recognized under U.S. GAAP.

February 14, 2019

Financial and Operational Highlights

($ thousands, except Basic Earnings, Dividends Paid and where otherwise indicated)

	Year Ended December 31, 2018	Year Ended December 31, 2017	Change	% Change
Electricity Sales Revenues	**86,335**	81,784	4,551	6%
Fuel Factor Revenues	**104,170**	86,391	17,779	21%
Renewables Revenues	**4,073**	2,766	1,307	47%
Total Operating Revenues	**194,578**	170,941	23,637	14%
Fuel & Lube Costs	**104,170**	86,391	17,779	21%
Renewables Costs	**4,073**	2,766	1,307	47%
Other Operating Expenses	**57,949**	54,404	3,545	7%
Total Operating Expenses	**166,192**	143,561	22,631	16%
Net Earnings for the Year	**26,770**	23,775	2,995	13%
Cash Flow related to Operating Activities	**64,239**	50,731	13,508	26%
Per Class A Ordinary Share:				
Basic Earnings	**0.78**	0.70	0.08	11%
Dividends Paid	**0.695**	0.680	0.015	2%
Total Customers	**29,822**	29,160	662	2%
Total Employees*	**226**	216	10	5%
Customer per Employee (#)	**132**	135	(3)	-2%
System Availability (%)	**99.93**	99.93	-	0%
Peak Load Gross (MW)	**103.6**	105.6	(2.1)	-2%
Millions of kWh:				
Net Generation	**641.8**	654.3	(12.5)	-2%
Total Energy Supplied	**653.7**	647.1	6.6	1%
Kilowatt-Hour Sales	**628.8**	621.8	7.0	1%
Sales per employee	**2.78**	2.88	(0.10)	-3%

*** Total full time CUC employees**

Corporate and Regulatory Overview

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

The Company is regulated by the Cayman Islands Utility Regulation and Competition Office (the "OfReg"), which has the overall responsibility of regulating the electricity, information and communications technology, and the petroleum industries in the Cayman Islands in accordance with the Utility Regulation and Competition Office Law (2016). During 2016, the Government passed legislation designed to facilitate the reform of the regulatory arrangements for the utilities sector. The objective of the legislation was to establish a multi-sector regulator known as the OfReg by merging the operations of the Information & Communication Technology Authority ("ICTA") and the Electricity Regualtory Authority ("ERA") and which would also regulate the provision of water and waste water services and fuel markets. The Utility Regulation and Competition Office Law that established the OfReg came into effect on January 16, 2017, and transferred the powers, functions and responsibilities of the ICTA and the ERA to the OfReg. This merger did not impact the terms and conditions of the Licences.

The Licences provide for a rate cap and adjustment mechanism ("RCAM") to CUC's return on rate base ("RORB") based on published consumer price indices. CUC's RORB for was 2017 was 6.9%. CUC's RORB for 2018 was targeted in the 7.0% to 9.0% range.

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel, lube and renewables cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2018, following review and approval by the OfReg, the Company increased its base rates by 1.8%. This increase was a result of the 2017 RORB which reflected the increase in the applicable United States ("US") and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2017. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80% based on the range of the RORB values. The required rate adjustment of 1.8% can be calculated by applying 80% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 2.2%. All fuel, lubricating oil and renewables costs are passed through to customers without mark-up as a per kWh charge. Rate base is the value of capital upon which the Company is permitted an opportunity to earn a return. The value of this capital is the average of the beginning and ending values for the applicable financial year of: fixed assets less accumulated depreciation, plus the allowance for working capital, plus regulatory assets less regulatory liabilities.

During the fourth quarter of 2018, the Company submitted its 2019-2023 capital investment plan ("CIP") in the amount of $273 million to the OfReg for annual approval. The Company has also submitted an additional $77 million in proposed projects for battery storage and grid enhancement for review by the OfReg. The 2018-2022 Capital Investment Plan in the amount of $234 million was approved by OfReg in the fourth quarter of 2018.

Prior to May 1, 2018, a licence fee of 1%, payable to the Government, was 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 0.5% was 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. The OfReg and the Company agreed on a change to the licence and regulatory fee structure, whereby the objective is to collect fixed amounts annually of $2.9 million for the license fee and $1.4 million for the regulatory fee. In 2018, this translated to a rate of $0.0149 per kWh, which is applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge.

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 CUC'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 the 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 a charge/cents per kWh, approved by the OfReg to recover the costs of items deemed to be outside of the constraints of the RCAM in the event of a natural disaster.

The OfReg assesses CUC's performance against the performance standard expectations set out in the ERA (Standard of Performance) Rules 2012. Performance standards provide a balanced framework of potential penalties or rewards compared to historical performance in the areas of planning, reliability, operating and overall performance. Standards include "zones of acceptability" where no penalties or rewards would apply.

In December 2018, CUC recorded a liability of $0.07 million for the accrual of Z Factor penalties to be levied by the OfReg and returned to customers, as a result of service outages above maximum performance targets within the zone of acceptability, for the 2017 Fiscal Year. The calculation of the penalty is pending approval from the OfReg.

CUC's wholly-owned subsidiary company, DataLink, Ltd. ("DataLink"), was incorporated under the Companies Law of the Cayman Islands and commenced operations with the granting of its licence to provide fibre optic infrastructure and other information and communication technology ("ICT") services to the ICT industry by the former ICTA, whose regulatory authority was assumed by the OfReg, on March 28, 2012. DataLink is subject to regulation by the OfReg in accordance with the terms and conditions of its Licence which has a term of 15 years, expiring on March 27, 2027. CUC and DataLink have entered into three regulator approved agreements:

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

Consolidation Accounting Policy

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

Earnings

Operating income for the year ended December 31, 2018 ("Fiscal 2018") totalled $28.4 million, a $1.0 million increase from operating income of $27.4 million for the year ended December 31, 2017 ("Fiscal 2017"). This increase is attributable to higher electricity sales revenues primarily driven by a 1.0% increase in kWh sales, and 1.6% and 1.8% base rate increases effective June 1, 2017 and June 1, 2018, respectively. These items were partially offset by higher depreciation and transmission and distribution expenses in 2018.

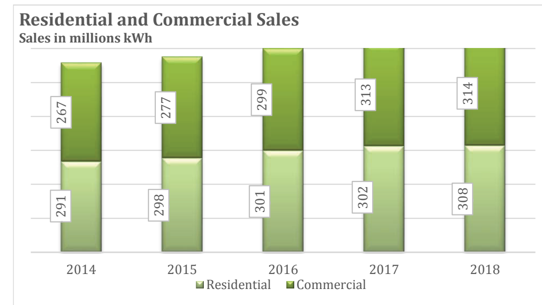
Net earnings for Fiscal 2018 were $26.8 million, a $3.0 million increase from net earnings of $23.8 million for Fiscal 2017. This increase is primarily attributable to higher operating income and lower finance charges.

Finance charges for Fiscal 2018 totalled $7.7 million, a $0.8 million decrease from $8.5 million for Fiscal 2017. This decrease is a result of higher Allowance for Funds Used during Construction ("AFUDC") driven by higher average work in progress for capital projects during Fiscal 2018 and lower interest on long-term debt, offset by higher interest on short-term debt.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Fiscal 2018 were $25.8 million, or $0.78 per Class A Ordinary Share, as compared to $22.8 million, or $0.70 per Class A Ordinary Share, for Fiscal 2017. The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average number of Class A Ordinary Shares outstanding were 33,078,944 and 32,796,012 for the years ended December 31, 2018 and December 31, 2017, respectively.

Sales

Sales for Fiscal 2018 were 628.8 million kWh, an increase of 7.0 million kWh or 1% when compared to 621.8 million kWh for Fiscal 2017. Sales were positively impacted by an increase in average commercial consumption and a 2.0% growth in overall customer numbers.



Total customers as at December 31, 2018 were 29,822, an increase of 662 compared to 29,160 customers as at December 31, 2017.

The Tides development in South Sound is one of the large projects under construction in Grand Cayman.

Operating Revenues

Operating revenues for Fiscal 2018 totalled $194.6 million, an increase of $23.7 million from $170.9 million for Fiscal 2017. This increase in operating revenues was due to higher fuel factor, electricity sales and renewables revenues.

Electricity sales revenue increased $4.5 million for Fiscal 2018 to $86.3 million when compared to electricity sales revenues of $81.8 million for Fiscal 2017. This increase is attributable to higher electricity sales revenues driven primarily by a 1.0% increase in kWh sales, and 1.6% and 1.8% base rate increases effective June 1, 2017 and June 1, 2018, respectively.

Sales and Customer Highlights	Year Ended December 31, 2018	Year Ended December 31, 2017	Change %
Customers (fully stated, not in thousands)			
Residential	**25,409**	24,853	2%
Commercial	**4,413**	4,307	2%
Total Customers	**29,822**	29,160	2%
Sales (in thousands kWh)			
Residential	**313,956**	312,812	0%
Commercial	**308,400**	302,094	2%
Other	**6,466**	6,880	-6%
Total Sales	**628,822**	621,786	1%
Average Monthly Consumption Per Customer (kWh)			
Residential	**1042**	1,059	-2%
Commercial	**65,299**	57,586	13%
Revenues (in thousands of $)			
Residential	**41,938**	41,049	2%
Commercial	**43,649**	40,081	9%
Other (street lights etc.)	**748**	654	14%
Fuel Factor	**104,170**	86,391	21%
Renewables	**4,073**	2,766	47%
Total Operating Revenues*	**194,578**	170,941	14%

*Total CUC Customers and Revenue Only

Fuel factor revenues for Fiscal 2018 totalled $104.2 million, a $17.8 million increase from the $86.4 million in fuel factor and renewables revenues for Fiscal 2017. The average Fuel Cost Charge rate charged to consumers for Fiscal 2018 was $0.17 per kWh, compared to the Fuel Cost Charge rate of $0.14 per kWh for Fiscal 2017. This increase in the average Fuel Cost Charge rate resulted in increased costs of $17.7 million to consumers for Fiscal 2018 when compared to Fiscal 2017. Fuel factor revenues for Fiscal 2018 increased when compared to Fiscal 2017 due to an increase in global oil prices.

The renewables revenues are a combination of charges from the Customer Owned Renewable Energy ("CORE") programme and Entropy Cayman Solar Limited, which are passed-through to consumers on a two-month lag basis with no mark-up. In 2015, the Company entered into a Power Purchase Agreement ("PPA") with Entropy Cayman Solar Limited for a 25-year term. This 5 megawatts ("MW") solar project was completed in June 2017 and in July 2017 the solar farm launched production. In December 2018, BMR Energy Limited ("BMR Energy") acquired Entropy Cayman Solar Limited.

Operating Expenses

Total operating expenses for Fiscal 2018 increased $22.6 million to $166.2 million from $143.6 million for Fiscal 2017. The main contributing factors to the increase in operating expenses were higher fuel costs, depreciation and transmission and distribution expenses.

Operating expenses were as follows:

Operating Expenses
($ thousands)

	Year Ended December 31, 2018	Year Ended December 31, 2017	Change	% Change
Power Generation Expenses	**112,090**	92,623	19,467	21%
General and Administration	**7,592**	8,282	(690)	-8%
Consumer Services	**3,267**	3,272	(5)	0%
Transmission and Distribution	**3,959**	2,945	1,014	34%
Depreciation	**33,260**	30,583	2,677	9%
Maintenance	**5,381**	5,326	55	1%
Amortization of Intangible Assets	**643**	530	113	21%
Total Operating Expenses	**166,192**	143,561	22,631	16%

Power Generation

Power generation costs for Fiscal 2018 totalled $112.1 million, a $19.5 million or 21% increase, when compared to $92.6 million for Fiscal 2017. This increase was a result of higher fuel costs.

Power generation expenses were as follows:

Power Generation
($ thousands) *Fuel, Lubricating Oil and Renewables costs stated net of deferred charges*

	Year Ended December 31, 2018	Year Ended December 31, 2017	Change	% Change
Fuel costs (net of deferred fuel)	**102,755**	85,003	17,752	21%
Lubricating Oil costs (net of deferred lubricating oil charges)	**1,415**	1,388	27	2%
Renewables costs (net of deferred renewables costs)	**4,073**	2,766	1,307	47%
Other generation expenses	**3,847**	3,466	381	11%
Total Power Generation expenses	**112,090**	92,623	19,467	21%

The Company's average price per imperial gallon ("IG") of fuel for Fiscal 2018 increased to $3.10 from $2.77 for Fiscal 2017. The Company's average price per IG of lubricating oil for Fiscal 2018 increased to $9.75 from $9.56 for Fiscal 2017.

Total energy supplied to the grid for Fiscal 2018 was 653.7 million kWh, a 1.0% increase when compared to 647.1 million kWh for Fiscal 2017. Total energy supplied is the net amount of energy available to be transmitted and distributed for consumer use, including energy provided by renewable resources such as the CORE programme and the BMR Energy Solar Farm.

Net fuel efficiency for Fiscal 2018 of 18.84 kWh per IG decreased when compared to net fuel efficiency for Fiscal 2017 of 19.04 kWh per IG. The definition of net fuel efficiency was revised as of January 1, 2018 to

more accurately reflect the generating efficiency of the power generation facilities. The comparative values listed are both expressed using the most recent definitions.

The fuel, lubricating oil and renewables costs are deferred for a period of two months. The deferrals are recorded in the Fuel Tracker Account *(see Note 6 of the Notes to the Annual Consolidated Financial Statements for further details)* and will be recovered from consumers.

In March 2011, the OfReg approved the Fuel Price Volatility Management Programme. The objective of the programme is to reduce the impact of volatility in the Fuel Cost Charge rate paid by the Company's customers for the fuel that the Company must purchase in order to provide electric services. For contracts initiated in 2018 which remain outstanding at December 31, 2018, the Company utilizes call options and call spreads to promote transparency in pricing. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

Renewables costs for Fiscal 2018 totalled $4.1 million, an increase of $1.3 million when compared to renewables costs of $2.8 million for Fiscal 2017. The renewables costs are a combination of charges from the CORE programme and the BMR Energy solar farm. This solar project was completed in June 2017 and in July 2017 the solar farm launched production.

Other generation expenses for Fiscal 2018 totalled $3.8 million, an increase of $0.3 million when compared to $3.5 million for Fiscal 2017.

General and Administration ("G&A")

G&A expenses for Fiscal 2018 totalled $7.6 million, a decrease of $0.7 million, from $8.3 million for Fiscal 2017. This decrease was due mainly to lower legal and consultancy fees partially offset by higher personnel and cybersecurity costs.

The Company capitalizes certain overhead costs not directly attributable to specific capital assets but which relate to the overall capital expenditure programme. General Expenses Capitalised ("GEC") totalled $5.4 million for Fiscal 2018, $0.1 million higher than the $5.3 million for Fiscal 2017.

Consumer Services ("CS")

CS expenses for Fiscal 2018 totalled $3.3 million, compared to $3.3 million for Fiscal 2017.

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.

In 2018, DataLink fully reserved for bad debts based on the OfReg issued ICT 2017-1 Determination for Pole Attachment Reservation Fees. The OfReg's decision was that DataLink's charge of reservation fees in the manner provided for in the current contracts was, in its view, contrary to the Information and Communication Technology Authority Law (2011 Revision). Under the determination, DataLink was required to remove references to reservation fees in its contracts with other telecomm providers and negotiate a refund to the telecoms of fees charged, including fees charged prior to 2017. DataLink was ordered to amend the contracts within 30 days of the determination and negotiate the amounts to be refunded within 60 days of the determination.

As a result of a legal review and assessment of the Directives contained in ICT 2017 -1, DataLink sought a stay of the decision and permission to apply for Judicial Review from the Cayman Islands Grand Court. Both the stay and permission to apply for Judicial Review were granted on August 11, 2017. A Grand Court Hearing was held over five days beginning on June 4, 2018. No judgment has been delivered as yet.

Trade and other accounts receivable

($ thousands)

	As at December 31, 2018	As at December 31, 2017
Current	**10,168**	5,628
Past due 31-60 days	**353**	556
Past due 61-90 days	**457**	504
Past due over 90 days	**2,738**	5,069
Total Accounts Receivable	**13,716**	11,757
Less: Allowance for doubtful accounts	**(1,117)**	(2,238)
Less: Consumer Deposits	**(9,315)**	(8,433)
Trade receivables less allowance for doubtful accounts and consumer deposits	**3,284**	1,086

Trade receivables, less allowances for doubtful accounts, and consumer deposits as at December 31, 2018 was $3.3 million, an increase of $2.2 million, or 200%, when compared to $1.1 million as at December 31, 2017. This increase was primarily related to an increase in current customer receivables and a decrease in the allowance for doubtful accounts, which was partially offset by an increase in consumer deposits. Customer receivables increased by $3.0 million mainly due to the increase in the fuel factor billed to consumers. Customer deposits as at December 31, 2018 totalled $9.3, an increase of $0.9 million when compared to customer deposits of $8.4 million as at December 31, 2017.

Transmission and Distribution (“T&D”)

T&D expenses for Fiscal 2018 totalled $4.0 million, an increase of $1.1 million when compared to T&D expenses of $2.9 million for Fiscal 2017. The increase was mainly due to an increase in the T&D department’s payroll costs and employee benefit costs, in addition to lower labour recharges.

Depreciation of Property, Plant and Equipment (“Depreciation”)

Depreciation expenses for Fiscal 2018 totalled $33.3 million, an increase of $2.7 million, or 9%, from $30.6 million for Fiscal 2017. This increase in depreciation was due to capital projects completed in prior periods.

Maintenance

Maintenance expenses for Fiscal 2018 totalled $5.4 million, an increase of $0.1 million from $5.3 million for Fiscal 2017. The increase is due to an increase in generator maintenance and training costs partially offset by a decrease in computer maintenance costs.

Amortization

Amortization of intangible assets for Fiscal 2018 totalled $0.6 million, an increase of $0.1 million when compared to $0.5 million for Fiscal 2017.

Amortization represents the monthly recognition of the expense associated with software purchases as well as other intangible assets such as the costs associated with the licence negotiations. The negotiations for the Company’s licences concluded in 2008 and the costs associated with the negotiations are being amortized

over 20 years on a straight-line basis. The negotiations associated with DataLink's ICT licence ceased in 2012 and these costs are being amortized over 15 years on a straight-line basis.

Other Income and Expenses

Net other expenses for Fiscal 2018 totalled $1.6 million, a decrease of $2.0 million from $3.6 million for Fiscal 2017.

Other Income & Expenses

($ thousands)

	Year Ended December 31, 2018	Year Ended December 31, 2017	Change	% Change
Total interest costs	**(13,197)**	(13,084)	(113)	1%
AFUDC	**5,520**	4,545	975	21%
Total finance charges	**(7,677)**	(8,539)	862	-10%
Foreign exchange gain	**1,962**	1,419	543	38%
Other income	**4,099**	3,515	584	17%
Total Net Other Expenses	**(1,616)**	(3,605)	1,989	-55%

Finance charges for Fiscal 2018 totalled $7.7 million, a decrease of $0.8 million from $8.5 million for Fiscal 2017. This decrease was a result of higher AFUDC, as explained in the "Earnings" section of this MD&A, and lower interest on long-term debt, partially offset by higher interest on short-term debt for Fiscal 2018.

Under the T&D Licence there is a provision for an AFUDC. As part of the rate base, 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 Company's cost of capital rate is reviewed annually and for 2018 was 8.00% (2017:7.75%) as agreed with the OfReg in accordance with the T&D Licence.

The AFUDC amount for Fiscal 2018 totalled $5.5 million, a $1.0 million increase when compared to $4.5 million for Fiscal 2017. This increase was attributable to higher average work in progress during Fiscal 2018.

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 date of the balance sheet. 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 totalled $2.0 million for Fiscal 2018, a $0.6 million increase when compared to $1.4 million for Fiscal 2017. Foreign exchange gains increased due to the increased value in global oil prices that resulted in a higher value of fuel purchases.

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

Other income totalled $4.1 million for Fiscal 2018, an increase of $0.6 million when compared to $3.5 million for Fiscal 2017. The increase was mainly due to miscellaneous revenue and reconnection fees recorded by the Company.

Revenues from DataLink for Fiscal 2018 are recorded in other income in the amount of $1.6 million, an increase of $0.4 million from $1.2 million for Fiscal 2017. This increase was due to late fees charged to a telecommunications customer.

The Economy

The Cayman Islands Economics and Statistics Office ("ESO") released the Consumer Price Index ("CPI") report for the Third Quarter of 2018 in February 2019. According to the report, the CPI for the Third Quarter of 2018 increased by 3.5% compared to the Third Quarter of 2017. This increase was a result of increases in the prices for transport, housing and utilities, food and non-alcoholic beverages, communication, education, household equipment, health, miscellaneous goods and services and recreation and culture. Prices for clothing and footwear, restaurant and hotels and alcoholic beverages and tobacco declined. The ESO is forecasting 2018 annual inflation of 3.5%.

The ESO also issued the 2018 Semi-Annual Economic Report in February 2019. The report indicated that the Gross Domestic Product ("GDP") expanded by an estimated 3.7% in the first half of 2018. All sectors of the economy contributed to growth in the first half of 2018. The sectors with the highest estimated growth were hotels and restaurants, construction, transport, storage and communication and business activities mainly legal and accounting.

The ESO is forecasting annual GDP growth in 2018 of 3.4% with the increases in hotels and restaurants and construction expected to continue for the second half of the year. Financing and insurance have shown signs of stability which will help maintain the forecasted GDP.

In 2018, the financial services sector experienced mixed results. Overall, there were fewer bank licences and mutual fund administrators when compared to the prior year. However, there was increased growth in the number of registered companies, mutual funds, and captive insurance companies when compared to the prior year. The Cayman Islands continue to be one of the world's largest banking sectors in terms of assets and one of the top jurisdictions for captive insurance companies in terms of the number of captive insurance companies and total assets under management.

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

Indicators for the Financial Services Industry

(for the years ending December 31)

	2018	2017	2016	2015	2014
Bank Licences	**133**	148	159	184	198
Mutual Funds	**10,992**	10,559	10,586	10,940	11,010
Mutual Fund Administrators	**88**	97	106	108	115
Registered Companies	**107,309**	99,327	96,248	98,838	99,459
Captive insurance companies	**730**	724	740	739	788

The tourism sector is the second main pillar of the Cayman Islands economy. The Cayman Islands tourism demographic is largely comprised of visitors from the US. In 2018, 83.2% of air arrivals to the country were citizens of the US. As such, the US economy has a large impact on the Cayman Islands' economy.

In Fiscal 2018, air arrivals increased by 10.7%, and cruise arrivals increased by 11.1%, when compared to Fiscal 2017. Air arrivals have a direct impact on the Company's sales growth, as such visitors are stay-over

visitors who occupy hotels. Cruise arrivals have an indirect impact on the Company's sales growth, as such visitors 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 year ending December 31:

Tourist Arrivals to the Cayman Islands

(for the years ending December 31)

	2018	2017	2016	2015	2014
By Air	**463,001**	418,403	385,451	385,379	382,816
By Sea	**1,921,057**	1,728,444	1,711,849	1,716,812	1,609,555
Total	**2,384,058**	2,146,847	2,097,300	2,102,191	1,992,371

The tourism industry is expected to be positively impacted by the expansion of the Owen Roberts International Airport in Grand Cayman, which includes a larger terminal that will be able to accommodate the projected growth in air arrivals. The expansion is expected to be completed in 2019 and will accommodate the anticipated growth in air arrivals. The expanded airport will provide a vastly improved airlift service for Grand Cayman's tourists. In addition to the airport expansion, the tourism sector is expected to receive a boost by the new 351-room Grand Hyatt Grand Cayman Hotel and Residences resort on Seven Mile Beach which is expected to open in 2020. It will have 25,000 square feet of indoor meeting and event space, making it the largest function space in the Cayman Islands. Both projects are expected to create additional employment opportunities and increase stay-over tourism.

All data is sourced from the Cayman Islands Government, Cayman Islands Economics & Statistics Office, Cayman Islands Monetary Authority and Cayman Islands Department of Tourism (www.gov.ky, www.eso.ky, www.cimoney.com.ky, www.caymanislands.ky)

Expansion of the Owen Roberts International Airport continues. The $55 million project is expected to be completed in 2019. (Photo courtesy of AirVu).

Liquidity and Capital Resources

The primary sources of liquidity and capital resources are net funds generated from operations, debt markets, and bank credit facilities. These sources are used primarily to satisfy capital and intangible asset expenditures, service and repay debt, and pay dividends.

The following table outlines the summary of cash flow for Fiscal 2018 compared to Fiscal 2017:

Cash Flows
($ thousands)

	Year Ended December 31, 2018	Year Ended December 31, 2017	Change	% Change
Beginning cash	**7,258**	9,861	(2,603)	-26%
Cash provided by/(used in):				
Operating activities	**64,239**	50,731	13,508	27%
Investing activities	**(57,165)**	(53,378)	(3,787)	7%
Financing activities	**(5,646)**	44	(5,690)	-12932%
Ending cash	**8,686**	7,258	1,428	20%

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for Fiscal 2018, was $64.2 million, an increase of $13.5 million from $50.7 million for Fiscal 2017. This increase was primarily due to the movement in accounts payable and accrued expenses, regulatory deferrals and other assets partially offset by the movement in accounts receivable.

Investing Activities:

Cash used in investing activities for Fiscal 2018 totalled $57.2 million, an increase of $3.8 million from $53.4 million for Fiscal 2017. This increase was due to higher capital expenditures which were partially offset by higher contribution in aid of construction.

Financing Activities:

Cash used in financing activities totalled $5.6 million for Fiscal 2018, a decrease in cash of $5.6 million when compared to $44 thousand of cash provided by financing activities for Fiscal 2017. This decrease is attributable to repayments of long-term debt, higher dividend payments, and lower proceeds received from share issues in 2018.

Cash Flow Requirements:

The Company expects that operating expenses and interest costs will generally be paid from the Company's operating cash flows, with residual cash flows available for capital expenditures and dividend payments. Borrowings under credit facilities may be required from time to time to support seasonal working capital requirements. Cash flows required to complete planned capital expenditures are expected to be financed through a combination of proceeds from operating cash, debt and equity transactions. The Company expects to be able to source the cash required to fund its 2019 capital expenditure programme (see the "Business Risks" section of this MD&A for details regarding the Company's liquidity risk.)

Credit Facilities

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

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

As at December 31, 2018, $17.0 million was available under the Company's credit facilities.

Transactions with Related Parties

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

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

Related Party Transactions		
(thousands)	As at December 31, 2018	As at December 31, 2017
Receivables from Newfoundland Power (a subsidiary of Fortis Inc.)	-	4
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	**6**	17
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	-	49
Total Related Party Receivables	**6**	70
Payables to Fortis Inc. (the Company's majority shareholder)	**5**	5
Payables to Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	-	2
Total Related Party Payables	**5**	7

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

Contractual Obligations

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

Contractual Obligations
($ thousands)

	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	256,286	12,714	28,987	35,039	179,546
Long-term debt interest	108,182	11,713	20,661	16,995	58,813
Total	**364,468**	**24,427**	**49,648**	**52,034**	**238,359**

Power Purchase Obligation

During 2015, the Company entered into a PPA with Entropy Cayman Solar Limited, which will provide a minimum generated energy of 8.8 gigawatt hours (“GWh”) per year for a 25-year term. This 5 MW solar project was completed in June 2017, and in July 2017 the solar farm launched production. The solar project is expected to significantly reduce emissions into the atmosphere through the avoidance of diesel fuel consumption. The PPA also provides renewable energy at a competitive initial price of $0.17 (currently $0.173) cents per kWh. The PPA qualifies for the Normal Purchase Normal Sale exemption under Accounting Standards Codification (“ASC”) 815 and does not qualify as a derivative.

In December 2018, Entropy Cayman Solar Limited was acquired by BMR Energy.

Fuel Purchase Obligation

The Company has a primary fuel supply contract with RUBiS Cayman Islands Limited (“RUBiS”). Under the agreement, the Company is committed to purchase approximately 60% of its diesel fuel requirements for its generating plant from RUBiS. The Company also has a secondary fuel supply contract with Sol Petroleum Cayman Limited (“Sol”) and is committed to purchase approximately 40% of the Company’s fuel requirements for its generating plant from Sol. In June 2018, the Company executed new fuel supply contracts with RUBis and Sol, each with a term of 24 months, with the option to renew for two additional terms of 18 months. The approximate remaining quantities under the fuel supply contract with RUBiS on an annual basis is, by fiscal year in millions of IGs: 2019 – 21.0 and 2020 – 8.9. The approximate remaining quantities under the fuel contract with Sol on an annual basis is, by fiscal year in millions of IGs: 2019 – 14.0 and 2020 – 6.0. Both contracts qualify for the Normal Purchase Normal Sale exemption under ASC 815 and do not qualify as derivatives.

Financial Position

The following table is a summary of significant changes to the Company's balance sheet, when comparing Fiscal 2018 to Fiscal 2017.

Significant changes in Balance Sheet

(for the year ended December 31, 2018)

Balance Sheet Account	Increase/ (Decrease) *($ thousands)*	Explanation
Cash and Cash Equivalents	1,428	Increase due to cash provided by operating activities of $64.2 million, offset by cash used in investing activities of $57.2 million and cash used in financing activities of $5.6 million.
Accounts Receivable	3,080	Increase due to higher electricity consumer billings.
Regulatory Assets	3,151	Increase due to higher fuel costs and regulatory asset recorded in 2018 for the demand rate billing.
Property, Plant and Equipment	22,816	Net increase is comprised of (1) capital expenditures of $58.0 million; (2) depreciation expense of $33.3 million; (3) $0.9 million in accrued capital expenditure; and (4) $2.8 million in funds received in aid of construction.
Accounts Payable and Accrued Expenses	9,667	Increase due to increases in fuel costs payable, accrued expenses and trade accounts payable.
Short Term Debt	30,000	Increase due to drawdown of Scotia capital expenditure facility in May and December 2018.
Current Portion of Long Term Debt	(4,000)	Decrease due to full repayment of the Company's 5.09% Unsecured Loan Notes due June 2018.
Long-Term Debt	(12,583)	Decrease due to principal payments made on the Company's Unsecured Loan Notes in the second and fourth Quarters of 2018.
Share Premium	2,994	The Company issued 237,370 Class A Ordinary shares through its share purchase plans.
Retained Earnings	2,816	Increase due to net earnings for the year of $26.8 million, offset by dividend payments on the Class A Ordinary Preferred shares of $23.0 million, and dividend payments on the Class B Cumulative Participating Preference shares of $1 million.

Capital Resources

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

To ensure access to capital, the Company targets a long-term capital structure of approximately 45% equity, including preference shares, and 55% debt. The Company's objective is to maintain investment-grade credit ratings. The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the Company's share purchase plans

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 60% of the Company's consolidated capital structure, as defined by short-term and long-term debt agreements. As at December 31, 2018, the Company was in compliance with all debt covenants.

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

Capital Structure				
	December 31, 2018 ($ thousands)	**%**	**December 31, 2017 ($ thousands)**	**%**
Total debt	**285,013**	**55**	271,596	55
Shareholder's equity	**230,382**	**45**	224,423	45
Total	**515,395**	**100**	496,019	100

The change in the Company's capital structure between December 31, 2018 and December 31, 2017 was driven by an increase in equity resulting from the issuance of Class A Ordinary Shares under its share purchase plans and an increase in short-term debt.

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

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

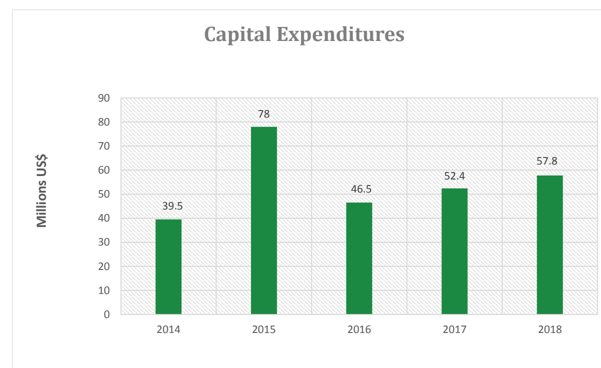
The S&P rating is in relation to long-term corporate credit and senior unsecured debt while the DBRS rating relates to senior unsecured debt.

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

In January 2019, DBRS affirmed the Company's "A" credit rating while maintaining the categorization of low with a Stable trend. Considerations for the rating were a supportive regulatory regime that allows the Company to earn good returns on its rate base, solid credit metrics and a stable island economy and the demand for electricity. Ratings were impacted by factors such as hurricane event risk and the small size of the Company's customer base.

Capital Expenditures

Capital expenditures net of contribution in aid of construction for Fiscal 2018 were $58.0 million, a $5.6 million, or 11% increase from $52.4 million in capital expenditures for Fiscal 2017. The capital expenditures for Fiscal 2018 primarily relate to:



- Distribution system extension and upgrades - $18.4 million.
- Generation Replacement Cost - $10.8 million.
- Prospect 69/13 kilovolt ("kV") substation - $5.2 million.
- Seven Mile Beach 69/13 kV substation - $4.6 million.
- Engine Room Upgrades - $2.0 million.
- LED Lighting Replacement - $1.8 million.
- Substation Automation - $1.8 million.
- Facility and Auxiliary Asset Replacement Cost – $1.7 million.
- Substation Automation Upgrade North Sound - $1.6 million.
- Replace Bodden Town 69/13 kV substation - $1.6 million.
- AFUDC of $5.5 million was capitalized in Fiscal 2018.
- Contribution in Aid of Construction was $2.8 million.

Capital expenditures
($ thousands)

	Year Ended December 31, 2018	Year Ended December 31, 2017	Change	% Change	Forecast 2019
Transmission	**17,943**	11,074	6,869	62%	18,062
Distribution	**19,298**	20,018	(720)	-4%	22,748
Generation	**17,832**	18,493	(661)	-4%	31,186
Other	**2,919**	2,823	96	3%	4,752
Total	**57,992**	52,408	5,584	11%	76,748

Off Balance-Sheet Arrangements

The Company has no 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.

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

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

Economic Conditions

As with most utility companies, the general economic condition of CUC's service area, Grand Cayman, influences electricity sales. Changes in consumer demographic, income, employment and housing are all factors in the amount of sales generated. As the Company supplies electricity to all hotels and large properties, its sales are therefore partially based on tourism and related industry fluctuations. World economic conditions, particularly those in North America, directly impact Grand Cayman's tourism industry, as 83.2% of the island's stay-over visitors arrive from the US annually, which affects electricity sales.

Regulation

The Company operates within a regulated environment and the operations of the Company are subject to the normal uncertainties faced by regulated companies. Such uncertainties include approval by the OfReg of adjustments to 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, and the assessment of penalties against the Company for not meeting regulatory performance standards. The Company's capital expenditure plan requires regulatory approval. There is no assurance that capital projects perceived as required by management of the Company will be approved by the OfReg. In addition, while in the event of a large uninsurable loss, the Company would apply to the OfReg for recovery of these costs through higher rates, there is no assurance that the OfReg would approve such application.

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 of the Company believes is appropriate and consistent with insurance policies obtained by similar companies.

Environmental Matters

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

CUC's Environmental Management System ("EMS") is registered to the ISO 14001 Environmental Standard. The Company was initially registered in 2004, pursuant to an audit by a third party of the Company's EMS to ensure that the Company was meeting requirements put in place by the Government as well as self-imposed requirements. Under the ISO 14001 standard companies are required to establish, document, implement, maintain and continually improve their environmental performance with an aim of prevention of pollution. In order to maintain the Company's registration to this Standard an external surveillance audit is conducted annually, and an external audit is conducted every three years for re-certification. Internal audits of the system must also be conducted on an annual basis. CUC has most recently conducted, and successfully passed its re-certification audit in March 2018.

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

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

Insurance - Terms and Coverage

The Company renewed its insurance policy as at July 1, 2018 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include $100.0 million in property and machinery breakdown insurance and business interruption insurance per annum with a 24-month indemnity period and a waiting period on Non-Named Wind, Quake and Flood of 60-days. Any named Wind, Quake and Flood deductible has a 45-day waiting period. All T&D assets outside of 1,000 feet from the boundaries of the main power plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of $100 million. Each "loss occurrence" is subject to a deductible of $1.0 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of $1.0 million and maximum deductible of $4.0 million for all interests combined.

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

any proceeds received in conjunction with the disposal of the asset. Insurance proceeds are included within the criteria.

In addition to the coverage discussed above, the Company has also purchased an excess layer of an additional $150.0 million limit on property and business interruption (excluding windstorm, earth movement and flood).

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

Defined Benefit Pension Plan

The Company maintains a defined benefit pension plan, which provides a specified monthly benefit on retirement irrespective of individual investment returns. The assumed long-term rate of return on pension plan assets for the purposes of estimating pension expense for 2018 is 5%. This compares to assumed long-term rates of return of 5% used during 2017. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The loss on pension plan assets during 2018 was 3% (2017: gain of 6%).

Market driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the assumed return on the assets causing material changes in consolidated pension expense and funding requirements. Net pension expense is impacted by, among other things, the amortization of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other pension assumptions, including the assumed discount rate, may also result in future consolidated contributions to pension plans that differ significantly from current estimates as well as causing material changes in consolidated pension expense. The discount rate assumed for 2018 is 3.7% compared to the discount rate assumed during 2017 of 4.3%.

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

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

Financial Instruments

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

Credit Risk

The Company is exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments, which include fuel option contracts. If a counterparty fails to perform on its contractual obligation to deliver payment when the market price of fuel is greater than the strike price, the Company may find it necessary to purchase diesel at the market price, which will be higher than the contract price. The Company manages this credit risk associated with counterparties by conducting business with

high credit-quality institutions. The Company does not expect any counterparties to fail to meet their obligations.

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

Liquidity Risk

The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by the legal requirement under the Licences, which requires rates be set to enable the Company to achieve and maintain a sound credit rating in the financial markets of the world. The Company has also secured committed credit facilities to support short-term financing of capital expenditures and seasonal working capital requirements. The cost of renewed and extended credit facilities could increase in the future; however, any increase in interest expense and fees is not expected to materially impact the Company's consolidated financial results in 2019.

Interest Rate Risk

Long-term debt is issued at fixed interest rates, thereby minimizing cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings is $30.0 million (December 31, 2017: $nil).

Changes in Accounting Policies

The 2018 Annual Consolidated Financial Statements have been prepared following the same accounting policies and methods as those used to prepare the Company's 2017 annual audited consolidated financial statements, except as described below.

Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and requires additional disclosures. The Company adopted the new standard using the modified retrospective approach, under which comparative periods are not restated and the cumulative impact is recognized at the date of adoption supplemented by additional disclosures (Note 4). Upon adoption, there were no adjustments to the opening balance of retained earnings.

The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the OfReg. The adoption of this standard does not change the Company's revenue recognition policy and does not have an impact on net earnings.

Operating Revenues ($ thousands)	Year Ended December 31, 2018	Year Ended December 31, 2017	Change %
Electricity Sales Revenues			
Residential	**41,938**	41,049	2%
Commercial	**43,649**	40,081	9%
Other (street lighting etc.)	**748**	654	14%
Total Electricity Sales Revenues	**86,335**	81,784	6%
Fuel Factor	**104,170**	86,391	21%
Renewables	**4,073**	2,766	47%
Total Operating Revenues	**194,578**	170,941	14%

Electricity Sales revenue

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

Fuel Factor

Fuel Factor revenues consist of charges from diesel fuel and lubricating oil costs which are passed through to consumers on a two-month lag basis with no mark-up.

Renewables

Renewables revenues are a combination of charges from the CORE programme and BMR Energy which are passed through to consumers on a two-month lag basis with no mark-up.

Future Accounting Policies

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

Leases

ASU No. 2016-02, *Leases* ("ASC 842"), issued in February 2016, became effective for the Company as of January 1, 2019 and is to be applied using a modified retrospective approach or an optional transition method with implementation options, referred to as practical expedients. Principally, it requires balance sheet recognition of a right-of-use asset and a lease liability by lessees for those leases that are classified as operating leases along with additional disclosures.

The Company has selected the optional transition method which allows entities to continue to apply the current lease guidance in the comparative periods presented in the year of adoption and apply the transition provisions of the new guidance on the effective date of the new guidance. CUC elected a package of practical

expedients that allowed it to not reassess the lease classification of existing leases or whether existing contracts, including land easements, that are or contain a lease.

Upon adoption, the Company will recognize right-of-use assets and corresponding lease liabilities of approximately $0.5 million, for operating leases primarily related to office facilities. CUC has not identified an adjustment to opening retained earnings, and there will be no impact on earnings or cash flows. The increase in lease liabilities will not materially impact debt covenants.

As of January 1, 2019, the Company has modified its internal controls over financial reporting related to accounting for leases as a result of ASC 842. The modifications will include: (i) enhanced risk assessment process to address risks associated with ASU 842; and (ii) modified existing controls to address recognition and reporting of lease assets and liabilities, as well as the related income and expense.

Targeted Improvements to Accounting for Hedging Activities

ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, issued in August 2017, became effective for the Company as of January 1, 2019. This ASU better aligns risk management activities and financial reporting for hedging relationships through changes to designation, measurement, presentation and disclosure guidance. For cash flow and net investment hedges existing at the date of adoption, the amendments should be applied as a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to opening retained earnings. Amended presentation and disclosure guidance is to be applied prospectively. The adoption of this ASU will not have a material impact on the Company's consolidated financial statements and related disclosures.

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, issued in June 2016, is effective for the Company as of January 1, 2020, and is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. The adoption of this ASU will not have a material impact on the consolidated financial statements and related disclosures.

Changes to the Disclosure Requirements for Fair Value Measurement

ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement,* issued in August 2018, is effective for the Company as of January 1, 2020, and is to be primarily applied on a retrospective basis, with certain disclosures requiring prospective application. Principally, it improves the effectiveness of financial statement note disclosures by clarifying what is required and important to users of the financial statements. The adoption of this ASU will not have a material impact on the Company's consolidated financial statements and related disclosures.

Changes to the Disclosure Requirements for Defined Benefit Plans

ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, issued in August 2018, is effective for the Company as of January 1, 2021, and is to be applied on a retrospective basis for all periods presented. This ASU modifies the disclosure requirements for employers with defined pension or other postretirement plans and clarifies disclosure requirements. The adoption of this ASU will not have a material impact on the Company's consolidated financial statements and related disclosures.

Critical Accounting Estimates

The preparation of the Company's consolidated 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 as 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

Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the standard using the modified retrospective method, under which comparative figures were not restated. The adoption of this standard did not change the Company's revenue recognition policy and did not have an impact on net earnings.

The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the OfReg. Electricity is metered upon delivery to customers and recognized as revenue using OfReg approved rates when consumed. Meters are read each month and bills are issued to customers based on these readings. Following the completion of the AMI meter change-out project which allows for all customer meters to be read on the same date, during the second quarter of 2017 the Company amended its billing processes to have all meters read on the last day of each month. As a result, revenues/kWhs recorded as at December 31, 2018 are based upon actual bills for the period.

Revenue arising from the amortization of certain regulatory assets and liabilities is recognized in the manner prescribed by the OfReg.

Other revenue is recognized when the service is rendered.

Additional disclosure on the CUC's revenue as a result of the adoption of ASC Topic 606 is provided in Note 4 to the Company's 2018 annual consolidated financial statements.

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 of the Company 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 December 31, 2018, the Company has a long-term liability of $1.1 million (December 31, 2017: $1.3 million).

Property, Plant and Equipment Depreciation

Depreciation is an estimate based primarily on the estimated useful life of the asset. Estimated useful life is based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at December 31, 2018, the net book value of the Company's PP&E was $511.1 million, compared to $488.3 million as at December 31, 2017, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for Fiscal 2018 was $33.3 million ($30.6 million for Fiscal 2017). Due to the value of the Company's property, plant and equipment, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

Selected Annual Financial Information

The following table sets out the annual financial information of the Company for the financial years ended December 31, 2018, 2017 and 2016.

Selected Annual Financial Information

($ thousands, except Earnings per Class A Ordinary Share, Dividends declared per Class A Ordinary Share and where otherwise indicated)

	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Total Operating Revenues	**194,578**	170,941	161,702
Net Earnings for the Year	**26,770**	23,775	25,211
Earnings on Class A Ordinary Shares	**25,805**	22,825	24,266
Total Assets	**562,754**	530,895	509,861
Long-term Debt	**242,299**	254,882	211,746
Preference shares	**250**	250	250
Total shareholders' equity	**230,382**	224,423	220,122
Earnings per Class A Ordinary Share	**0.78**	0.70	0.75
Diluted earnings per Class A Ordinary Share	**0.78**	0.70	0.75
Dividends declared per Class A Ordinary Share	**0.695**	0.680	0.675
Dividends declared per Class B Preference Share	**3.86**	3.80	3.78

Comparative results 2018/2017

Operating revenues for Fiscal 2018 totalled $194.6 million, an increase of $23.7 million from $170.9 million for Fiscal 2017.

Net earnings for the Fiscal 2018 were $26.8 million, a $3.0 million increase from net earnings of $23.8 million for Fiscal 2017. This increase was attributable to higher electricity sales revenues partially offset by higher depreciation, and T&D expenses. For a discussion of the reasons for the changes in Operating Revenues, Earnings on Class A Ordinary Shares and Earnings per Class A Ordinary Share, refer to the "Operating Revenues" and "Earnings" sections of this MD&A.

The growth in total assets was mainly due to the distribution system extension and upgrades and generation replacement costs. The decrease in long-term debt was due to debt repayments of $16.7 million in Fiscal 2018.

Comparative Results 2017/2016

Operating revenues for Fiscal 2017 totalled $170.9 million, an increase of $9.2 million from $161.7 million for Fiscal 2016.

Net earnings for Fiscal 2017 were $23.8 million, a $1.4 million decrease from net earnings of $25.2 million for Fiscal 2016. This decrease was attributable to higher depreciation and finance charges. These items were partially offset by a 2.0% increase in kWh sales, 0.1% and 1.6% base rate increases effective June 1, 2016 and June 1, 2017, respectively.

The growth in total assets was mainly due to distribution system extension and upgrades and generation replacement costs. The increase in long-term debt was due to $60.0 million in debt issuance in Fiscal 2017 and debt repayments of $11.0 million in Fiscal 2017.

2018 Fourth Quarter Results

Net earnings for the three months ended December 31, 2018 ("Fourth Quarter 2018") were $7.9 million, a $2.4 million increase when compared to $5.5 million for the three months ended December 31, 2017 ("Fourth Quarter 2017"). This increase was due to higher electricity sales revenues and lower maintenance and transmission and distribution expenses. These items were partially offset by higher depreciation costs for the Fourth Quarter 2018 when compared to the Fourth Quarter 2017.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2018 was $7.3 million, or $0.22 per Class A Ordinary Share, as compared to $4.9 million, or $0.15 per Class A Ordinary Share, for the Fourth Quarter 2017.

kWh sales for the Fourth Quarter 2018 were 157.9 million, an increase of 7.4 million when compared to 150.5 million for the Fourth Quarter 2017. Sales were positively impacted by an increase in the number of customers.

Total operating expenses for the Fourth Quarter 2018 increased 15% or $5.6 million to $44.0 million from $38.4 million for the Fourth Quarter 2017. The main contributing factors to this increase were higher power generation expenses, which were comprised predominantly of fuel costs, and depreciation and general and administration expenses. These factors were partially offset by lower maintenance and transmission and distribution costs.

Cash flow provided by operations, after working capital adjustments, for the Fourth Quarter 2018, was $23.3 million, an increase of $13.6 million when compared to $9.7 million for the Fourth Quarter 2017. This increase was primarily due to changes in non-cash working capital balances. Cash used in investing activities totalled $22.9 million for the Fourth Quarter 2018, an increase of $5.5 million from $17.4 million for the Fourth Quarter 2017. This increase was due to higher capital expenditures partially offset by an increase in contributions in aid of construction. Cash provided by financing activities totalled $2.7 million for the Fourth Quarter 2018, an increase of $10.5 million from $7.8 million used in financing activities for the Fourth Quarter 2017. The increase relates to the increase in proceeds from short-term debt and the increase in bank overdraft.

Capital expenditures for the Fourth Quarter 2018 were $23.5 million, a $5.4 million, or 30%, increase from $18.1 million for the Fourth Quarter 2017.

Quarterly Results

The following table summarises unaudited quarterly information for each of the eight quarters ended March 31, 2017 through December 31, 2018. This information has been obtained from CUC's unaudited interim financial statements, which management of the Company believe to be 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 Earnings per Class A Ordinary Share and Diluted Earnings per Class A Ordinary Share)

	Operating Revenue	Net Earnings	Earnings on Class A Ordinary Shares	Earnings per Class A Ordinary Share	Diluted earnings per Class A Ordinary Share
December 31, 2018	**51,986**	**7,882**	**7,254**	**0.22**	**0.22**
September 30, 2018	**53,355**	**9,181**	**9,068**	**0.27**	**0.27**
June 30, 2018	**47,763**	**7,042**	**6,929**	**0.21**	**0.21**
March 31, 2018	**41,474**	**2,665**	**2,552**	**0.08**	**0.08**
December 31, 2017	44,311	5,475	4,862	0.15	0.15
September 30, 2017	46,153	7,707	7,594	0.23	0.23
June 30, 2017	42,159	6,136	6,023	0.19	0.19
March 31, 2017	38,319	4,461	4,348	0.13	0.13

December 2018/December 2017

Net earnings Fourth Quarter 2018 were $7.9 million, a $2.4 million increase when compared to $5.5 million for Fourth Quarter 2017. This increase was due to a 1% increase in kWh sales and lower maintenance costs. These items were partially offset by higher depreciation costs for the Fourth Quarter 2018, when compared to the Fourth Quarter 2017.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2018 were $7.3 million, or $0.22 per Class A Ordinary Share, as compared to $4.9 million, or $0.15 per Class A Ordinary Share for the Fourth Quarter 2017.

September 2018/September 2017

Net earnings for the three months ended September 30, 2018 ("Third Quarter 2018") totaled $9.2 million, an increase of $1.5 million when compared to net earnings of $7.7 million for the three months ended September 30, 2017 ("Third Quarter 2017"). The increase was attributable to higher electricity sales revenues and lower general and administration expenses. These items were partially offset by higher depreciation and transmission and distribution costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2018 were $9.1 million, or $0.27 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of $7.6 million or $0.23 per Class A Ordinary Share for the Third Quarter 2017.

June 2018/June 2017

Operating income for the three months ended June 30, 2018 (“Second Quarter 2018”) totalled $7.7 million, an increase of $0.2 million when compared to operating income of $7.5 million for the three months ended June 30, 2017 (“Second Quarter 2017”). The increase was attributable to higher electricity sales revenues and decreases in general and administration and consumer services costs. These items were partially offset by an increase in depreciation, transmission and distribution and maintenance costs.

Net earnings for Second Quarter 2018 totalled $7.0 million, an increase of $0.9 million from $6.1 million in Second Quarter 2017. The increase was attributable to higher electricity sales revenues booked in the quarter and other income. These items were partially offset by higher depreciation, T&D, and maintenance costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Second Quarter 2018 were $6.9 million, or $0.21 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of $6.0 million, or $0.19 per Class A Ordinary Share for Second Quarter 2017.

March 2018/March 2017

Operating income for the three months ended March 30, 2018 (“First Quarter 2018”) totaled $3.2 million, a decrease of $2.2 million when compared to operating income of $5.4 million for three months ended March 30, 2017 (“First Quarter 2017”). The decrease was due to an increase in depreciation, T&D, and maintenance costs in First Quarter 2018. These items were partially offset by a 3% increase kWh sales and lower general and administration costs.

Net earnings decreased $1.8 million from $4.5 million in First Quarter 2017 to $2.7 million in First Quarter 2018 primarily due to the factors impacting operating income and a $0.1 million increase in finance charges in First Quarter 2018.

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

Disclosure Controls and Procedures

The President and Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), together with management of the Company, have established and maintained the Company’s disclosure controls and procedures (“DC&P”), to provide reasonable assurance that material information relating to the Company is made known to them by others, inclding during the year ending December 31, 2018; and information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Based on the evaluation performed over DC&P, it was concluded that the DC&P of CUC is adequately designed and operating effectively as of December 31, 2018.

Internal Controls over Financial Reporting ("ICFR")

The CEO and CFO of the Company, together with management of the Company, 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. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the 2013 Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, it was concluded that CUC's internal controls over financial reporting are adequately designed and operating effectively as of December 31, 2018.

There has been no change in the Company's ICFR that occurred during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

The 2018-2022 Capital Investment Plan in the amount of $234 million was approved by the OfReg in the fourth quarter of 2018. During the fourth quarter of 2018, the Company also submitted its 2019-2023 CIP in the amount of $273 million to the OfReg for approval. The Company has also submitted an additional $77 million in proposed projects for battery storage and grid enhancement for review by the OfReg. These projects are expected to be financed directly by consumers outside of the Company's rate cap and adjustment mechanism and have the potential to provide significant financial or service benefits to consumers. The proposed 2019-2023 Capital Investment Plan is expected to be finalized during the first quarter of 2019.

The Company completed an Integrated Resource Plan ("IRP") study and submitted it to the OfReg in 2017. The IRP calls for new technologies to be introduced including significant amounts of solar and wind power, procurement of natural gas and conversion of existing generating units to operate as dual fuel engines, deployment of appropriate amounts of energy storage and integration of municipal solid waste to energy plant. The IRP analyzed various resource portfolios against cost, price stability, reliability, and environmental performance, among other goals. The Company's goal in undertaking the IRP was to ensure that all energy options were explored, taking into account their safety, reliability and efficiency, before recommendations were proposed with respect to additions to the energy grid. The IRP dovetails with the National Energy Policy ("NEP") and will give shape to the energy generation plans for Grand Cayman over the next 30 years. Both the IRP and NEP call for a significant increase in renewable energy projects over the next 10 years. In January 2019, the OfReg confirmed its acceptance of the IRP as an energy roadmap to inform future utility developments.

Subsequent Events: Outstanding Share Data

As at February 14, 2019 the Company had issued and outstanding 33,232,342 Class A Ordinary Shares and 250,000 9% Cumulative Participating Class B Preference Shares.

The number of Class A Ordinary shares of the Company that would be issued if all outstanding stock options were exercised as at February 14, 2019 is as follows.

Exercise of Options into Class A Ordinary Shares As at February 14, 2019	**Number of** **Class A Ordinary Shares**
Stock Options	45,000

Additional information, including the Company's most recent Annual Information Form, is available on SEDAR at *www.sedar.com* and on the Company's website at *www.cuc-cayman.com*. The information contained on, or accessible through, either of these websites is not incorporated by reference into this document.

Management's Responsibility for Financial Reporting

The accompanying Annual Consolidated Financial Statements of Caribbean Utilities Company, Ltd. and all information in the 2018 Annual Report have been prepared by management, who are responsible for the integrity of the information presented, including the amounts that must of necessity be based on estimates and informed judgements. These Annual Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States. Financial information contained elsewhere in the 2018 Annual Report is consistent with that in the Annual Consolidated Financial Statements.

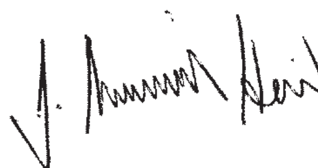
In meeting its responsibility for the reliability and integrity of the Annual Consolidated Financial Statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure transactions are properly authorised and recorded, assets are safeguarded and liabilities are recognised. The Company focuses on the need for training of qualified and professional staff, effective communication between management and staff and management guidelines and policies.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee that is composed entirely of outside directors. The Audit Committee meets with the external auditors, with and without management present, to discuss the results of the audit, the adequacy of the internal accounting controls and the quality and integrity of financial reporting. The Audit Committee reviews the Company's Annual Consolidated Financial Statements before the statements are recommended to the Board of Directors for approval. The external auditors have full and free access to the Audit Committee.

The Audit Committee has the duty to review the adoption of, and changes in, accounting principles and practices which have a material effect on the Annual Consolidated Financial Statements, to review financial reports requiring Board approval prior to submission to securities commissions or other regulatory authorities, to assess and review management's judgments material to reported financial information and to review the external auditors' fees.

The Annual Consolidated Financial Statements and Management's Discussion and Analysis contained in the 2018 Annual Report were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of the Company. Deloitte LLP, independent auditors appointed by the shareholders of the Company upon recommendation of the Audit Committee, have performed an audit of the Annual Consolidated Financial Statements and their report follows.

Letitia T. Lawrence
Vice President Finance, Corporate Services &
Chief Financial Officer
Caribbean Utilities Company, Ltd.



J.F. Richard Hew
President & Chief Executive Officer
Caribbean Utilities Company, Ltd.

Independent Auditor's Report

To the Shareholders of
Caribbean Utilities Company, Ltd.

Opinion

We have audited the consolidated financial statements of Caribbean Utilities Company, Ltd. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of earnings, comprehensive income, shareholder's equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Brian Groves.

/s/ Deloitte LLP

Chartered Professional Accountants
St. John’s, Canada
February 14, 2019

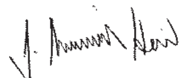
Consolidated Balance Sheets

(expressed in thousands of United States Dollars)

	Note	As at December 31, 2018	As at December 31, 2017
Assets			
Current Assets			
Cash		**8,686**	7,258
Accounts Receivable	5	**12,599**	9,519
Related Party Receivables	20	**6**	70
Regulatory Assets	6	**21,434**	18,283
Inventories	7	**3,451**	2,613
Prepayments		**2,331**	1,624
Total Current Assets		**48,507**	39,367
Property, Plant and Equipment, net	8	**511,130**	488,314
Intangible Assets, net	9	**3,106**	3,202
Other Assets		**11**	12
Total Assets		**562,754**	530,895
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank Overdraft	16	**1,993**	-
Accounts Payable and Accrued Expenses	10	**33,773**	24,106
Related Party Payables	20	**5**	7
Regulatory Liabilities	6	**345**	52
Short-Term Debt		**30,000**	-
Current Portion of Long-Term Debt	11	**12,714**	16,714
Consumers' Deposits and Advances for Construction		**9,436**	8,667
Total Current Liabilities		**88,266**	49,546
Defined Benefit Pension Liability	18	**1,122**	1,319
Long-Term Debt	11	**242,299**	254,882
Other Long-Term Liabilities	13	**685**	725
Total Liabilities		**332,372**	306,472
Commitments and Contingency	21,22		
Shareholders' Equity			
Share Capital[1]	12	**2,228**	2,214
Share Premium		**126,370**	123,376
Additional Paid-in Capital	13	**467**	467
Retained Earnings		**102,484**	99,668
Accumulated Other Comprehensive Loss		**(1,167)**	(1,302)
Total Shareholders' Equity		**230,382**	224,423
Total Liabilities and Shareholders' Equity		**562,754**	530,895

See accompanying Notes to Annual Consolidated Financial Statements

Agreed on behalf of the Board of Directors by:



David E. Ritch, OBE, JP
Director

J.F. Richard Hew
Director

[1] Consists of Class A Ordinary Shares of 33,232,342 and 32,994,972 issued and outstanding as at December 31, 2018 and 2017 and Class B Preference Shares of 250,000 and 250,000 issued and outstanding as at December 31, 2018 and 2017, respectively.

Consolidated Statements of Earnings

(expressed in thousands of United States Dollars, except basic and diluted earnings per ordinary share)

	Note	Year Ended December 31, 2018	Year Ended December 31, 2017
Operating Revenues			
Electricity Sales		**86,335**	81,784
Fuel Factor		**104,170**	86,391
Renewables		**4,073**	2,766
Total Operating Revenues	4	**194,578**	170,941
Operating Expenses			
Power Generation		**112,090**	92,623
General and Administration		**7,592**	8,282
Consumer Services		**3,267**	3,272
Transmission and Distribution		**3,959**	2,945
Depreciation		**33,260**	30,583
Maintenance		**5,381**	5,326
Amortization of Intangible Assets		**643**	530
Total Operating Expenses		**166,192**	143,561
Operating Income		**28,386**	27,380
Other (Expenses)/Income:			
Finance Charges	17	**(7,677)**	(8,539)
Foreign Exchange Gain	19	**1,962**	1,419
Other Income		**4,099**	3,515
Total Net Other (Expenses)/Income		**(1,616)**	(3,605)
Net Earnings for the Year		**26,770**	23,775
Preference Dividends Paid- Class B		**(965)**	(950)
Earnings on Class A Ordinary Shares		**25,805**	22,825
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)	14	**33,079**	32,796
Earnings per Class A Ordinary Share	14	**0.78**	0.70
Diluted Earnings per Class A Ordinary Share	14	**0.78**	0.70
Dividends Declared per Class A Ordinary Share		**0.695**	0.680

See accompanying Notes to Annual Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

(expressed in thousands of United States Dollars)

	Year Ended December 31, 2018	Year Ended December 31, 2017
Net Earnings for the Year	**26,770**	23,775
Other Comprehensive Income:		
Net actuarial gain / (loss)	**106**	(586)
Amortization of net actuarial loss	**29**	74
Total Other Comprehensive (Loss) / Income	**135**	(512)
Comprehensive Income	**26,905**	23,263

See accompanying Notes to Annual Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

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

	Class A Ordinary Shares (in thousands)	Class A Ordinary Shares Value ($)	Preference Shares ($)	Share Premium ($)	Additional Paid-in Capital ($)	Accumulated Other Comprehensive Loss ($)	Retained Earnings ($)	Total Equity ($)
As at December 31, 2017	**32,995**	**1,964**	**250**	**123,376**	**467**	**(1,302)**	**99,668**	**224,423**
Net earnings	-	-	-	-	-	-	26,770	26,770
Common share issuance and stock options plans	237	14	-	2,994	-	-	-	3,008
Defined benefit plans	-	-	-	-	-	135	-	135
Dividends on common shares	-	-	-	-	-	-	(22,989)	(22,989)
Dividends on preference shares	-	-	-	-	-	-	(965)	(965)
As at December 31, 2018	**33,232**	**1,978**	**250**	**126,370**	**467**	**(1,167)**	**102,484**	**230,382**
As at December 31, 2016	**32,647**	**1,943**	**250**	**119,096**	**467**	**(790)**	**99,156**	**220,122**
Net earnings	-	-	-	-	-	-	23,775	23,775
Common share issuance and stock options plans	348	21	-	4,280	-	-	-	4,301
Defined benefit plans	-	-	-	-	-	(512)	-	(512)
Dividends on common shares	-	-	-	-	-	-	(22,313)	(22,313)
Dividends on preference shares	-	-	-	-	-	-	(950)	(950)
As at December 31, 2017	**32,995**	**1,964**	**250**	**123,376**	**467**	**(1,302)**	**99,668**	**224,423**

See accompanying Notes to Annual Consolidated Financial Statements

Consolidated Statements of Cash Flows

(expressed in thousands of United States Dollars)

	Year Ended December 31, 2018	Year Ended December 31, 2017
Operating Activities		
Net Earnings for the year	26,770	23,775
Items not affecting cash:		
Depreciation	33,260	30,583
Amortization of Intangible Assets	643	530
Non-cash Pension Expenses	-	(43)
Amortization of Deferred Financing Costs	132	(150)
	60,805	54,695
Net changes in working capital balances related to operations:		
Accounts Receivable	(3,080)	847
Inventory	(838)	523
Prepaid Expenses	(707)	975
Accounts Payable	9,667	1,680
Net Change in Regulatory Deferrals	(2,858)	(6,251)
Other	1,250	(1,738)
Cash flow related to operating activities	64,239	50,731
Investing Activities		
Purchase of Property, Plant and Equipment	(59,508)	(54,927)
Proceeds from Sale of Property, Plant and Equipment	45	-
Costs related to Intangible Assets	(547)	(693)
Contributions in Aid of Construction	2,845	2,242
Cash flow related to investing activities	(57,165)	(53,378)
Financing Activities		
Proceeds from Long-Term Debt Financing	-	60,000
Proceeds from/(Repayment of) Short-Term Debt	30,000	(30,000)
Repayment of Long-Term Debt	(16,714)	(11,000)
Increase in Bank Overdraft	1,993	-
Dividends Paid	(23,933)	(23,257)
Net Proceeds from Share Issuance	3,008	4,301
Cash flow related to financing activities	(5,646)	44
Increase/(Decrease) in net cash	1,428	(2,603)
Cash - Beginning of year	7,258	9,861
Cash - End of year	8,686	7,258
Supplemental disclosure of cash flow information:		
Interest paid during the year	13,171	12,711

See accompanying Notes to Annual Consolidated Financial Statements

Notes to Annual Consolidated Financial Statements

(expressed in thousands of United States dollars unless otherwise stated)

1. Nature of Operations and Consolidated Financial Statement Presentation

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

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

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

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

All intercompany balances and transactions have been eliminated on consolidation.

Rate Regulated Operations

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel cost charges, renewables costs and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the Rate Cap and Adjustment Mechanism ("RCAM"). In June 2018, following review and approval by the OfReg, the Company increased its base rates by 1.8% (June 2017: 1.6%). This increase was a result of the 2017 Return on Rate Base ("RORB") and the increase in the applicable United States ("US") and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2017. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80%, based on the range of the RORB values. The required rate adjustment of 1.8% can be calculated by applying 80% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 2.2%. All fuel, lubricating oil and renewables costs are passed through to customers without mark-up as a per kWh charge.

For regulatory purposes, fixed assets comprise completed Property, Plant and Equipment ("PP&E") and computer software 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 8) and an allowance for General Expenses Capitalised ("GEC")(Note 8). GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). 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. The Company's significant accounting policies relate to:

Revenue Recognition

Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the standard using the modified retrospective method, under which comparative figures were not restated. The adoption of this standard did not change the Company's revenue recognition policy and did not have an impact on net earnings.

The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the OfReg. Electricity is metered upon delivery to customers and recognized as revenue using OfReg approved rates when consumed. Meters are read each month and bills are issued to customers based on these readings. Following the completion of the AMI meter change-out project which allows for all customer meters to be read on the same date, during the Second Quarter of 2017 the Company amended its billing processes to have all meters read on the last day of each month. As a result, revenues/kWhs recorded as at December 31, 2018 are based upon actual bills for the period.

Revenue arising from the amortization of certain regulatory assets and liabilities is recognized in the manner prescribed by the OfReg.

Other revenue is recognized when the service is rendered.

Transmission is the conveyance of electricity at high voltages (generally at 69 kilovolts ("kV") and higher). Distribution networks convey electricity from transmission systems to end-use customers.

CUC passes through 100% of fuel and renewable costs to consumers on a two-month lag basis. This is recorded as Fuel Factor and Renewables Revenues.

Consolidation Policy

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

Kilowatt-Hour (kWh) Sales

The kWh sales for the period are based on actual electricity sales to customers since the last meter reading.

Cash

Cash is comprised of cash on hand, bank demand deposits and bank fixed deposits with original maturities of three months or less. At December 31, 2018 and 2017, cash consisted of cash on hand.

Accounts Receivable

Accounts receivable are included in the balance sheet net of the allowance for doubtful accounts and are due within 21 days of billing. Insurance receivables are recorded when recovery becomes reasonably assured.

Allowance for Doubtful Accounts
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. Accounts receivable is written-off in the period in which the receivable is deemed uncollectible and only inactive customers qualify for write-off. Inactive customers are customers who no longer have electricity service. Customers with past-due accounts are eligible for a short-term payment programme in order to ensure that electricity service is not made inactive due to non-payment of past due amounts.

Inventories
Fuel and lube oil are initially recorded at cost. Line inventory is carried at cost less provision for obsolescence. Inventories are consumed/utilized on an average cost basis. Inventories are valued at lower of cost and net realizable value.

Property, Plant and Equipment ("PP&E")
PP&E are stated at cost less accumulated depreciation.

The cost of additions to PP&E is the original cost of contracted services, direct labour and related overheads, materials, GEC and AFUDC. Line inventory that is foreseeable as capitalisable is included in PP&E less provision for obsolescence. Major spare parts and stand-by equipment to be used during more than one year qualify as PP&E. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of PP&E, they are accounted for as PP&E. Damaged PP&E are written off, or appropriate provision made, where damage relates to assets that will be reconstructed.

The Company capitalizes GEC, which represents certain overhead costs not directly attributable to specific PP&E but which do relate to the overall capital expenditure programme. Additionally, the Company capitalizes an AFUDC, which represents the cost of debt and equity financing incurred during construction of PP&E.

Contributions in aid of construction represent amounts contributed by customers and governments for the cost of utility capital assets. These contributions are recorded as a reduction in the cost of utility capital assets and are being amortized annually by an amount equal to the charge for depreciation on the related assets.

Upon disposition of PP&E the original cost will be removed from the capital asset accounts, that amount net of salvage proceeds, will also be removed from accumulated depreciation, as such, any resulting gain or loss will be charged to accumulated depreciation.

Depreciation is provided on the cost of PP&E (except for freehold land, capitalized projects in progress, line inventory and spare parts) on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Transmission and distribution	20 to 50
Generation	20 to 50
Other: Buildings	20 to 50
Motor Vehicles	5 to 15
Equipment and computers	3 to 20

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.

Intangible Assets

Intangible assets include deferred licence renewal costs, computer software, and trademark expenses. Intangible assets, excluding trademark expenses and assets in progress are being amortized on a straight-line basis over the life of the asset. Deferred licence renewal costs are being amortized over a range of 15 years to 20 years on a straight-line basis. Computer software costs are being amortized over a range of three to 10 years on a straight-line basis.

Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies 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. Gains and losses on translation are included in the Consolidated Statements of Earnings.

The Company translates its Cayman Islands Dollars to United States Dollars at a fixed rate of CI$0.84 to US$1.00.

Other Income

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

Other Income is recognised when sales are delivered, services are rendered and rental fees are recognised over the period of the lease.

Segment Information

The Company operates in one business segment, electricity generation, transmission, distribution and telecommunication, in one geographic area, Grand Cayman, Cayman Islands.

Fair Values

The fair value of financial assets and liabilities has been determined from market values where available. Where fair values of financial instruments with an immediate or short-term maturity are considered to approximate cost, this fact is disclosed. Fair value of financial assets and liabilities for which no market value is readily available is determined by the Company using future cash flows discounted at an estimated market rate. In establishing an estimated market rate, the Company has evaluated the existing transactions, as well as comparable industry and economic data and other relevant factors such as pending transactions.

Capital Stock

Dividend Reinvestment Plan

All dividends payable on Class A Ordinary Shares recorded for participation in the Plan, including Class A Ordinary Shares acquired and retained under the Plan, will be used by CUC to purchase additional Class A Ordinary Shares at the prevailing market price for the Participant's account on the Investment Date.

Customer Share Purchase Plan ("CSPP")

The CSPP provides an opportunity for customers resident in Grand Cayman to invest in CUC. Customers may make cash payments of not less than $30 per purchase and up to a total of $14,000 per year for the purchase of Class A Ordinary Shares of CUC. They may also retain the Class A Ordinary Shares in the Plan and have the

cash dividends on such shares reinvested in additional Class A Ordinary Shares. In both instances, the Class A Ordinary Shares are acquired from CUC at not more than 100% of the average market price which is calculated using the daily closing prices of CUC Class A Ordinary Shares on the Toronto Stock Exchange over a specified period.

Employee Share Purchase Plan (ESPP")
The Company provides interest-free advances to employees to purchase Class A Ordinary Shares, with such advances recovered through payroll deductions over the next year. The maximum semi-annual participation is 1,000 Class A Ordinary Shares per employee. The plan is non-compensatory as shares purchased by the employee are obtained at the prevailing market value at the time of purchase. The amount owing to the Company from employees is included as an offset to Share Capital and Share Premium on the Balance Sheets (2018: $0.26 million, 2017: $0.19 million).

Share Based Compensation Plans

The Company has a policy of measuring compensation expense upon the issuance of stock options. Using the fair value method, the compensation expense is amortised over the four-year vesting period of the options. Upon exercise, the proceeds of the option are credited to Share Capital at CI$0.05 and the difference from the exercise price to Share Premium. Therefore, an exercise of options below the current market price has a dilutive effect on capital stock and Shareholders' Equity.

The Company also records the liabilities associated with its Performance Share Unit ("PSU") Plans at their fair value at each reporting date until settlement, recognizing compensation expense over the vesting period. The fair value of the PSU liability is based on the Company's common share closing price at the end of each reporting period relative to the S&P/TSX Utilities Index over a three-year period. The fair value of the PSU liability is also based on expected pay-out based on historical performance in accordance with defined metrics of each grant, where applicable, and management's best estimate.

Employee Benefit Plans

The Company maintains defined contribution pension plans for its employees and defined benefit pension plan for the retired Chairman of the Company's Board of Directors as well as the retired President and Chief Executive Officer. The pension costs of the defined contribution plan are recorded as incurred.

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. Past service costs from plan initiation are amortised on a straight-line basis over the remaining service period of the employee active at the date of initiation. The excess of any cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year, are deferred and amortised over the remaining service period of the employee. The balance of any such actuarial gain (loss) is recognised in Accumulated Other Comprehensive Income. The Company's defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation.

Financial Instruments

Financial instruments are contracts that give rise to a financial asset of one party and a financial liability or equity instrument of another party. The Company's financial instruments include cash, accounts receivable, accounts payable and accrued expenses, short-term borrowings, consumer deposits, other long-term liabilities and long-term debt.

Subsequent adjustment of held-to-maturity instruments are taken to the Consolidated Statement of Earnings, whereas changes in fair value for available-for-sale instruments are recorded in other comprehensive income. Debt securities classified as held-to-maturity are recorded at amortized cost.

The Company's policy is to defer transaction costs associated with financial assets and liabilities. These transaction costs are amortized using the effective interest rate method over the life of the related financial instrument; outstanding balances are recognised as an increase in assets or a reduction in liabilities on the balance sheet.

Derivatives

The Company uses derivatives to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers for the fuel that the Company must purchase in order to provide electricity service. The programme utilises call options to promote transparency in pricing. The programme utilises call options creating a ceiling price for fuel costs at pre-determined contract premiums.

The derivatives entered into by the Company relate to regulated operations and all contracts are recognised as either regulatory assets or liabilities and are measured at fair value. Any resulting gains or losses and changes to fair value are recorded in the regulatory asset/regulatory liability accounts, subject to regulatory approval. Cash inflows and outflows associated with the settlement of all derivative instruments are included in operating cash flows on the Company's statements of cash flows.

Taxation

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

The Company is levied custom duties of $0.30 per IG of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports.

3. Future Accounting Policies

Leases

ASU No. 2016-02, *Leases* ("ASC 842"), issued in February 2016, is effective for the Company January 1, 2019 and is to be applied using a modified retrospective approach or an optional transition method with implementation options, referred to as practical expedients. Principally, it requires balance sheet recognition of a right-of-use asset and a lease liability by lessees for those leases that are classified as operating leases along with additional disclosures.

The Company has selected the optional transition method which allows entities to continue to apply the current lease guidance in the comparative periods presented in the year of adoption and apply the transition provisions of the new guidance on the effective date of the new guidance. CUC elected a package of practical expedients that allowed it to not reassess the lease classification of existing leases or whether existing contracts, including land easements, are or contains a lease.

Upon adoption, the Company will recognize right-of-use assets and corresponding lease liabilities of approximately $0.5 million, for operating leases primarily related to office facilities. CUC has not identified an adjustment to opening retained earnings, and there will be no impact on earnings or cash flows.

The Company will modify its internal controls over financial reporting related to accounting for leases as a result of ASC 842. The modifications will include: (i) enhanced risk assessment process to address risks associated with ASU 842; and (ii) modified existing controls to address recognition and reporting of lease assets and liabilities as well as the related income and expense.

Targeted Improvements to Accounting for Hedging Activities

ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, issued in August 2017, is effective for the Company January 1, 2019. Principally, it better aligns risk management activities and financial reporting for hedging relationships through changes to designation, measurement, presentation and disclosure guidance. For cash flow and net investment hedges existing at the date of adoption, the amendments should be applied as a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to opening retained earnings. Amended presentation and disclosure guidance is to be applied prospectively. The adoption of this ASU will not have a material impact on the consolidated financial statements and related disclosures.

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, issued in June 2016, is effective for the Company January 1, 2020 and is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. The adoption of this ASU will not have a material impact on the consolidated financial statements and related disclosures.

Changes to the Disclosure Requirements for Fair Value Measurement

ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement,* issued in August 2018, is effective for the Company January 1, 2020 and is to be primarily applied on a retrospective basis, with certain disclosures requiring prospective application. Principally, it improves the effectiveness of financial statement note disclosures by clarifying what is required and important to users of the financial statements. The adoption of this ASU will not have a material impact on the consolidated financial statements and related disclosures.

Changes to the Disclosure Requirements for Defined Benefit Plans

ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, issued in August 2018, is effective for the Company January 1, 2021 and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined pension or other postretirement plans and clarifies disclosure requirements. The adoption of this ASU will not have a material impact on the consolidated financial statements and related disclosures.

4. Operating Revenues

Operating Revenues ($ thousands)	Year Ended December 31, 2018	Year Ended December 31, 2017	Change %
Electricity Sales Revenues			
Residential	**41,938**	41,049	2%
Commercial	**43,649**	40,081	9%
Other (street lighting etc.)	**748**	654	14%
Total Electricity Sales Revenues	**86,335**	81,784	6%
Fuel Factor	**104,170**	86,391	21%
Renewables	**4,073**	2,766	47%
Total Operating Revenues	**194,578**	170,941	14%

Electricity Sales revenue

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

Fuel Factor

Fuel Factor revenues consist of charges from diesel fuel and lubricating oil costs which are passed through to consumers on a two-month lag basis with no mark-up.

Renewables

Renewables revenues are a combination of charges from the Customer Owned Renewable Energy ("CORE") programme and BMR Energy Limited ("BMR Energy"), which are passed through to consumers on a two-month lag basis with no mark-up.

5. Accounts Receivable

Accounts Receivable ($ thousands)	As at December 31, 2018	As at December 31, 2017
Billings to consumers*	**12,637**	10,317
Other receivables	**1,079**	1,440
Allowance for doubtful accounts	**(1,117)**	(2,238)
Total Accounts Receivable	**12,599**	9,519

*Includes billings to DataLink customers

Other Receivables

Other receivables relate to amounts due outside of the normal course of operations. Items in other accounts receivable include sale of inventory and machine break-down costs covered by warranties.

6. Regulatory Assets and Liabilities

Regulatory Assets and Liabilities
($ thousands)

Asset/Liability	Description	As at December 31, 2018	As at December 31, 2017
Regulatory Assets	Fuel Tracker Account (a)	**20,135**	17,187
Regulatory Assets	Derivative contract (b)	**-**	-
Regulatory Assets	Miscellaneous Regulatory Assets (c)	**191**	218
Regulatory Assets	Government & Regulatory Tracker Account (d)	**349**	878
Regulatory Assets	Demand Rate Recoveries(f)	**759**	-
Total Regulatory Assets		**21,434**	18,283
Regulatory Liabilities	Derivative contract (b)	**(345)**	(52)
Regulatory Liabilities	Government & Regulatory Tracker Account (d)	**-**	-
Regulatory Liabilities	Miscellaneous Regulatory Liabilities (e)	**-**	-
Total Regulatory Liabilities		**(345)**	(52)

a) Fuel Tracker Account – The 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 and renewables costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel and renewables costs to be recovered from or reimbursed to the consumers on a two-month lag. 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 uses derivatives 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.

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 OfReg.

d) Government and Regulatory Tracker Account – Prior to May 1, 2018, a licence fee of 1%, payable to the Government, was 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 0.5% was 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. The OfReg and the Company agreed on a change to the licence and regulatory fee structure, whereby the objective is to collect fixed amounts annually of $2.9 million for the license fee and $1.4 million for the regulatory fee. In 2018, this translated to a rate of $0.0149 per kWh, which is applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge.

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 OfReg.

f) Demand rate recoveries – The introduction of demand rates for the large commercial customers, to be phased in over a three -year period beginning on January 1, 2018, was intended to be revenue neutral. For the First Quarter 2018 the electricity sales revenues for large commercial customers under the newly introduced demand rate were less than what would have been billed under the previous energy only rate. The Company applied to the OfReg to request a recovery of the shortfall and an adjustment in the rate going forward. In June 2018, the OfReg approved an increase of the large commercial demand rate going forward. The Company was also granted approval to record the 2018 revenue shortfall as a Regulatory Asset. The revenue shortfall will be recovered over years two and three of the demand rate implementation in order to smoothen the effects of the adjustment to the large commercial customers. As at December 31, 2018 the revenue shortfall totalled $0.8 million.

7. Inventories

The composition of inventories is shown in the table below:

Inventories		
($ thousands)	**As at December 31, 2018**	**As at December 31, 2017**
Fuel	**2,736**	2,046
Lubricating Oil	**375**	232
Line spares	**129**	124
Network & Fiber equipment	**211**	211
Other	**-**	-
Inventories	**3,451**	2,613

8. Property, Plant and Equipment

Property, Plant and Equipment			
($ thousands)	**Cost**	**Accumulated Depreciation**	**Net Book Value December 31, 2018**
Transmission & Distribution (T&D)	393,095	146,341	246,754
Generation	447,906	207,851	240,055
Other:			
Land	5,304	-	5,304
Buildings	22,076	12,558	9,518
Equipment, motor vehicles and computers	29,414	20,330	9,084
Total of T&D, Generation and Other	897,795	387,080	510,715
Telecommunications assets	546	131	415
Property, Plant and Equipment	**898,341**	**387,211**	**511,130**

Property, Plant and Equipment			
($ thousands)	**Cost**	**Accumulated Depreciation**	**Net Book Value December 31, 2017**
Transmission & Distribution (T&D)	354,851	132,861	221,990
Generation	431,688	187,783	243,905
Other:			
Land	5,304	-	5,304
Buildings	20,942	12,043	8,899
Equipment, motor vehicles and computers	27,110	19,332	7,778
Total of T&D, Generation and Other	839,895	352,019	487,876
Telecommunications assets	546	108	438
Property, Plant and Equipment	840,441	352,127	488,314

Included in PP&E are a number of capital projects in progress with a total cost to date of $60.3 million (December 31, 2017: $42.2 million). Of the total cost of capital projects in progress is an amount of $0.06 million that relates to fibre optic assets for DataLink.

Also included in Generation and T&D is freehold land with a cost of $5.0 million (December 31, 2017: $5.0 million). In addition, line inventory with a cost of $4.6 million (December 31, 2017: $4.3 million) is included in T&D. Engine spares with a net book value of $12.9 million (December 31, 2017: $13.7 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 2018 is 8.0% (2017: 7.75%) and will be adjusted annually. As a result, during Fiscal 2018, the Company recognised $5.5 million in AFUDC (2017: $4.6 million). GEC of $5.4 million was recognised for the year ended December 31, 2018 (2017: $5.3 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 regulations standard under US GAAP and differs from non-regulatory treatment of a loss being recognised on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. 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.

9. Intangible Assets

Intangible Assets ($ thousands)	Cost	Accumulated Amortisation	Net Book Value December 31, 2018
Deferred licence renewal costs	1,890	1,008	882
DataLink, Ltd. deferred licence renewal costs	200	90	110
Computer Software	7,836	5,916	1,920
Other Intangible Assets in progress	119	-	119
Trademark Costs	75	-	75
Intangible Assets	**10,120**	**7,014**	**3,106**

Intangible Assets	Cost	Accumulated Amortisation	Net Book Value December 31, 2017
Deferred licence renewal costs	1,890	914	976
DataLink, Ltd. deferred licence renewal costs	200	77	123
Computer Software	7,289	5,387	1,902
Other Intangible Assets in progress	126	-	126
Trademark Costs	75	-	75
Intangible Assets	9,580	6,378	3,202

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 licences. Amortization of DataLink deferred licence renewal costs commenced upon conclusion of licence negotiations in March 2012 and extends over the life of the DataLink licence.

The expected amortization of intangible assets for the next five years is as follows:

Amortization of Intangible Assets ($ thousands)	2019	2020	2021	2022	2023
Computer Software	479	333	307	193	-
Licence Renewal Costs	108	108	108	108	108
Amortization of Intangible Assets	**587**	**441**	**415**	**301**	**108**

The weighted-average amortization period for intangible assets is as follows:

	As at December 31, 2018	As at December 31, 2017
Computer Software	**3.14**	3.03 years
Deferred Licence Renewal costs	**9.29 years**	10.29 years
Datalink Deferred Licence Renewal Costs	**8.25 years**	10.25 years
Total weighted-average amortization period	**4.02**	5.64 years

10. Accounts Payable and Accrued Expenses

Accounts Payable and Accrued Expenses		
($ thousands)	As at December 31, 2018	As at December 31, 2017
Fuel Cost Payable	**18,323**	14,216
Trade Accounts Payable & Accrued Expenses	**12,855**	4,870
Accrued Interest	**1,053**	1,161
Dividends Payable	**628**	613
Other Accounts Payable	**914**	3,246
Total Accounts Payable and Accrued Expenses	**33,773**	24,106

11. Long-Term Debt

Long-Term Debt		
($ thousands)	As At December 31, 2018	As At December 31, 2017
5.09% Senior Unsecured Loan Notes due 2018	**-**	4,000
5.96% Senior Unsecured Loan Notes due 2020	**6,000**	9,000
5.65% Senior Unsecured Loan Notes due 2022	**16,000**	20,000
7.50% Senior Unsecured Loan Notes due 2024	**34,286**	40,000
4.85% Senior Unsecured Loan Notes due 2026	**15,000**	15,000
3.34% Senior Unsecured Loan Notes due 2028	**10,000**	10,000
3.65% Senior Unsecured Loan Notes due 2029	**30,000**	30,000
5.10% Senior Unsecured Loan Notes due 2031	**25,000**	25,000
3.54% Senior Unsecured Loan Notes due 2033	**40,000**	40,000
3.85% Senior Unsecured Loan Notes due 2034	**5,000**	5,000
4.53% Senior Unsecured Loan Notes due 2046	**15,000**	15,000
3.90% Senior Unsecured Loan Notes due 2031	**40,000**	40,000
4.64% Senior Unsecured Loan Notes due 2048	**20,000**	20,000
	256,286	273,000
Less: Current portion of long-term debt	**(12,714)**	(16,714)
Less: Deferred debt issue costs	**(1,273)**	(1,404)
	242,299	254,882

The current portion of long term debt includes annual principal payments of $3 million for the 5.96% Note, $4 million for the 5.65% Note, and $5.7 million for the 7.50% Note.

Interest is payable semi-annually for all outstanding Notes.

Covenants

Certain of the Company’s long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65% of the Company’s consolidated capitalization structure, as defined by the long-term debt agreements.

Repayment of Long-Term Debt

The consolidated annual requirements to meet principal repayments and maturities in each of the next five years and thereafter are as follows:

Year	$
2019	12,714
2020	14,857
2021	14,130
2022	15,559
2023	19,481
2024 and later	179,545
Total	**256,286**

All long-term debt is denominated in United States dollars.

12. Capital Stock

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

Capital Stock	As at December 31, 2018	As at December 31, 2017
Authorised:		
Class A Ordinary Shares of CI$0.05 each	**60,000,000**	60,000,000
9% Cumulative Participating Class B Preference Shares of $1.00 each	**250,000**	250,000
Class C Preference Shares of $1.00	**419,666**	419,666
Cumulative Participating Class D Share of CI$0.56	**1**	1
Issued and Outstanding (Number of Shares):		
Class A Ordinary Shares	**33,232,342**	32,994,972
Class B Preference Shares	**250,000**	250,000
Issued and Outstanding ($ Amount):		
Class A Ordinary Shares	**1,978,116**	1,963,986
Class B Preference Shares	**250,000**	250,000
Total Class A Ordinary & Class B Preference Shares	**2,228,116**	2,213,986

13. Share Based Compensation Plans

Share Options

The shareholders of the Company approved an Executive Stock Option Plan (“ESOP”) on October 24, 1991, under which certain employees and officers may be granted options to purchase Class A Ordinary Shares of the Company.

The exercise price per share in respect of options is equal to the fair market value of the Class A Ordinary Shares on the date of grant. Each option is for a term not exceeding ten years, and will become exercisable on a cumulative basis at the end of each year following the date of grant. The maximum number of Class A

Ordinary Shares under option shall be fixed and approved by the shareholders of the Company from time to time and is currently set at 1,220,100. Options are forfeited if they are not exercised prior to their respective expiry date or upon termination of employment prior to the completion of the vesting period.

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

Share Options	Year Ended December 31, 2018	Year Ended December 31, 2018		
	Number of options	Weighted average exercise price per share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($ thousands)
Outstanding at beginning of year	45,000	9.66	4.25	-
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited/Cancelled	-	-	-	-
Expired	-	-	-	-
Outstanding, end of year	45,000	9.66	3.23	-
Vested, end of the year	**45,000**	**9.66**	**3.23**	**-**

Share Options	Year Ended December 31, 2017	Year Ended December 31, 2017		
	Number of options	Weighted average exercise price per share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($ thousands)
Outstanding at beginning of year	193,500	10.92	-	-
Granted	-	-	-	-
Exercised	(148,500)	11.30	-	301
Forfeited/Cancelled	-	-	-	-
Expired	-	-	-	-
Outstanding, end of year	45,000	9.66	4.25	-
Vested, end of the year	45,000	9.66	4.25	-

The following table summarizes additional information related to the stock options during 2018 and 2017:

Share Options		
($ thousands)	**2018**	**2017**
Stock Options expense recognised	**-**	-
Stock options exercised:		
Cash received for exercise of options	**-**	1,678
Intrinsic value realized by employees	**-**	301

Under the fair value method, the compensation expense was nil for the year ended December 31, 2018 (December 31, 2017: $nil).

The unrecognised compensation expense related to non-vested share options for the year ended December 31, 2018 was nil (December 31, 2017: $nil).

Performance Share Unit ("PSU") Plan
In September 2013, the Board approved a PSU plan under which officers and certain employees 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.

PSU's outstanding as at December 31, 2018 relate to grants in March 2016 in the amount of 23,500, March 2017 in the amount of 28,235 and March 2018 in the amount of 29,151. 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.

For the year ended December 31, 2018, an expense of $0.3 million (December 31, 2017: $0.4 million) was recognised in earnings with respect to the PSU plan.

As at December 31, 2018, the total liability related to outstanding PSUs is $ 0.7 million (December 31, 2017: $0.7 million) and is included in Other Long Term Liabilities.

14. 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 33,078,944 and 32,796,012 for the years ended December 31, 2018 and December 31, 2017 respectively.

The weighted average number of Class A Ordinary Shares used for determining diluted earnings were 33,090,622 and 32,808,151 for the years ended December 31, 2018 and December 31, 2017, respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at December 31, 2018 the outstanding options are not materially dilutive as the market price of common shares is marginally lower than the exercise price.

Earnings per Share	Earnings December 31, 2018 ($ thousands)	Weighted average shares December 31, 2018 (thousands)	Earnings per Class A Ordinary Shares December 31, 2018
Net earnings applicable to common shares	25,805	33,079	
Weighted Average share outstanding			
Basic Earnings Per Common Share			0.78
Effect of potential dilutive securities:			
Stock Options	-	12	-
Diluted Earnings per Common Share	**25,805**	**33,091**	**0.78**

	Earnings December 31, 2017 ($ thousands)	Weighted average shares December 31, 2017 (thousands)	Earnings per Class A Ordinary Shares December 31, 2017
Net earnings applicable to common shares	22,825		
Weighted Average share outstanding		32,796	
Basic Earnings Per Common Share			0.70
Effect of potential dilutive securities: Stock Options	-	12	-
Diluted Earnings per Common Share	22,825	32,808	0.70

15. Fair Value Measurement

Fair value of long-term debt and fuel option is determined in accordance with level 2 of the fair value hierarchy. 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:

Financial Instruments				
	As at December 31, 2018		As at December 31, 2017	
($ thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	**255,014**	**261,989**	271,596	283,649
Fuel Option Contracts	**345**	**345**	52	52

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 by November 2019.

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.

Based on the three levels that distinguish the level of pricing observability utilized in measuring fair value, the Company's long-term debt and fuel option contracts are in accordance with level 2 of the fair value hierarchy.

16. Short-Term Debt

The Company has the following amount of unsecured credit financing facilities with the Scotiabank & Trust (Cayman) Limited ("Scotia") and Royal Bank of Canada ("RBC"); the total available amount was $17.0 million at December 31, 2018 ($49.0 million at December 31, 2017).

Short-Term Financing ($ thousands) **Credit Facilities**	**Total Credit Financing Facilities December 31, 2018**	**Total Utilised December 31, 2018**	**Total Available December 31, 2018**
Provided by Scotia:			
Letter of Guarantee	1,000	500	500
Operating, Revolving Line of Credit	10,000	1,993	8,007
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	31,000	30,000	1,000
Total	**49,500**	**32,493**	**17,007**
Provided by RBC:			
Corporate Credit Card Line*	500	500	-
Short – Term Financing	**50,000**	**32,993**	**17,007**

*. Included in Accounts payable and accrued expenses

Short-Term Financing			
($ thousands) Credit Facilities	Total Credit Financing Facilities December 31, 2017	Total Utilised December 31, 2017	Total Available December 31, 2017
Provided by Scotia:			
Letter of Guarantee	1,000	500	500
Operating, Revolving Line of Credit	10,000	-	10,000
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	31,000	-	31,000
Total	49,500	500	49,000
Provided by RBC:			
Corporate Credit Card Line*	500	500	-
Short – Term Financing	50,000	1,000	49,000

*. Included in Accounts payable and accrued expenses

A commission at a rate of 0.65% per annum is levied on the Letter of Guarantee amount. Interest is payable on the amount of the Operating Line of Credit utilised at the Scotia's Cayman Islands Prime Lending Rate plus 0.15% per annum. In the event that the Operating Facility is drawn down in United States Dollars, the interest is payable at Scotia's Bank of New York Prime Lending Rate plus 0.15% per annum. Standby Loan and Demand loan interest is payable at LIBOR plus 1.15% per annum for periods of 30, 60, 90, 180 or 360 days. A stand-by fee of 0.10% per annum is applied to the daily unused portion of the Standby Loan and Demand Loan facilities. An annual review fee of 0.05% of the total credit facilities is payable upon confirmation that the Facility has been renewed for a further period, being the earlier of 12 months or the next annual review date.

17. Finance Charges

The composition of finance charges were as follows:

Finance Charges		
($ thousands)	Year Ended December 31, 2018	Year Ended December 31, 2017
Interest costs - long-term debt	**12,540**	12,735
Other interest costs	**657**	349
AFUDC *	**(5,520)**	(4,545)
Finance Charges	**7,677**	8,539

*Refer to PP&E with regards to AFUDC (Note 8) methodology.

18. Employee Future Benefits

All employees of the Company are members of a defined contribution Pension Plan established for the exclusive benefit of employees of the Company and which complies with the provisions of the National Pensions Law. As a term of employment, the Company contributes 7.5% of wages or salary in respect of employees who have completed 15 years of continuous service and have attained the age of 55 years and 5% of wages or salary for all other employees. All contributions, income and expenses of the plan are accrued to, and deducted from, the members' accounts. The total expense recorded in respect of employer contributions to the plan for Fiscal 2018 amounted to $1.1 million (Fiscal 2017: $1.1 million). The Pension Plan is administered by an independent Trustee.

During 2003, the Company established a defined benefit pension plan for a Director of the Company. In May 2005, the Company's Board of Directors approved the establishment of a defined benefit pension plan for the retired President and Chief Executive Officer. The pension cost of the defined benefit plan is actuarially determined using the projected benefits method. In April 2007, the Company established an independent trust and the defined benefit plans were amalgamated at that time. An independent actuary performs a valuation of the obligations under the defined benefit pension plans at least every three years. The latest actuarial valuation of the pension plans for funding purposes is as at December 31, 2018.

The Company's broad investment objectives are to achieve a high rate of total return with a prudent level of risk taking while maintaining a high level of liquidity and diversification to avoid large losses and preserve capital over the long term.

The Company's defined benefit pension plan fund has a strategic asset allocation that targets a mix of approximately 30-60% equity investments, 20-40% fixed income investments, and 25-35% cash/cash equivalent securities. The fund's investment strategy emphasizes traditional investments in global equity and fixed income markets, using a combination of different investment styles and vehicles. The pension fund's equity investments include publicly traded investment grade equities, convertible debentures and real estate corporations. The fixed income investments include bonds issued by the United States Treasury, investment grade bonds, investment grade corporate bonds, investment grade Eurobonds and investment grade preference shares which are publicly traded. These equity and debt security vehicles include closed end or open end mutual or pooled funds.

The Company's defined benefit pension plan asset allocation was as follows:

Plan assets by allocation (%)		
($ thousands)	**As at December 31, 2018**	**As at December 31, 2017**
Equity Assets	**47%**	46%
Fixed income investments	**27%**	27%
Money Market funds	**17%**	19%
Cash and Cash equivalents	**9%**	8%
Plan assets by allocation	**100%**	100%

The assets of the fund are traded and priced on active markets. The fair values of assets are provided by external quotation services which are considered reliable, but due to the nature of the market data, the accuracy of such prices cannot be guaranteed. Securities listed on a US national stock exchange are priced as of the close of the statement period. Corporate bonds, municipal bonds and other fixed income securities are priced by a computerized pricing service. Mutual fund shares are priced at net asset value. The fair value measurements of the Company's defined benefit pension plan assets by fair value hierarchy level are as follows:

Asset Allocation
($ thousands)

As at December 31, 2018

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
Equity Assets	**2,903**	**-**	**-**	**2,903**
Fixed income investments	**-**	**1,695**	**-**	**1,695**
Money Market funds	**-**	**1,022**	**-**	**1,022**
Cash and Cash equivalents	**583**	**-**	**-**	**583**
Asset Allocation	**3,486**	**2,717**	**-**	**6,203**

Asset Allocation
($ thousands)

As at December 31, 2017

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
Equity Assets	3,104	-	-	3,104
Fixed income investments	-	1,783	-	1,783
Money Market funds	-	1,290	-	1,290
Cash and Cash equivalents	526	-	-	526
Asset Allocation	3,630	3,073	-	6,703

Pension Plan		
($ thousands)	As at December 31, 2018	As at December 31, 2017
Project Benefit Obligation		
Balance beginning of year	**8,022**	7,165
Interest Cost	**291**	306
Actuarial (gains)/ losses	**(658)**	639
Benefit payments	**(330)**	(88)
Balance end of year	**7,325**	8,022
Plan Assets		
Fair value, beginning of year	**6,703**	6,129
Actual return on plan assets	**(223)**	363
Employer contributions to plan	**53**	299
Benefit payments	**(330)**	(88)
	6,203	6,703
Funded Status - deficit	**(1,122)**	(1,319)
During the year ended December 31, 2018 $0.01 million (December 31, 2017: $0.1 million) was recorded as compensation expense, which comprises the following:		
Interest cost	**291**	306
Expected return on plan assets	**(329)**	(309)
Amortization of past service costs		-
Amortization of actuarial losses	**29**	74
	(9)	71
Significant assumptions used:		
Discount rate during year (%)	**3.70**	4.30
Discount rate at year end (%)	**4.20**	3.70
Rate of compensation increase (%)	**3.00**	3.00
Expected long-term rate of return on plan assets (%)	**5.00**	5.00
Average remaining service period (years)	**-**	-

The Accumulated Benefit Obligation ("ABO") as at December 31, 2018 was $7.3million (December 31, 2017: $8.0 million).

The following table summarizes the employee future benefit assets and liabilities and their classification in the balance sheet:

Employee Future Benefit Assets and Liabilities		
($ thousands)	As at December 31, 2018	As at December 31, 2017
Liabilities:		
Defined benefit pension liabilities	**1,122**	1,319

The following tables provide the components of other comprehensive loss for the years ended December 31, 2018 and 2017:

Other Comprehensive Income/(Loss)		
($ thousands)	**As at December 31, 2018**	**As at December 31, 2017**
Net actuarial gain / (loss) arising during the year	**106**	(586)
Amortization or curtailment recognition of past service cost		-
Amortization or settlement recognition of net actuarial gain	**29**	74
Total changes recognised in other comprehensive income/ (loss)	**135**	(512)

The Company's unrecognised amounts included in accumulated other comprehensive income (loss) yet to be recognised as components of the net periodic benefit cost are as follows:

($ thousands)	**As at December 31, 2018**	**As at December 31, 2017**
Past service credit (cost)	**-**	-
Net actuarial (loss)	**(1,167)**	(1,302)
Accumulated other comprehensive loss at year end	**(1,167)**	(1,302)
Cumulative employer contributions in excess of net periodic benefit cost	**45**	(17)
Net liability amount recognised in statement of financial position	**(1,122)**	(1,319)

Net actuarial losses of $0.03 million and past service costs of nil are expected to be amortized from accumulated other comprehensive loss into net benefit costs in 2019.

During 2019, the Company is expected to make contributions of $0.02 million to the defined benefit pension plan.

The following table provides the amount of benefit payments expected to be paid by the plan for each of the following years:

($ thousands)	**Total**
2019	333
2020	342
2021	350
2022	358
2023	367
2024-2027	1,958

19. Foreign Exchange

The closing rate of exchange on December 31, 2018 as reported by the Bank of Canada for the conversion of US dollars into Canadian dollars was Cdn$1.3642 per US$1.00. The official exchange rate for the conversion of Cayman Islands dollars into US 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 December 31, 2018 for conversion of Cayman Islands dollars into Canadian dollars was Cdn$1.6370 per CI$1.00 (December 29, 2017: Cdn$1.5054).

20. Related Party Transactions

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

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

Related Party Transactions		
(in thousands)	As at December 31, 2018	As at December 31, 2017
Receivables from Newfoundland Power (a subsidiary of Fortis Inc.)	**-**	4
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	**6**	17
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	**-**	49
Total Related Party Receivables	**6**	70
Payables to Fortis Inc. (the Company's majority shareholder)	**5**	5
Payables to Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	**-**	2
Total Related Party Payables	**5**	7

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

21. Commitments

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

Commitments					
($thousands)	Total	2019	2020-2021	2022-2023	2024 Onward
Bank overdraft	1,993	1,993	-	-	-
Accounts payable and accrued expenses	33,773	33,773	-	-	-
Consumer's deposits and advances for construction	9,436	9,436	-	-	-
Letter of Guarantee	500	500	-	-	-
Long term debt	256,286	12,714	28,987	35,039	179,546
Long term debt interest	108,182	11,713	20,661	16,995	58,813
Commitments	**410,170**	**70,129**	**49,648**	**52,034**	**238,359**

During 2015, the Company entered into a Power Purchase Agreement ("PPA") with Entropy Cayman Solar Limited which will provide a minimum generated energy of 8.8 gigawatt hours ("GWh") per year for a 25-year term. This 5 MW solar project was completed in June 2017. It is expected to significantly reduce emissions into the atmosphere through the avoidance of diesel fuel consumption. The PPA also provides renewable energy at a competitive initial price of $0.17 (presently $0.173) cents per kWh. The PPA qualifies for the Normal Purchase Normal Sale exemption under Accounting Standards Codification ("ASC") 815 and does not qualify as a derivative.

In December 2018, Entropy Cayman Solar Limited was acquired by BMR Energy. CUC is committed to developing an effective business relationship with BMR Energy.

The Company has a primary fuel supply contract with RUBiS Cayman Islands Limited ("RUBiS"). Under the agreement, the Company is committed to purchase approximately 60% of its diesel fuel requirements for its generating plant from RUBiS. The Company also has a secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") and is committed to purchase approximately 40% of the Company's fuel requirements for its generating plant from Sol. In June 2018, the Company executed new fuel supply contracts with RUBis and Sol, each with a term of 24 months, with the option to renew for two additional terms of 18 months. The approximate remaining quantities under the fuel supply contract with RUBiS on an annual basis is, by fiscal year in millions of IGs: 2019 – 21.0 and 2020 – 8.9. The approximate remaining quantities under the fuel contract with Sol on an annual basis is, by fiscal year in millions of IGs: 2019 – 14.0 and 2020 – 6.0. Both contracts qualify for the Normal Purchase Normal Sale exemption under ASC 815 and do not qualify as derivatives.

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

As a result of the Company's bulk fuel inventory, the value of CUC's closing stock of fuel at December 31, 2018 was $2.7 million (December 31, 2017: $2.0 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Road Power Plant.

22. Contingency

On July 11, 2017 the OfReg issued ICT 2017-1 Determination Pole Attachment Reservation Fees. The OfReg's decision was that DataLink's charge of reservation fees in the manner provided for in the current contracts was, in its view, contrary to the Information and Communication Technology Authority Law (2011 Revision). Under the determination, DataLink was required to remove references to reservation fees in its contracts with other telecomm providers and negotiate a refund to the telecoms of fees charged, including fees charged prior to 2017. DataLink was ordered to amend the contracts within 30 days of the determination and negotiate the amounts to be refunded within 60 days of the determination.

As a result of a legal review and assessment of the Directives contained in ICT 2017 -1, DataLink sought a stay of the decision and permission to apply for Judicial Review from the Cayman Islands Grand Court. Both the stay and permission to apply for Judicial Review were granted on August 11, 2017. A Grand Court Hearing was held over five days beginning on June 4, 2018. No judgment has been delivered as yet.

Ten-Year Summary (Unaudited, supplementary)

(Except where noted, expressed in thousands of United States Dollars)

	2018	2017
Operating Revenues	**194,578**	170,941
Other revenues and adjustments	**6,061**	4,934
Total revenues	**200,639**	175,875
Operating expenses	**166,192**	143,561
Income before interest	**34,447**	32,314
Finance Charges	**7,677**	8,539
Net Earnings for the Year	**26,770**	23,775
Capitalisation:		
Class A Ordinary Shares (nominal value)	**1,978**	1,964
9% Cumulative Participating Class B Preference Shares (nominal value)	**250**	250
Share Premium	**126,370**	123,376
Long-term loans	**255,013**	271,596
Total capitalisation	**383,611**	397,186
Capital expenditures	**57,992**	52,408
Earnings per Class A Ordinary Share ($/Share)	**0.78**	0.70
Dividends per Class A Ordinary Share ($/Share)	**0.695**	0.680
Book value per Class A Ordinary ($/Share)	**6.92**	6.78
Statistical Record:		
Net kWh generation (millions of kWh)	**641.8**	654.3
Net kWh sales (millions of kWh)	**628.8**	621.8
Peak load (MW) gross	**103.6**	105.6
Plant capacity (MW)	**160.95**	160.95
Total customers (actual number)	**29,822**	**29,160**

Ten-Year Summary

(Except where noted, expressed in thousands of United States Dollars)

2016	2015	2014	2013	2012	2011	2010	2009
161,702	188,880	231,705	226,220	223,549	218,099	180,096	158,809
5,079	4,876	4,602	4,300	4,199	4,032	3,108	3,109
166,781	193,756	236,307	230,520	227,748	222,131	183,204	161,918
134,802	163,613	206,377	201,080	200,932	193,082	154,182	134,834
31,979	30,143	29,930	29,440	26,816	29,049	29,022	27,084
6,768	7,301	9,115	9,018	9,125	8,659	9,143	7,071
25,211	22,842	20,815	20,422	17,691	20,390	19,879	20,013
1,943	1,927	1,742	1,730	1,715	1,704	1,694	1,683
250	250	250	250	250	250	250	250
119,096	116,201	83,044	81,023	78,524	76,806	75,355	73,729
222,746	236,594	252,000	219,000	188,500	204,000	178,290	200,159
344,035	354,972	337,036	302,003	268,989	282,760	255,589	275,821
47,207	77,947	39,472	29,323	30,788	39,624	21,433	42,665
0.75	0.71	0.68	0.68	0.58	0.68	0.67	0.67
0.675	0.66	0.66	0.66	0.66	0.66	0.66	0.66
6.74	6.62	6.14	6.13	6.03	6.04	6.07	5.90
650.3	623.7	604.7	595.6	587.1	594.0	593.5	597.4
606.7	582.0	564.2	555.7	547.8	554.0	553.8	558.1
103.4	100.7	99.7	97.4	95.9	99.0	102.1	97.5
160.95	131.65	131.65	149.54	149.54	151.2	151.2	152.6
28,678	28,204	27,784	27,364	27,035	26,636	26,151	25,461

Board of Directors

Standing:

Eddinton M. Powell, JP *
President and Chief Operating Officer
Fortis TCI
Providenciales
Turks & Caicos Islands

Woodrow Foster ^
Managing Director
Foster's Food Fair IGA
Grand Cayman

J. Bryan Bothwell, MBE *
Retired Banking Executive
Grand Cayman

Lynn R. Young
President and Chief Executive Officer
Belize Electric Company Ltd.
Belize

Gary Smith ^
Executive Vice President of Eastern
Canadian and Caribbean Operations
Fortis Inc.
St. Johns
Canada

Peter A. Thomson
Retired Executive
Caribbean Utilities Company, Ltd.
Grand Cayman

Alphonsus Delaney ^
Executive Vice President
Fortis Inc.
St. Johns
Canada

Seated:

Jennifer Dilbert, MBE, JP*
Retired Civil Servant

J.F. Richard Hew
President and Chief Executive Officer
Caribbean Utilities Company, Ltd.
Grand Cayman

David E. Ritch, OBE, JP *^
Chairman of the Board of Directors
Caribbean Utilities Company, Ltd.
Attorney-at-Law
Ritch and Conolly
Grand Cayman

Sheree L. Ebanks ^
Chief Executive Officer
Cayman Islands Institute of
Professional Accountants
Grand Cayman

* *Member Audit Committee (Chairman: J. Bryan Bothwell)*
^ *Member Nominating and Corporate Governance Committee (Chairman: David E. Ritch)*

Officers

Letitia T. Lawrence
Vice President Finance, Corporate Services & Chief Financial Officer

J.F. Richard Hew
President & Chief Executive Officer

David C. Watler
Vice President Operations

Sacha N. Tibbetts
Vice President Customer Services & Technology

Shareholder and Corporate Information

Shareholders

Registered shareholders as of December 31, 2018 were as follows:

Class of Shares	*Shareholders*	*Shares Held*
Class A Ordinary Shares	2,034	33,232,342
9% Class B Preference Shares	122	250,000

Fortis Energy (Bermuda) Ltd., a wholly-owned subsidiary company of Fortis Inc., held 19,460,326 Class A Ordinary Shares, or 59% of the outstanding shares as of December 31, 2018. Approximately 14% of the outstanding registered shares are held by residents of the Cayman Islands. Holders of Class B Preference Shares are primarily resident in the Cayman Islands.

Annual General Meeting

Shareholders are invited to attend the Annual General Meeting of the Company to be held on May 9, 2019 at noon at the Marriott Beach Resort on West Bay Road, Grand Cayman. If you are unable to attend, please complete and return the form of proxy in accordance with the instructions set out in the accompanying meeting material.

Dividends

Class A Ordinary Shares:

Quarterly dividends are customarily paid in March, June, September and December. Record dates are normally three weeks prior to payable dates.

Class B Preference Shares:

Quarterly dividends are paid on the last day of January, April, July and October. Record dates are normally three weeks prior to payable dates.

Dividend Reinvestment Plan

The Company offers a Dividend Reinvestment Plan to Class A Ordinary and Class B Preference shareholders. Dividends may be reinvested in additional Class A Ordinary Shares. A copy of the plan and enrolment form may be obtained by writing or calling either of the Company's Registrar and Transfer Agents (addresses and telephone numbers in right column) or through the Company's website at www.cuc-cayman.com.

Customer Share Purchase Plan

The Customer Share Purchase Plan ("CSPP") was launched in January 1995 and provides an opportunity for customers resident in Grand Cayman to acquire shares in the Company without paying brokerage commissions or transaction fees. Customers may make cash payments of not less than $30 (CI$25) per purchase and up to a total of $14,400 (CI$12,000) per calendar year for the purchase of Class A Ordinary Shares. Quarterly cash dividends paid on the shares are reinvested in additional Class A Ordinary Shares under the CSPP. Full details of the CSPP may be obtained from CUC's Customer Service Department or through the Company's website at www.cuc-cayman.com.

Solicitors

Appleby
P.O. Box 190
Grand Cayman KY1-1104
CAYMAN ISLANDS

Auditors

Deloitte, LLP.
5 Springdale Street
Suite 1000
St John's, NL A1E 0E4
Canada

Principal Bankers

Scotiabank & Trust (Cayman) Ltd.
P.O. Box 689
Grand Cayman KY1-1107
CAYMAN ISLANDS

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.

Registrar and Transfer Agents

AST Trust Company (Canada)
P.O. Box 4229, Station A
Toronto, ON, Canada M5W 0G1
North America (toll free): 1-800-387-0825
Direct: (416) 682-3860
Fax: (888) 249-6189
E-mail: inquiries@astfinancial.com
Website : www.astfinancial.com/ca-en
(Acting as principal agent)

Caribbean Utilities Company, Ltd.

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

Toronto Stock Exchange Listing

The Company's Class A Ordinary Shares are listed for trading in United States funds on the Toronto Stock Exchange. The stock symbol is "CUP.U". There is no income or withholding tax applicable to holders of Class A Ordinary or Class B Preference Shares under the existing laws of the Cayman Islands.

Registered Office

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