

Caribbean Utilities Company, Ltd.

2017 Annual Report



General Data

About the Company

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

About the Cayman Islands

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

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

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Readers should review the Note on page 10 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, 2017	Year ended December 31, 2016	Change %
Operating Revenues	170,941	161,702	6%
Electricity Sales Revenues	81,784	80,183	2%
Fuel Factor and Renewables Revenues	89,157	81,519	9%
Total operating expenses	143,561	134,802	6%
Finance Charges	8,539	6,768	26%
Net Earnings for the year	23,775	25,211	-6%
Total assets	530,895	509,861	4%
Total shareholders' equity	224,423	220,122	2%
Cash flow related to operating activities	50,731	61,739	-18%
<u>The following items are fully stated, not in thousands:</u>			
Earnings per Class A Ordinary Share	0.70	0.75	-7%
Dividends per Class A Ordinary Share (paid and declared)	0.680	0.675	1%
Book value per Class A Ordinary Share	6.78	6.74	1%
Class A Ordinary Shares			
Market Price: High	18.89	13.25	43%
Low	12.58	10.50	20%
Year-end	13.79	12.98	6%

Performance

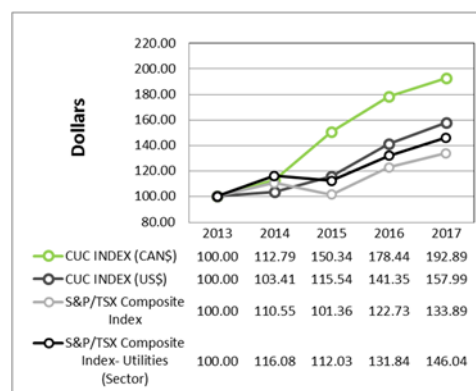
Net earnings for the year ended December 31, 2017 were \$23.8 million, a \$1.4 million decrease from net earnings of \$25.2 million for the year ended December 31, 2016. This decrease is attributable to higher depreciation and finance charges. These items were partially offset by a 2% increase in kWh sales, and 0.1% and 1.6% base rate increases effective June 1, 2016 and June 1, 2017 respectively. Dividends paid and declared on Class A Ordinary Shares were \$0.68 per share. The Class A Ordinary Shares (CUP.U) traded on the Toronto Stock Exchange at a high of \$18.89 per share in 2017.

Rate of Exchange

The closing rate of exchange on December 31, 2017 as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was Cdn\$1.2545 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, 2017 for conversion of Cayman Islands dollars into Canadian dollars was Cdn\$1.5054 per CI\$1.00 (December 31, 2016: Cdn\$1.6112).

Share Performance

Comparison of 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 following Management's Discussion and Analysis and its associated cautions beginning on page 10. All dollar amounts in this 2017 Annual Report are stated in United States dollars unless otherwise indicated.

Letter to Fellow Shareholders

It is our pleasure to report the financial performance and operational progress of Caribbean Utilities Company, Ltd. (“CUC” or the “Company”) for the year ended December 31, 2017 (“Fiscal 2017”).

Financial Performance

Operating Income for Fiscal 2017—totalled \$27.4 million, a \$0.5 million increase from Operating Income of \$26.9 million for the year ended December 31, 2016 (“Fiscal 2016”). This increase is attributable to a 2% increase in kWh sales, 0.1% and 1.6% base rate increases effective June 1, 2016 and June 1, 2017 respectively. These items were partially offset by higher consumer services and depreciation expenses in 2017.

Net earnings for Fiscal 2017 were \$23.8 million, a \$1.4 million decrease from net earnings of \$25.2 million Fiscal 2016. This decrease is attributable to higher finance charges more than offsetting the gain in Operating Income.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Fiscal 2017 were \$22.8 million, or \$0.70 per Class A Ordinary Share as compared to \$24.3 million, or \$0.75 per Class A Ordinary Share for Fiscal 2016.

Kilowatt-hour sales for Fiscal 2017 were 621.8 million kWh, an increase of 15.1 million kWh or 2% when compared to 606.7 million kWh for Fiscal 2016. Sales were positively impacted by an increase in the average residential consumption and large commercial development, and overall growth in customer numbers.

Electricity sales revenue increased \$1.6 million for Fiscal 2017 to \$81.8 million when compared to electricity sales revenues of \$80.2 million for Fiscal 2016. This increase is attributable to a 2% increase in kWh sales and 1.6% and 0.1% base rate increases effective June 1, 2017 and June 1, 2016 respectively. kWh sales through the first three quarters were up by 3% over the same period 2016. Wet and cool weather in the three months ended December 31, 2017 (“Fourth Quarter 2017”) negatively impacted sales.

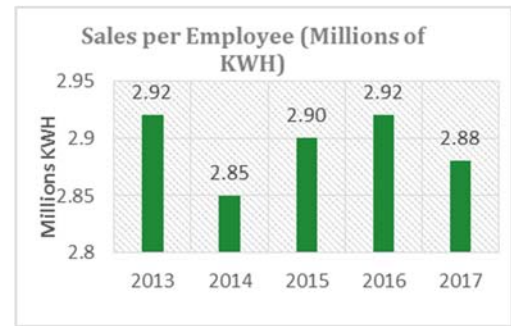


J.F. Richard Hew
President & Chief Executive Officer

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

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 2017. Improvements continued on 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.

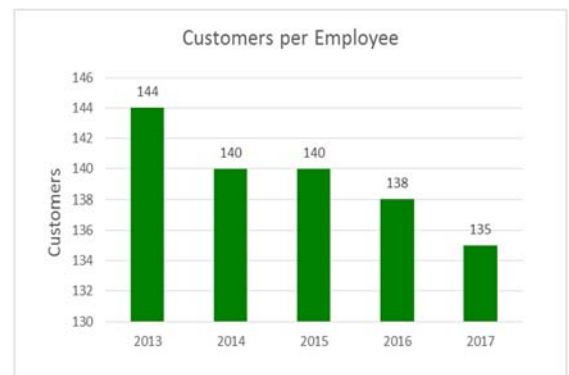


On January 27, 2017, the Company celebrated 2 years without a lost time injury (“LTI”). This was a notable achievement for the Company’s safety record.

The Company hosted its fourth Contractor’s Workshop in 2017. This workshop provided an opportunity for contractors who work around electrical equipment to learn first-hand what safety procedures are required. The workshop also hosted vendors who displayed safety products that are available on Grand Cayman. Representatives from key partners, equipment and service providers participated and made presentations.

CUC held training for First Responders on how to remain safe when dealing with accidents involving electrical components. Members from Hazard Management, 911 Emergency Services, Police Services, Fire Services, MedEvac, Ambulatory Services and the Red Cross attended the training. This was the fourth time this event was held, and plans are to have this training conducted annually. The 2017 training also included a tour of CUC’s Control Room and meetings with the Control Operators, who handle Emergency calls to the Company.

In December 2017, CUC conducted its second 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 audit presents a crucial step towards aligning the Company’s OHSMS with the OHSAS standard.



2017 marked the fourth year of the Company’s Orange Ribbon Safety Programme. This programme seeks to actively promote and recognize employees who lead the charge for safety in the workplace or who provide solutions to work related problems. Departments are nominated by their Manager and awards are given on a quarterly and annual basis.

The Company’s Environmental Management System (“EMS”) successfully passed the surveillance audit of the system in 2017, with only two minor non-conformances identified. CUC’s EMS is registered to the International Organization for Standardization (“ISO”) environmental standard (ISO 14001:2004) which requires that an external audit of the system be conducted on an annual basis. The 2017 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 2017 and the system was shown to be functioning well.

Capital Projects

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

The Company completed an Integrated Resource Plan (“IRP”) study in 2017 and submitted it to The Office of Utility Regulations (OfReg). The study has analysed energy resources that are technically viable, and also considered their cost, reliability, environmental impact and other aspects in producing a recommended portfolio of energy resources for the Grand Cayman market. The Company’s goal was to ensure that all energy options were explored before recommendations were made on what the grid can accommodate in a safe, reliable and efficient manner. The IRP dovetails with the National Energy Policy 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.

With the completion of the Advanced Metering Infrastructure (AMI) project and associated on-line portal for customers the Company is now able to read 100% of its meters from CUC’s offices, increasing the efficiency of meter reading and providing customers with electricity consumption data which help customers to control their electricity consumption. CUC will offer a PrePay option to customers during the Second Quarter 2018.

Capital expenditures net of contribution in aid of construction for Fiscal 2017 were \$52.4 million, a \$5.9 million, or 13% increase from \$46.5 million in capital expenditures for the same period of the previous year. The major capital expenditures for Fiscal 2017 were related to the distribution system extension and upgrades and generation replacement cost.

CUC has contracted Siemens Industry Inc. to design and construct two distribution substations, one in the Seven Mile Beach area to respond to tourism and other commercial development and one in Prospect to meet the demands of high residential customer growth.

Customer Updates

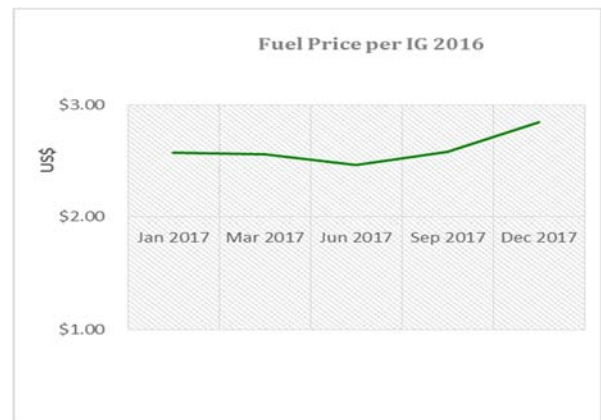
Our customer base increased in 2017, from 28,678 customers as at December 31, 2016 to 29,160 as at December 31, 2017.

With the increased use of technology, the Company has enhanced its service offerings to its customers. Customers now have a number of options to pay their bills outside of CUC’s Service Headquarters. These options include gas stations, banks and online payments.

Fuel Price

With the market price of lubricating and fuel oil trending upwards in 2017, customers saw an increase in the per kWh Fuel Cost Charge on their electricity bills.

The average Fuel Cost Charge rate per kWh charged to consumers for the twelve months ended December 31, 2017 was \$0.14 per kWh compared to the Fuel Cost Charge rate of \$0.13 per kWh for the twelve months ended December 31, 2016. The new power plant commissioned in June 2016, one of the most fuel efficient in the region, enabled the Company to achieve its highest ever annual net fuel efficiency of 19.4 kWh per IG in 2017. This increase in the average Fuel Cost Charge rate has resulted in additional costs of \$11.7 million to consumers for the year ended December 31, 2017 when compared to the year ended December 31, 2016.



CUC passes through 100% of fuel costs to consumers on a two-month lag basis without mark-up.

The Company's average price per imperial gallon ("IG") of fuel for Fiscal 2017 increased to \$2.57 from \$2.23 for Fiscal 2016. The Company's average price per IG of lubricating oil for Fiscal 2017 decreased to \$9.56 from \$10.36 for Fiscal 2016.

Fuel factor and renewables revenues for Fiscal 2017 totalled \$89.2 million, a \$7.7 million increase from the \$81.5 million in fuel factor revenues for Fiscal 2016. Fuel factor and renewables revenues for Fiscal 2017 increased when compared to Fiscal 2016 due primarily to an increase in global oil prices.

In September 2017, the Company started recording Renewables revenues as a separate item on customers' bills. The renewables costs are a combination of charges from the CORE programme and Entropy Cayman Solar Limited.

Renewable Energy

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

In June 2017, Entropy Cayman Solar Limited completed their 5 MW solar farm in Bodden Town. The solar farm provides the amount of energy required to supply approximately 800 homes and reduces emissions into the atmosphere through the avoidance of diesel fuel consumption.

The Consumer-Owned Renewable Energy Generation ("CORE") programme which allows consumers to generate energy from renewable sources and be compensated through stable, long-term rates continues to attract participants. The programme has proven very popular with residential and commercial customers connecting their solar panels or wind turbines to our grid. At December 31 2017, 242 (December 31, 2016: 181) customers were connected with 3,766.4 (December 31, 2016: 2,754.6) kilowatts ("kW") of renewable capacity.

The Company anticipates further renewable energy sources will be connected to the grid with a Request for Proposal ("RFP") for renewable energy being conducted by the Utility Regulation and Competition Office ("OfReg") in the near future. As well as the positive environmental effects, renewable energy offers the benefit of stable energy costs for our customers going forward.

Human Resources and Training

CUC employs 216 full-time employees, approximately 90% of whom are Caymanians. Throughout 2017, the Company remained committed to its training programmes, which provided Caymanian employees with the training necessary to excel in their respective fields and to ensure their advancement within the organization.

Over 7,000 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. This commitment and training resulted in the promotion of 20 employees to positions of increased responsibility.

A major focus for 2017 was to support CUC's leadership development framework. This was achieved through the launch of the Institute of Leadership and Management ("ILM") certificate programme for those at the Foreman, Supervisor, and Manager levels. On completion of the programme, the participants are expected to have enhanced their management and business acumen skills. During the year in review, the company was able to establish a secondment program with Tucson Electric Power ("TEP"), a Fortis subsidiary, in which Mr. Corey Miller, an Engineer-in-training, spent 12 months obtaining valuable experience to keep abreast of industry best practices, renewables and other new technologies.

The Company achieved the Gold level Investors in People ("IIP") Accreditation in 2017. This followed a rigorous review process conducted by Investors in People International of the United Kingdom. The IIP standard is a business improvement tool designed to advance an organisation's performance through its people. The standard helps organisations to improve performance and realise objectives through the management and development of their people. CUC is one of just three organisations in the Cayman Islands to have been officially recognised as having attained this Standard.

CUC's scholarship programme forms part of the Company's continued commitment to the development of the young people of the Cayman Islands. In 2017, the Company offered two scholarships. Victoria Powery is studying to complete a Bachelor's in Occupational Safety and Health at Colombia Southern University located in Orange Beach, Alabama, and Jonathon Key is studying to complete a Bachelor's in Mechanical Engineering at University of Indianapolis in Indianapolis, Indiana.

The Company also focused on strengthening its performance management system, ensuring that goals and objectives were set for each employee and that two performance reviews were conducted for each employee during the year.

Twenty-seven employees received long service awards for having careers spanning from 10 years to 40 years. Together, they gave the Company 485 years of service. We are grateful to them for the significant contribution they made to the Company over the years.

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 2017, employees had volunteered over 1,600 hours participating in a number of the Company's Community Involvement projects. These included Meals on Wheels, CUC's Primary Football League ("PFL"), the Cayman Islands Scout Association and The Swimming Association. The Company continues to sponsor a Mangrove Environmental Education Programme, which exposes primary school children to Grand Cayman's marine environment. The Company provides support to the Lighthouse School and the Sunrise Adult Training Centre, two facilities which cater to adults and children with special needs, and also continues to support local sports. CUC remains committed to the ongoing development of the community in which we live and work.

Summary

The Cayman Islands Economics and Statistics Office (“ESO”) reported that the Gross Domestic Product (“GDP”) expanded by an estimated 2.3% in the first six months of 2017. The expanding sectors were led by wholesale and retail trade, electricity and water supply, construction, hotels and restaurants, and financing and insurance services. The ESO is forecasting Annual GDP growth in 2017 of 2.1% with the increase in construction activity and increased lending activity from commercial banks expected to continue for the second half of the year.

In tourism, both air and cruise arrivals for 2017 increased over 2016. Air arrivals have a direct impact on the Company’s sales growth as these visitors are stay-over visitors who occupy the hotels. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

Work continues on the expansion of the Owen Roberts International Airport. This project is scheduled to be completed by the end of 2018. The new design will expand the current facility to feature a larger terminal that will accommodate the projected growth in air arrivals.

The financial services industry which remains the largest contributor to the economy continues to grow with 1.4% growth in the first six months of 2017. The Cayman Islands Government, the Cayman Islands Monetary Authority which regulates the industry and the private sector continued in their efforts to successfully comply with international regulations, to grow existing services and to identify and target new areas of business in which to expand based on a reputation of quality service providers operating in a compliant and well-regulated jurisdiction.

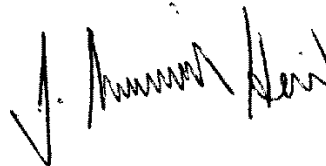
As the economy and the population of the Cayman Islands continue to expand, CUC is well poised to continue serving the demands of the electricity sector. The Company continues to maintain and renew its robust electrical infrastructure, to explore and adopt new technologies to improve efficiencies and preserve our environment, and most importantly, to invest in our people that they may continue to learn and grow to improve safety performance and the quality and reliability of the service we deliver to our customers.

The Company congratulates Ms. Emily Pearson on being the 2017 Employee of the Year, Mr. Richard Solomon, the Supervisor of the year and Mr. Jimmy Whorms-Bodden, the Excellence in Safety Award winner, a new individual award for Safety Excellence which was introduced in 2016. We are very proud of these employees and their achievements.

The Board of Directors continue to provide guidance and support and we thank them for their ongoing contributions. We are also thankful to our loyal and dedicated employees who remain committed to our mission which is, “To be a leader in the growth of our community by delivering safe and reliable energy service at competitive costs and with respect to the environment while remaining a model corporate citizen and providing a fair return to our shareholders.”



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



J.F. Richard Hew
President & Chief Executive Officer

March 1, 2018

Management's Discussion and Analysis



The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or the "Company") consolidated financial statements for the year ended December 31, 2017 ("Fiscal 2017"). The material has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to Management's Discussion and Analysis.

These accounting practices, which are disclosed in the notes to the Company's 2017 annual financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation, the amount and timing of recovery or refund by the Company of costs of providing services, including a fair return on rate base assets, from customers through appropriate billing rates would not be subject to regulatory approval.

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

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

Financial information is presented in United States dollars unless otherwise specified. The consolidated financial statements and MD&A in this 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; or (iii) the effective date prescribed by 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 rules allows 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 common share as compared to that which would otherwise be recognized under U.S. GAAP.

March 1, 2018

Financial and Operational Highlights

(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)

	Year Ended December 31, 2017	Year Ended December 31, 2016	Change	% Change
Electricity Sales Revenues	81,784	80,183	1,601	2%
Fuel Factor & Renewables Revenues	89,157	81,519	7,638	9%
Total Operating Revenues	170,941	161,702	9,239	6%
Fuel, Lube & Renewables Costs	89,157	81,519	7,638	9%
Other Operating Expenses	54,404	53,283	1,121	2%
Total Operating Expenses	143,561	134,802	8,759	6%
Net Earnings for the Year	23,775	25,211	(1,436)	-6%
Cash Flow related to Operating Activities	50,731	61,739	(11,008)	-18%
<i>Per Class A Ordinary Share:</i>				
Basic Earnings	0.70	0.75	(0.05)	-7%
Dividends Paid	0.680	0.675	0.005	1%
Total Customers	29,160	28,678	482	2%
Total Employees*	216	208	8	4%
Customer per Employee (#)	135	138	(3)	-2%
System Availability (%)	99.93	99.92	0.01	0%
Peak Load Gross (MW)	105.6	103.4	2.2	2%
<i>Millions of kWh:</i>				
Net Generation	654.3	650.3	4.0	1%
Kilowatt-Hour Sales	621.8	606.7	15.1	2%
Sales per employee	2.88	2.92	(0.04)	-1%

* 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 Transmission & Distribution (“T&D”) Licence and a 25-year non-exclusive Generation 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 (“OfReg”), which has the overall responsibility of regulating the electricity, information and communications technology, and the petroleum industries in the Cayman Islands in accordance with the Utility Regulation and Competition Office Law (2016). Effective January 16, 2017 as a consequence of the commencement of the Utility Regulation and Competition Office, Law 2016, along with other sector specific laws, the Electricity Regulatory Authority (“ERA”), the Information & Communication Technology Authority (“ICTA”) and the Cayman Petroleum Inspectorate merged into one entity - OfReg. This merger did not impact the terms and conditions of the Licences.

The Licences contain the provision for a rate cap and adjustment mechanism (“RCAM”) based on published consumer price indices. CUC’s return on rate base (“RORB”) for 2017 was 6.9% (2016: 7.4%). CUC’s RORB for 2018 is targeted in the 6.75% to 8.75% range subject to the approval of the OfReg (2017: 6.75% to 8.75%).

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

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

In November 2017 CUC submitted the 2018-2022 Capital Investment Plan in the amount of \$234 million to the OfReg for approval (December 2016 approved amount: 2017-2021: \$219 million).

A licence fee of 1%, payable to the Government, is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge. In addition to the licence fee, a regulatory fee of $\frac{1}{2}$ of 1% is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month.

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

Performance standards provide a balanced framework of potential penalties or rewards compared to historical performance in the areas of planning, reliability, operating and overall performance. Standards include "zones of acceptability" where no penalties or rewards would apply. In April 2017, the OfReg approved a penalty related to the Company's performance for 2015-2016 in accordance with the T&D Licence. The total Z factor performance penalty of \$0.19 million was applied to customer billings as a per kWh credit on a one time-basis in June 2017.

CUC's wholly-owned subsidiary, DataLink, Ltd. ("DataLink"), was granted a licence in 2012 from the former ICTA (now referred to as the OfReg) permitting DataLink to provide fibre optic infrastructure and other information and communication technology ("ICT") services to the ICT industry. DataLink is subject to regulation by OfReg in accordance with the terms and conditions of its Licence which currently extends to March 27, 2027. CUC and DataLink have entered into three ERA-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, 2017 ("Fiscal 2017") totalled \$27.4 million, a \$0.5 million increase from Operating Income of \$26.9 million for the year ended December 31, 2016 ("Fiscal 2016"). This increase is attributable to a 2% increase in kWh sales, 0.1% and 1.6% base rate increases effective June 1, 2016 and June 1, 2017 respectively. These items were partially offset by higher consumer services and depreciation expenses in 2017.

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 is attributable to higher finance charges more than offsetting the gain in Operating Income.

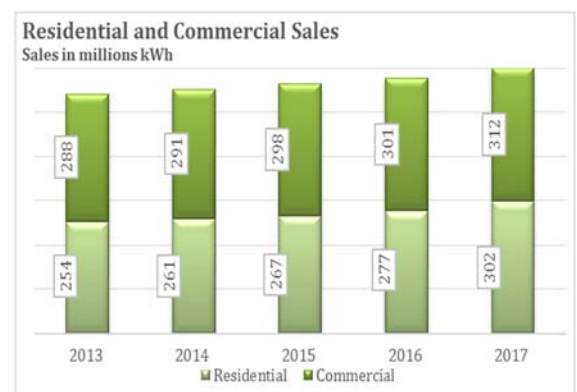
Finance charges for Fiscal 2017 totalled \$8.5 million, a \$1.7 million increase from \$6.8 million for Fiscal 2016. This increase is as a result of higher interest on long term debt and lower Allowance for Funds Used during Construction ("AFUDC") driven by the completion of the 39.7 MW Generation Project in 2016 (see the "Other Income and Expenses" section of this MD&A for further details).

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Fiscal 2017 were \$22.8 million, or \$0.70 per Class A Ordinary Share as compared to \$24.3 million, or \$0.75 per Class A Ordinary Share for Fiscal 2016. 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 32,796,012 and 32,483,387 for the years ended December 31, 2017 and December 31, 2016, respectively.

Sales

Sales for Fiscal 2017 were 621.8 million kWh, an increase of 15.1 million kWh or 2% when compared to 606.7 million kWh for Fiscal 2016. Sales were positively impacted by an increase in average residential consumption and a 2% growth in customer numbers.

Total customers as at December 31, 2017 were 29,160, an increase of 482 compared to 28,678 customers as at December 31, 2016.





The Camana Bay development on West Bay Road continues to expand and attract major corporations. The buildings are part of a modern Caribbean master-planned community that benefits from world-class amenities and cutting-edge business continuity solutions.

Operating Revenues

Operating revenues for Fiscal 2017 totalled \$170.9 million, an increase of \$9.2 million from \$161.7 million for Fiscal 2016. This increase in operating revenues was due to higher fuel factor revenues and higher electricity sales revenues.

Electricity sales revenue increased \$1.6 million for Fiscal 2017 to \$81.8 million when compared to electricity sales revenues of \$80.2 million for Fiscal 2016. This increase is attributable to a 2% increase in kWh sales and the 1.6% and 0.1% base rate increases effective June 1, 2017 and June 1, 2016 respectively.

Fuel factor and renewables revenues for Fiscal 2017 totalled \$89.2 million, a \$7.7 million increase from the \$81.5 million in fuel

factor and renewables revenues for Fiscal 2016. The average Fuel Cost Charge rate per kWh charged to consumers for the year ended December 31, 2017 was \$0.14 compared to the Fuel Cost Charge rate of \$0.13 per kWh for the year ended December 31, 2016. In June 2016 the Company completed its largest capital project to date with the commissioning of the new 40 MW power plant, on time and under budget. This plant, one of the most fuel efficient in the region, enabled the Company to achieve its highest ever annual net fuel efficiency of 19.4 kWh per IG in 2017. This increase in the average Fuel Cost Charge rate has resulted in costs of \$11.7 million to consumers for the year ended December 31, 2017 when compared to the year ended December 31, 2016. Fuel factor revenues for Fiscal 2017 increased when compared to Fiscal 2016 due to an increase in global oil prices.

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

Sales and Customer Highlights			
	Year Ended December 31, 2017	Year Ended December 31, 2016	Change %
Customers (fully stated, not in thousands)			
Residential	24,853	24,429	2%
Commercial	4,307	4,249	1%
Total Customers	29,160	28,678	2%
Sales (in thousands kWh)			
Residential	312,812	299,079	5%
Commercial	302,094	300,825	0%
Other	6,880	6,795	1%
Total Sales	621,786	606,699	2%
Average Monthly Consumption Per Customer (kWh)			
Residential	1,059	1,030	3%
Commercial	57,586	58,715	-2%
Revenues (in thousands of \$)			
Residential	41,049	38,881	6%
Commercial	40,081	40,642	-1%
Other (street lights etc.)	654	660	-1%
Fuel Factor & Renewables	89,157	81,519	9%
Total Operating Revenues*	170,941	161,702	6%

*Total CUC Customers and Revenue Only

Operating Expenses

Total operating expenses for Fiscal 2017 increased \$8.8 million to \$143.6 million from \$134.8 million for Fiscal 2016. The main contributing factors to the increase in operating expenses were higher fuel costs, consumer services and promotion costs and higher depreciation.

Operating expenses were as follows:

Operating Expenses				
(\$ thousands)				
	Year Ended December 31, 2017	Year Ended December 31, 2016	Change	% Change
Power Generation Expenses	92,623	85,271	7,352	9%
General and Administration	8,282	8,691	(409)	-5%
Consumer Services	3,272	2,318	954	41%
Transmission and Distribution	2,945	2,904	41	1%
Depreciation	30,583	29,257	1,326	5%
Maintenance	5,326	5,736	(410)	-7%
Amortization of Intangible Assets	530	625	(95)	-15%
Total Operating Expenses	143,561	134,802	8,759	6%

Power Generation

Power generation costs for Fiscal 2017 totalled to \$92.6 million, a \$7.3 million or 9% increase when compared to \$85.3 million for Fiscal 2016. This increase is as a result of higher fuel costs.

Power generation expenses were as follows:

Power Generation				
(\$ thousands) <i>Fuel and Lubricating Oil costs stated net of deferred charges</i>				
	Year Ended December 31, 2017	Year Ended December 31, 2016	Change	% Change
Fuel & Renewables costs (net of deferred fuel and renewables charges)	87,769	79,480	8,289	10%
Lubricating Oil costs (net of deferred lubricating oil charges)	1,388	2,039	(651)	-32%
Temporary generation costs	-	364	(364)	-100%
Other generation expenses	3,466	3,388	78	2%
Total Power Generation expenses	92,623	85,271	7,352	9%

The Company's average price per IG of fuel for Fiscal 2017 increased to \$2.77 from \$2.23 for Fiscal 2016. The Company's average price per IG of lubricating oil for Fiscal 2017 decreased to \$9.56 from \$10.36 for Fiscal 2016.

Net generation was 654.3 million kWh for Fiscal 2017 compared to 650.3 million kWh for Fiscal 2016. Net fuel efficiency for Fiscal 2017 of 19.37 kWh per IG increased when compared to net fuel efficiency for Fiscal 2016 of 19.02 kWh per IG. This increase in net fuel efficiency is due primarily to the new generating units installed in 2016 and discontinuation of the use of temporary mobile generation.

The Fuel Tracker Account (*see Note 5 of the Notes to Annual Consolidated Financial Statements for further details*) is comprised of total diesel fuel and lubricating oil costs to be recovered from consumers.

In March 2011, the ERA approved the Fuel Price Volatility Management Programme. The objective of the programme is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers for the fuel that the Company must purchase in order to provide electric service. Contracts initiated in 2017 utilize call options and call spreads to promote transparency in pricing. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

In September 2017, the Company started recording Renewables revenues as a separate item on customers' bills. The renewables costs are a combination of charges from the CORE programme and Entropy Cayman Solar Limited.

Temporary generation expenses for Fiscal 2017 totalled \$nil, a decrease of \$0.4 million when compared to temporary generation expenses for Fiscal 2016 of \$0.4 million. All temporary generating units had been returned to the supplier in June 2016.

Other generation expenses for Fiscal 2017 totalled \$3.5 million, an increase of \$0.1 million when compared to \$3.4 million for Fiscal 2016.

General and Administration ("G&A")

G&A expenses for Fiscal 2017 totalled \$8.3 million, a decrease of \$0.4 million, from \$8.7 million for Fiscal 2016. This decrease was due mainly to higher General Expenses Capitalised ("GEC") recorded in Fiscal 2017. This item was partially offset by higher legal fees, IT outsourcing costs and staff costs.

The Company capitalizes certain overhead costs not directly attributable to specific capital assets but which do relate to the overall capital expenditure programme. GEC totalled \$5.3 million for Fiscal 2017, \$1.0 million higher than \$4.3 million for Fiscal 2016.

Consumer Services ("CS")

CS expenses for Fiscal 2017 totalled \$3.3 million, an increase of \$1.0 million when compared to \$2.3 million for Fiscal 2016. This increase is attributable to an increase in the allowance for doubtful accounts ("AFDA") recorded in 2017 and higher fees for credit card transactions.

In accordance with its AFDA policy, the Company maintains an accumulated provision for uncollectible customer accounts receivable that is estimated based on known accounts, historical experience and other currently available information, including the economic environment.

On July 11, 2017 OfReg issued ICT 2017-1 Determination Pole Attachment Reservation Fees. OfReg's decision was that Datalink's charge of Reservation Fees in the manners provided for in the current contracts, in its view, was contrary to the ICT Law. Under the determination, Datalink is required to remove references to reservation fees in its contracts with other telecomm providers and provide a refund to the telecomms of fees charged, including fees charged prior to 2017. Datalink is to amend the contracts within 30 days of the determination and negotiate the amounts to be refunded within 60 days of the determination.

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 following the August 9, 2017 refusal by OfReg to suspend the decision and allow DataLink time to respond. Both the stay and permission to apply for Judicial Review were granted on August 11, 2017.

An order for directions was agreed between the parties and a timeline negotiated. A court hearing has been set for four days beginning on June 4, 2018.

Trade and other accounts receivable

(\$ thousands)

	As at December 31, 2017	As at December 31, 2016
Current	5,698	6,552
Past due 31-60 days	556	592
Past due 61-90 days	504	153
Past due over 90 days	5,069	5,073
Total Accounts Receivable	11,827	12,370
Less: Allowance for doubtful accounts	(2,238)	(1,987)
Less: Consumer Deposits	(8,052)	(7,754)
Trade receivables less allowance for doubtful accounts and consumer deposits	1,537	2,629

Trade receivables less the allowance for doubtful accounts and consumer deposits as at December 31, 2017 totalled \$1.5 million, a decrease of \$1.1 million, or 42% when compared to the Net Exposure of \$2.6 million as at December 31, 2016. This decrease was primarily related to an increase in AFDA and an increase in consumer deposits. Customer receivables also decreased due to improved efficiencies in the disconnection process resulting from the newly installed Advanced Metering Infrastructure (“AMI”) meters.

Transmission and Distribution (“T&D”)

T&D expenses for Fiscal 2017 totalled \$2.9 million comparable to T&D expenses of \$2.9 million for Fiscal 2016.

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

Depreciation expenses for Fiscal 2017 totalled \$30.6 million, an increase of \$1.3 million, or 4%, from \$29.3 million for Fiscal 2016. This increase in depreciation is due to capital projects completed in prior periods and in particular the 40 MW generation plant commissioned in June 2016.

Maintenance

Maintenance expenses for Fiscal 2017 totalled \$5.3 million, a decrease of \$0.4 million from \$5.7 million for Fiscal 2016.

This decrease is due to the maintenance department’s focus on higher portion of maintenance of a capital nature during Fiscal 2017. Certain types of major maintenance result in improvements to the life of the equipment and therefore the costs of such maintenance are capitalised.

Amortization

Amortization of intangible assets for Fiscal 2017 totalled \$0.5 million, a decrease of \$0.1 million when compared to \$0.6 million for Fiscal 2016.

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

Other Income and Expenses

Net Other Expenses for Fiscal 2017 totaled \$3.6 million, an increase of \$1.9 million from \$1.7 million for Fiscal 2016.

Other Income & Expenses				
(\$ thousands)				
	Year Ended December 31, 2017	Year Ended December 31, 2016	Change	% Change
Total interest costs	(13,084)	(12,170)	(914)	8%
AFUDC	4,545	5,402	(857)	-16%
Total finance charges	(8,539)	(6,768)	(1,771)	26%
Foreign exchange gain	1,419	1,158	261	23%
Other income	3,515	3,921	(406)	-10%
Total Net Other Expense	(3,605)	(1,689)	(1,916)	113%

Finance charges for Fiscal 2017 totalled \$8.5 million, an increase of \$1.7 million from \$6.8 million for Fiscal 2016. This increase is as a result of higher interest on long term debt, partially offset by lower interest costs on short term debt.

Under the T&D Licence there is a provision for an Allowance for Funds Used During Construction ("AFUDC"). This capitalisation of the Financing Cost is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for 2017 was 7.75% (2016:7.75%) as agreed with OfReg, in accordance with the T&D Licence, and is reviewed annually.

The AFUDC amount for Fiscal 2017 totalled \$4.5 million, a \$0.9 million decrease when compared to \$5.4 million for Fiscal 2016. This decrease was attributable to lower average work in progress, driven primarily by the completion in 2016 of the generation expansion project.

Foreign exchange gains and losses are the result of monetary assets and liabilities denominated in foreign currencies that are translated into United States dollars at the exchange rate prevailing on the Balance Sheet date. Revenue and expense items denominated in foreign currencies are translated into United States dollars at the exchange rate prevailing on the transaction date. Foreign exchange gains totalled \$1.4 million for Fiscal 2017 a \$0.2 million increase when compared to \$1.2 million for Fiscal 2016. Foreign exchange gains have increased due to the increase in global oil prices which result in higher 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 \$3.5 million for Fiscal 2017, a decrease of \$0.4 million when compared to other income of \$3.9 million for Fiscal 2016. The decrease is mainly due to the Z factor performance penalty of \$0.19 million that was applied to customer billings as a per kWh credit on a one time-basis in June 2017.

Revenues from DataLink for Fiscal 2017 are recorded in Other Income in the amount of \$1.2 million, a decrease of \$0.5 million, from \$1.7 million for Fiscal 2016. The decrease in Fiscal 2017 is due to a one-time pole attachment fees in arrears which was billed in 2016.

The Economy

The Cayman Islands Economics and Statistics Office (“ESO”) released the Consumer Price Index (“CPI”) report for the Third Quarter in December 2017. According to the report, the CPI for the Third Quarter increased by 1.4% compared to Third Quarter 2016. This increase is as a result of increases in the prices for transport, health, clothing and footwear, furnishings, household equipment, and routine household maintenance, alcoholic beverages and tobacco, food and non-alcoholic beverages, recreation and culture, communication, housing, water, electricity, gas and other fuels and miscellaneous goods and services. Prices for restaurant and hotels declined. The ESO is forecasting 2017 annual inflation of 1.8%.

The ESO also issued the 2017 Semi-Annual Economic Report in December 2017. The report indicated that the Gross Domestic Product (“GDP”) expanded by an estimated 2.3% in the first six months of 2017. The expanding sectors were led by wholesale and retail trade, electricity and water supply, construction, hotels and restaurants, and financing and insurance services.

The ESO is forecasting Annual GDP growth in 2017 of 2.1% with the increases in real estate and wholesale and retail trade 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.

The financial services sector continues to experience its challenges. Overall, there were fewer bank licences, mutual funds, and captive insurance companies when compared to the prior year. Despite the downward trends, 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 itemises trends in some of the key financial areas.

Indicators for the Financial Services Industry

(for the years ending December 31)

	2017	2016	2015	2014	2013
Bank Licences	150	159	184	198	213
Mutual Funds	10,559	10,586	10,940	11,010	11,379
Mutual Fund Administrators	97	106	108	115	121
Registered Companies	99,327	96,248	98,838	99,459	95,530
Captive insurance companies	724	740	739	788	788

The tourism sector is the second main pillar of the Cayman Islands economy. The Cayman Islands tourism demographic is largely comprised of visitors from the United States of America ("US"). For 2017 81% of air arrivals to the country were citizens of the US. As such the US economy has a large impact on the economy of the Cayman Islands.

For Fiscal 2017 air arrivals increased by 9% when compared to 2016 and cruise arrivals increased by 1% when compared to the same period in 2016. Air arrivals have a direct impact on the Company's sales growth as these visitors are stay-over visitors who occupy the hotels. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

The following table presents statistics for tourist arrivals in the Cayman Islands for the year ending December 31:

Tourist Arrivals to the Cayman Islands

(for the twelve months ending December 31)

	2017	2016	2015	2014	2013
By Air	418,403	385,451	385,379	382,816	345,387
By Sea	1,728,444	1,711,849	1,716,812	1,609,555	1,375,872
Total	2,146,847	2,097,300	2,102,191	1,992,371	1,721,259

The tourism industry is expected to be positively impacted by the expansion of the Owen Roberts International Airport in Grand Cayman. The expansion is expected to be completed in 2018 and will accommodate the anticipated growth in air arrivals. The expanded airport will provide a vastly improved airlift service for Grand Cayman's tourists. The new design expands the current facility and will feature a larger terminal which will accommodate the projected growth in air arrivals. In addition to the airport expansion, the tourism sector 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. The resort is expected to include six cafes and restaurants, a spa and fitness center, three swimming pools, shops and a private screening room. It will also 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)



Upgrades to the Owen Roberts International Airport continue. The \$55 million expansion is expected to be completed in 2018. (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 2017 compared to Fiscal 2016:

Cash Flows				
(\$ thousands)				
	Year Ended December 31, 2017	Year Ended December 31, 2016	Change	% Change
Beginning cash	9,861	1,365	8,496	622%
Cash provided by/(used in):				
Operating activities	50,731	61,739	(11,008)	-18%
Investing activities	(53,378)	(47,560)	(5,818)	12%
Financing activities	44	(5,683)	5,727	-101%
Ending cash	7,258	9,861	(2,603)	-26%

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for Fiscal 2017, was \$50.7 million, a decrease of \$11.0 million from \$61.7 million for Fiscal 2016. This decrease was primarily due to decreased earnings and changes in regulatory deferrals, accounts payables and accrued expenses partially offset by the changes in accounts receivable.

Investing Activities:

Cash used in investing activities for Fiscal 2017 totalled \$53.4 million, an increase of \$5.8 million from \$47.6 million for Fiscal 2016. This increase is due to higher capital expenditures which were partially offset by contribution in aid of construction.

Financing Activities:

Cash provided by financing activities totalled \$44 thousand for Fiscal 2017, an increase of \$5.7 million from \$5.7 million of cash used in financing activities for Fiscal 2016. This increase in cash provided by financing activities is attributable to the proceeds from debt financing and shares issued, partially offset by repayment of short term debt financing and long term debt in 2017.

Cash Flow Requirements:

The Company expects that operating expenses and interest costs will generally be paid from the Company's operating cash flows, with residual cash flows available for capital expenditures and dividend payments. Borrowings under credit facilities may be required from time to time to support seasonal working capital requirements. Cash flows required to complete planned capital expenditures are expected to be financed from a combination of proceeds from operating cash, debt and equity transactions. The Company expects to be able to source the cash required to fund its 2018 capital expenditure programme (see the "Business Risks" section of this MD&A for Liquidity Risk details).

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	<u>\$31,000</u>
Total	\$49,500
Provided by RBC:	
Corporate Credit Card Line	<u>\$500</u>
Total	\$50,000

Of the total above, \$49.0 million was available at December 31, 2017.

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 2017 and 2016 are summarized in the following table.

Related Party Transactions		
<i>(in thousands)</i>	As at December 31, 2017	As at December 31, 2016
Receivables from Newfoundland Power (a subsidiary of Fortis Inc.)	4	17
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	17	-
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	49	-
Total Related Party Receivables	70	17
Payables to Fortis Inc. (the company's majority shareholder)	5	4
Payables to Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	2	-
Total Related Party Payables	7	4

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

The Company rents office facilities from a related party, Adare Investments Ltd., a Company owned by the retired Chairman of the Company's Board of Directors, on a 5-year lease agreement ending June 30, 2019. Rent expenses totaled \$92,962 for Fiscal 2017 (\$91,596 for Fiscal 2016).

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at December 31, 2017, are outlined in the following table:

Contractual Obligations					
(\$ thousands)	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	273,000	16,714	27,571	29,688	199,027
Long-term debt interest	120,831	12,648	22,541	18,767	66,875
Defined benefit pension	20	20	-	-	-
Total	393,851	29,382	50,112	48,455	265,902

Power Purchase Obligation

During 2015, the Company entered into a Power Purchase Agreement ("PPA") with Entropy Cayman Solar Limited to purchase up to 2.1 MW per year of associated energy 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 will also provide renewable energy at a competitive initial price of \$0.17 cents per kWh. The PPA qualifies for the Normal Purchase Normal Sale exemption under Accounting Standards Codification (“ASC”) 815 and does not qualify as a derivative.

Fuel Purchase Obligation

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

Financial Position

The following table is a summary of significant changes to the Company’s balance sheet from December 31, 2016 to December 31, 2017.

Significant changes in Balance Sheet

(from December 31, 2016 to December 31, 2017)

Balance Sheet Account	Increase/ (Decrease) (\$ thousands)	Explanation
Cash and Cash Equivalents	(2,603)	Decrease due to cash provided by operating activities of \$50.7 million and cash provided by financing activities of \$0.04 million and offset by cash used in investing activities of \$53.4 million.
Accounts Receivable	(847)	Lower billings due to improved efficiencies in the disconnection process.
Property, Plant and Equipment	21,100	Net increase is comprised of (1) capital expenditures of \$52.4 million (2) depreciation expense of \$30.6 million (3) \$1.5 million in accrued capital expenditure and (4) \$2.2 million in funds received in aid of construction.
Accounts Payable and Accrued Expenses	635	Increase attributable to increases in accrued capital expenditure and operating expense accruals.
Short Term Debt	(30,000)	Repayment of Scotiabank capital expenditure credit facility in Second Quarter 2017.
Current Portion of Long Term Debt	5,714	Increase due to debt payment schedule.
Long-Term Debt	43,136	Increase due to proceeds from debt issuance in March and May partially offset by principal payments made on the Company’s Senior Unsecured Notes in Fiscal year 2017
Share Premium	4,280	The Company issued 347,694 shares through its share purchase plans.
Retained Earnings	512	Increase due to net earnings for the year of \$23.8 million offset by Class A dividends of \$22.3 million and Class B dividends 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, 2017, the Company was in compliance with all debt covenants.

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

Capital Structure				
	December 31, 2017 (\$ thousands)	%	December 31, 2016 (\$ thousands)	%
Total debt	271,596	55	252,746	53
Shareholder's equity	<u>224,423</u>	<u>45</u>	<u>220,122</u>	<u>47</u>
Total	496,019	100	472,868	100

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

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

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

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

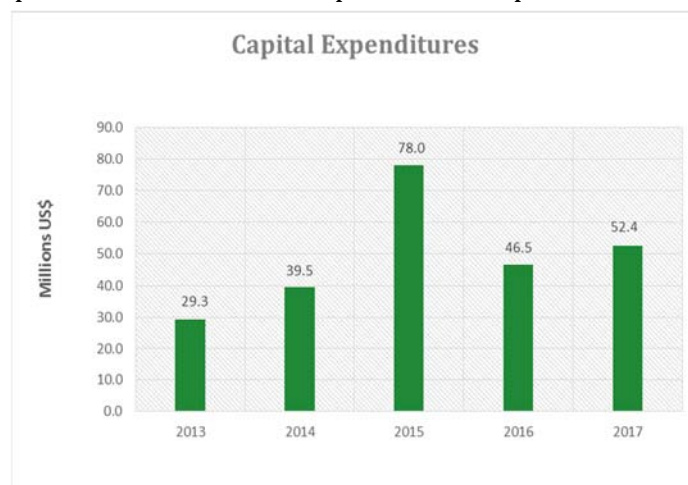
In June 2017, S&P affirmed the Company's "A-" rating with a stable outlook. The stable outlook reflects S&P Global Ratings's expectation that the Company will continue to generate stable cash from its regulated utility operations. The A- rating reflects S&P's positive view of the Company's current position as the sole provider of generation services, and the Company's licenced position as the sole provider of T&D services. The rating also reflects S&P's positive view of regulatory support and stable cash flows offset by the economic uncertainty and the limited history of the regulator. The recent formation of the new regulatory agency, OfReg will not negatively affect the company's rate-setting decisions.

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

Capital Expenditures

Capital expenditures net of contribution in aid of construction for Fiscal 2017 were \$52.4 million, a \$5.9 million, or 13% increase from \$46.5 million in capital expenditures for the same period of the previous year. The capital expenditures for Fiscal 2017 primarily relate to:

- Distribution system extension and upgrades - \$19.5 million.
- Replace Prospect substation - \$2.2 million.
- REC 580 Upgrade North Sound - \$1.7 million.
- Future Seven Mile Beach substation - \$5.0 million.
- Generation Replacement Cost - \$12.7 million
- Facility and Auxiliary Asset Replacement Cost - \$2.0 million.
- AFUDC of \$4.5 million was capitalized in Fiscal 2017.
- Contribution in Aid of Construction was \$2.2 million



Capital expenditures

(\$ thousands)

	Year Ended December 31, 2017	Year Ended December 31, 2016	Change	% Change	Forecast 2018
Transmission	11,074	1,512	9,562	632%	21,529
Distribution	20,018	15,546	4,472	29%	17,286
Generation	18,493	27,059	(8,566)	-32%	27,125
Other	<u>2,823</u>	<u>2,379</u>	<u>444</u>	<u>19%</u>	<u>3,347</u>
Total	52,408	46,496	5,912	13%	69,287

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

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

Economic Conditions

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

Regulation

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

Weather

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

Environmental Matters

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

CUC's Environmental Management System ("EMS") is registered to the ISO 14001 Environmental Standard. The Company was initially registered in 2004, pursuant to an audit by a third party of the Company's EMS to ensure that the Company was meeting requirements put in place by the Government as well as self-imposed requirements. Under the ISO 14001 standard companies are required to establish, document, implement, maintain and continually improve their environmental performance with an aim of prevention of pollution. In order to maintain the Company's registration to this standard an external surveillance audit is conducted annually, and an external audit is conducted every three years for re-certification. Internal audits of the system must also be conducted on an annual basis. CUC has most recently conducted, and successfully passed its re- registration audit in October 2017.

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

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

Insurance - Terms and Coverage

The Company renewed its insurance policy as at July 1, 2017 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include \$100.0 million in property and machinery breakdown insurance and business interruption insurance per annum with a 24-month indemnity period and a waiting period on Non-Named Wind, Quake and Flood of 60-days. Any named Wind, Quake and Flood deductible has a 45-day waiting period. All T&D assets outside of 1,000 feet from the boundaries of the main power plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$1.0 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1.0 million and maximum deductible of \$4.0 million for all interests combined.

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

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

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

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

Defined Benefit Pension Plan

The Company maintains a defined benefit pension plan, which provides a specified monthly benefit on retirement irrespective of individual investment returns. The assumed long-term rate of return on pension plan assets for the purposes of estimating pension expense for 2017 is 5%. This compares to assumed long-term rates of return of 5% used during 2016. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The loss on pension plan assets during 2017 was 6% (2016: loss of 1%).

Market driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the assumed return on the assets causing material changes in consolidated pension expense and funding requirements. Net pension expense is impacted by, among other things, the amortization of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other pension assumptions, including the assumed discount rate, may also result in future consolidated contributions to pension plans that differ significantly from current estimates as well as causing material changes in consolidated pension expense. The discount rate assumed for 2017 is 4.3% compared to the discount rate assumed during 2016 of 4.5%.

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

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

Financial Instruments

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

Credit Risk

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

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

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

Liquidity Risk

The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by the legal requirement under the Licences, which requires rates be set to enable the Company to achieve and maintain a sound credit rating in the financial markets of the world. The Company has also secured committed credit facilities to support short-term financing of capital expenditures and seasonal working capital requirements. The cost of renewed and extended credit facilities could increase in the future; however, any increase in interest expense and fees is not expected to materially impact the Company's consolidated financial results in 2018.

Interest Rate Risk

Long-term debt is issued at fixed interest rates, thereby minimizing cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings is \$nil (December 31, 2016: \$30 million).

Future Accounting Policies

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

Revenue from Contracts with Customers

ASU No. 2014-09 was issued in May 2014 and the amendments in this update, along with additional ASUs issued in 2016 and 2017 to clarify implementation guidance, create Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the codification. This standard clarifies the principles for recognizing revenue and enables users of financial statements to better understand and consistently analyze an entity's revenues across industries and transactions. The new guidance permits two methods of adoption: (i) the full retrospective method; and the cumulative impact of applying the standard would be recognized as at January 1, 2017, the earliest period presented; and (ii) the modified retrospective method, under which comparative periods would not be restated and the cumulative impact of applying the standard would be

recognized at the date of initial adoption, January 1, 2018, supplemented by additional disclosures. This standard is effective for annual and interim periods beginning after December 15, 2017. The Company will use the modified retrospective method.

The Company has reviewed the final assessments and conclusions of its utilities on tariff-based sales to retail and wholesale customers, which represents more than 98% of the Company's consolidated revenue, and has concluded that the adoption of this standard will not affect revenue recognition for tariff-based sales, and therefore will not have an impact on earnings.

The Company will add additional disclosures to address the requirement to provide more information regarding the nature, amount, timing and uncertainty of revenue and cash flows, which will result in revenues that fall outside the scope of the new standard. The Company will continue to present the following revenue categories from contracts with customers which will include electricity sales, fuel factor, renewables revenue; and other income.

Leases

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

Measurement of Credit Losses on Financial Instruments

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

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

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

applied retrospectively for the presentation of the net periodic benefit costs and prospectively, on and after the effective date, for the capitalization in assets of only the service cost component of net periodic benefit costs. The adoption of this update is not expected to have a material impact on earnings.

Targeted Improvements to Accounting for Hedging Activities

ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities, was issued in August 2017 and the amendments in this update better align risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. This update is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The amendments in this update should be reflected as of the beginning of the fiscal year of adoption. 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 the opening balance of retained earnings. Amended presentation and disclosure guidance is required only prospectively. The Company is assessing the impact that the adoption of this update will have on its consolidated financial statements.

Critical Accounting Estimates

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

Revenue Recognition

Following the recent completion of the AMI meter change-out project which allows for all customer meters to be read on the same date, during the Second Quarter 2017 the Company amended its billing processes to have all meters read on the last day of each month. As a result Revenues/kWhs recorded as at December 31, 2017 are based upon actual bills-rendered during the period.

Prior to May 2017, revenue derived from the sale of electricity was taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills were issued throughout the month based on meter readings that established electricity consumption since the last meter reading. The unbilled revenue accrual for the period was based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption resulted in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2017, the amount of unbilled revenue recorded in Electricity Sales was \$nil (December 31, 2016: \$2.2 million).

Kilowatt-Hour (“kWh”) Sales

Prior to May 2017, kilowatt-hour sales throughout the month were based on meter readings that established electricity consumption since the last meter reading. The kWh accrual for the period was based on estimated electricity sales to customers since the last meter reading. The estimation process for electricity consumption resulted in adjustments of kWh sales statistics in the periods they become known when actual results differ from the estimates. As at December 31, 2017, the amount of estimated kWh sales was nil (December 31, 2016: 23.9 million kWh).

Employee Future Benefits

The Company’s defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation. There are currently two participants in the Company’s defined benefit pension plan. The main assumptions utilized by Management in determining pension expense and obligations were the discount rate for the accrued benefit obligation, pension commencement date, inflation and the expected rate of return on plan assets. As at December 31, 2017, the Company has a long term liability of \$1.3 million (December 31, 2016: \$1.0 million).

Property, Plant and Equipment Depreciation

Depreciation is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at December 31, 2017, the net book value of the Company’s PP&E was \$488.3 million compared to \$467.2 million as at December 31, 2016, increasing as a result of the Company’s generation and T&D capital expenditures. Depreciation expense for Fiscal 2017 was \$30.6 million (\$29.3 million for the Fiscal 2016). 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 “Selected Annual Financial Information” table shows the Annual Financial Information for the financial years ended December 31, 2017, 2016 and 2015.

Selected Annual Financial Information

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

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Total Operating Revenues	170,941	161,702	188,880
Net Earnings for the Year	23,775	25,211	22,842
Earnings on Class A Ordinary Shares	22,825	24,266	21,912
Total Assets	530,895	509,861	482,806
Debt	254,882	211,746	222,594
Preference shares	250	250	250
Total shareholders’ equity	224,423	220,122	214,489
Earnings per Class A Ordinary Share	0.70	0.75	0.71
Diluted earnings per Class A Ordinary Share	0.70	0.75	0.71
Dividends declared per Class A Ordinary Share	0.680	0.675	0.66
Dividends declared per Class B Preference Share	3.80	3.78	3.72

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 the year ended December 31, 2017 (“Fiscal 2017”) were \$23.8 million, a \$1.4 million decrease from net earnings of \$25.2 million for the year ended December 31, 2016 (“Fiscal 2016”). This decrease is attributable to higher depreciation and finance charges. These items were partially offset by a 2% increase in kWh sales, 0.1% and 1.6% base rate increases effective June 1, 2016 and June 1, 2017 respectively. For a discussion of the reasons for the changes in Operating Revenues, Net Earnings Applicable to common 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 is due mainly 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 million in Fiscal 2017.

Comparative Results 2016/2015

Operating revenues for Fiscal 2016 totalled \$161.7 million, a decrease of \$27.2 million from \$188.9 million for the year ended December 31, 2015 (“Fiscal 2015”).

Net earnings for the year ended December 31, 2016 (“Fiscal 2016”) were 25.2 million, a \$2.4 million increase from net earnings of \$22.8 million for Fiscal 2015. This increase was attributable to a 4% increase in kWh sales, 0.9% and 0.1% base rate increases effective June 1, 2015 and June 1, 2016 respectively, lower finance charges and increased other income. These items were partially offset by higher depreciation, maintenance and general and administration costs.

The growth in total assets was due mainly to the construction of a new 39.7 MW power plant, which was commissioned in June 2016. The decrease in long-term debt was due to debt repayments of \$14 million in Fiscal 2015.

2017 Fourth Quarter Results

Net earnings for the three months ended December 31, 2017 (“Fourth Quarter 2017”) were \$5.5 million, a \$0.1 million increase when compared to \$5.4 million for the three months ended December 31, 2016 (“Fourth Quarter 2016”). This increase is due to higher AFUDC, foreign exchange and other income for the Fourth Quarter 2017 when compared to the Fourth Quarter 2016.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2017 were \$4.9 million, or \$0.15 per Class A Ordinary Share, as compared to \$4.7 million, or \$0.15 per Class A Ordinary Share for the Fourth Quarter 2016.

Kilowatt-hour sales for the Fourth Quarter 2017 were 150.5 million, an increase of 1.0 million kWh when compared to 149.5 million for the Fourth Quarter 2016. Sales were positively impacted by an increase in the number of customers.

Total operating expenses for the Fourth Quarter 2017 increased 9.7% or \$3.4 million to \$38.4 million from \$35.0 million for the Fourth Quarter 2016. The main contributing factors to the increase in operating expenses were higher power generation expenses, which were comprised predominantly of fuel costs, and higher maintenance, distribution and consumer service expenses. These factors were partially offset by lower depreciation costs.

Cash flow provided by operations, after working capital adjustments, for the Fourth Quarter 2017, was \$9.7 million, a decrease of \$6.1 million when compared to \$15.8 million for the Fourth Quarter 2016. This decrease was primarily due to changes in non-cash working capital balances. Cash used in investing activities totalled \$17.4 million for the Fourth Quarter 2017, an increase of \$8.1 million from \$9.3 million for the Fourth Quarter 2016. This increase is due to higher capital expenditures. Cash used in financing activities totalled \$7.8 million for the Fourth Quarter 2017, a decrease of \$0.3 million from \$8.1 million used in financing activities for the Fourth Quarter 2016. The decrease relates to the increase in proceeds from share issues.

Capital expenditures for the Fourth Quarter 2017 were \$18.1 million, a \$8.3 million, or 85%, increase from \$9.8 million in capital expenditures for the Fourth Quarter 2016.

Quarterly Results

The table “Quarterly Results” summarises unaudited quarterly information for each of the eight quarters ended March 31, 2016 through December 31, 2017. This information has been obtained from CUC’s unaudited interim Financial Statements, which in the opinion of Management have been prepared in accordance with US GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarterly results

(\$ thousands, except basic and diluted earnings per ordinary share)

	Operating Revenue	Net Earnings	Earnings on Class A Ordinary Shares	Earnings per Class A Ordinary Share	Diluted earnings per Class A Ordinary Share
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 31, 2016	41,181	5,368	4,760	0.15	0.15
September 30, 2016	42,873	7,371	7,258	0.22	0.22
June 30, 2016	37,915	7,544	7,431	0.23	0.23
March 31, 2016	39,732	4,975	4,862	0.15	0.15

December 2017/December 2016

Net earnings for the three months ended December 31, 2017 (“Fourth Quarter 2017”) were \$5.5 million, a \$0.1 million increase when compared to \$5.4 million for the three months ended December 31, 2016 (“Fourth Quarter 2016”). This increase is due to a 2% increase in kWh sales and lower depreciation and amortisation. These items were partially offset by higher maintenance, distribution and consumer service and promotion costs for the Fourth Quarter 2017 when compared to the Fourth Quarter 2016.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2017 were \$4.9 million, or \$0.15 per Class A Ordinary Share, as compared to \$4.7 million, or \$0.15 per Class A Ordinary Share for the Fourth Quarter 2016.

September 2017/September 2016

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

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

June 2017/June 2016

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

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

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2017 were \$6.0 million, or \$0.19 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$7.4 million or \$0.23 per Class A Ordinary Share for the Second Quarter 2016.

March 2017/March 2016

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

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

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

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting (“ICFR”)

The CEO and CFO of the Company, together with Management, have established and maintained the Company’s internal control over financial reporting (ICFR), as defined in National Instrument 52-109-*Certification of Disclosure in Issuers’ Annual and Interim Filings*, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP. 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 (COSO). 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, 2017.

There has been no change in the Company’s ICFR that occurred during the period beginning on October 1, 2017 and ended on December 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Outlook

In November 2017 CUC submitted the 2018-2022 Capital Investment Plan in the amount of \$234 million to the OfReg for approval (December 2016 approved amount: 2017-2021: \$219 million). Proposed projects for the upcoming period include completion of ongoing generation and T&D system replacements and upgrades. The proposed Capital Investment Plan is expected to be finalized during the first three months of 2018.

The Company completed an Integrated Resource Plan (“IRP”) study and submitted it to OfReg in 2017. 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. After analyzing which energy resources are technically viable in the Grand Cayman market, taking into account cost, reliability, environmental impact and other aspects, the Company produced a recommended portfolio of energy resources for the Grand Cayman market. 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.

Subsequent Events: Outstanding Share Data

At March 1, 2018 the Company had issued and outstanding 32,994,972 Ordinary Shares and 250,000 9% cumulative Participating Class B Preference Shares.

The number of common shares of the Company that would be issued if all outstanding stock options were converted as at March 1, 2018 is as follows.

Conversion of Securities into Common Shares As at March 1, 2018	Number of Common Shares
Stock Options	45,000

Additional information, including CUC’s Annual Information Form, is available on SEDAR at www.sedar.com and on the Company’s website at www.cuc-cayman.com. 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 2017 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 2017 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.

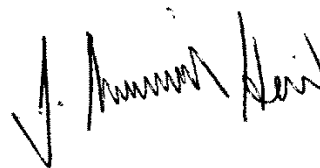
The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee that is composed entirely of outside directors. The Audit Committee meets with the external auditors, with and without management present, to discuss the results of the audit, the adequacy 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 2017 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 & 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.

We have audited the accompanying consolidated financial statements of Caribbean Utilities Company, Ltd., which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for the year then ended, and the related notes, including a summary of significant accounting policies and other explanatory information

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Caribbean Utilities Company, Ltd. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of Caribbean Utilities Company, Ltd. for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 13, 2017.

/s/ Deloitte LLP

Chartered Professional Accountants
March 1, 2018
St. John's, Canada

Consolidated Balance Sheets

(expressed in thousands of United States Dollars)

	Note	As at December 31, 2017	As at December 31, 2016
Assets			
<i>Current Assets</i>			
Cash		7,258	9,861
Accounts Receivable	4	9,519	10,366
Related Party Receivables	19	70	17
Regulatory Assets	5	18,283	13,605
Inventories	6	2,613	3,136
Prepayments		1,624	2,599
Total Current Assets		39,367	39,584
Property, Plant and Equipment, net	7	488,314	467,214
Intangible Assets, net	8	3,202	3,039
Other Assets		12	24
Total Assets		530,895	509,861
Liabilities and Shareholders' Equity			
<i>Current Liabilities</i>			
Accounts Payable and Accrued Expenses	9	24,106	23,471
Related Party Payables	19	7	4
Regulatory Liabilities	5	52	1,625
Short-Term Debt	15	-	30,000
Current Portion of Long-Term Debt	10	16,714	11,000
Consumers' Deposits and Advances for Construction	20	8,667	10,231
Total Current Liabilities		49,546	76,331
Defined Benefit Pension Liability	17	1,319	1,036
Long-Term Debt	10	254,882	211,746
Other Long-term Liabilities	12	725	626
Total Liabilities		306,472	289,739
Commitments and Contingency	20, 21		
Shareholders' Equity			
Share Capital ¹	11	2,214	2,193
Share Premium		123,376	119,096
Additional Paid-in Capital	12	467	467
Retained Earnings		99,668	99,156
Accumulated Other Comprehensive Loss		(1,302)	(790)
Total Shareholders' Equity		224,423	220,122
Total Liabilities and Shareholders' Equity		530,895	509,861

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 32,994,972 and 32,647,278 issued and outstanding as at December 31, 2017 and 2016 and Class B Preference Shares of 250,000 and 250,000 issued and outstanding as at December 31, 2017 and 2016, 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, 2017	Year Ended December 31, 2016
Operating Revenues			
Electricity Sales		81,784	80,183
Fuel Factor & Renewables		89,157	81,519
<i>Total Operating Revenues</i>		170,941	161,702
Operating Expenses			
Power Generation		92,623	85,271
General and Administration		8,282	8,691
Consumer Services		3,272	2,318
Transmission and Distribution		2,945	2,904
Depreciation		30,583	29,257
Maintenance		5,326	5,736
Amortization of Intangible Assets		530	625
<i>Total Operating Expenses</i>		143,561	134,802
Operating Income		27,380	26,900
Other (Expenses)/Income:			
Finance Charges	16	(8,539)	(6,768)
Foreign Exchange Gain	18	1,419	1,158
Other Income		3,515	3,921
<i>Total Net Other (Expenses)/Income</i>		(3,605)	(1,689)
Net Earnings for the Year		23,775	25,211
Preference Dividends Paid- Class B		(950)	(945)
Earnings on Class A Ordinary Shares		22,825	24,266
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)			
	13	32,796	32,483
Earnings per Class A Ordinary Share		0.70	0.75
Diluted Earnings per Class A Ordinary Share		0.70	0.75
Dividends Declared per Class A Ordinary Share		0.680	0.675

See accompanying Notes to Annual Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

(expressed in thousands of United States Dollars)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Net Earnings for the Year	23,775	25,211
Other Comprehensive Income:		
Amounts arising during the year		
Defined Benefit Pension plans:		
Net actuarial (loss) / gain	(586)	165
Reclassification to net income		
Defined Benefit Pension plans:		
Amortization of net actuarial loss	74	223
Total Other Comprehensive (Loss) / Income	(512)	388
Comprehensive Income	23,263	25,599

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, 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
As at December 31, 2015	32,382	1,927	250	116,201	467	(1,178)	96,822	214,489
Net earnings	-	-	-	-	-	-	25,211	25,211
Common share issuance and stock options plans	265	16	-	2,895	-	-	-	2,911
Defined benefit plans	-	-	-	-	-	388	-	388
Dividends on common shares	-	-	-	-	-	-	(21,932)	(21,932)
Dividends on preference shares	-	-	-	-	-	-	(945)	(945)
As at December 31, 2016	32,647	1,943	250	119,096	467	(790)	99,156	220,122

See accompanying Notes to Annual Consolidated Financial Statements

Consolidated Statements of Cash Flows

(expressed in thousands of United States Dollars)

	Year Ended December 31, 2017	Year Ended December 31, 2016
<i>Operating Activities</i>		
Net Earnings for the year	23,775	25,211
Items not affecting cash:		
Depreciation	30,583	29,257
Amortization of Intangible Assets	530	625
Non-cash Pension Expenses	(43)	(3)
Amortization of Deferred Financing Costs	(150)	146
Stock-based compensation	-	1
	54,695	55,237
Net changes in working capital balances related to operations:		
Accounts Receivable	847	1,401
Inventory	523	(899)
Prepaid Expenses	975	(503)
Accounts Payable	1,680	3,061
Net Change in Regulatory Deferrals	(6,251)	1,504
Other	(1,738)	1,938
<i>Cash flow related to operating activities</i>	50,731	61,739
<i>Investing Activities</i>		
Purchase of Property, Plant and Equipment	(54,927)	(47,207)
Costs related to Intangible Assets	(693)	(353)
Contributions in Aid of Construction	2,242	-
<i>Cash flow related to investing activities</i>	(53,378)	(47,560)
<i>Financing Activities</i>		
Proceeds from Long-Term Debt Financing	60,000	-
Short-Term Debt	(30,000)	30,000
Repayment of Long Term Debt	(11,000)	(14,000)
(Decrease) in Bank Overdraft	-	(1,735)
Dividends Paid	(23,257)	(22,863)
Net Proceeds from Share Issues	4,301	2,915
<i>Cash flow related to financing activities</i>	44	(5,683)
(Decrease)/ Increase in net cash	(2,603)	8,496
Cash - Beginning of year	9,861	1,365
Cash - End of year	7,258	9,861
Supplemental disclosure of cash flow information:		
Interest paid during the year	12,711	12,081

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

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

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

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

All 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 2017, following review and approval by the OfReg, the Company increased its base rates by 1.6% (June 2016: 0.1%). This increase was a result of the 2016 Return on Rate Base (“RORB”) and the increase in the applicable United States (“US”) and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2016. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80%, based on the range of the RORB values. The required rate adjustment of 1.6% can be calculated by applying 80% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 2.0%. 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 intangible assets acquired or constructed by the Company as reported in the Company’s consolidated financial statements. The original book value of these fixed assets include an Allowance for Funds Used During Construction (“AFUDC”)(Note 7) and an allowance for General Expenses Capitalised (“GEC”)(Note 7).

GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity.

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 critical accounting estimates relate to:

Revenue Recognition

Revenue from the sale of electricity is recognised on an accrual basis. Electricity is metered upon delivery to customers and recognised as revenue when consumed using rates that are approved by the OfReg. Billing rates are generally bundled to include service associated with generation, transmission and distribution. All meters are read on the last day of each month and bills are issued to customers based on these readings.

Following the recent completion of the AMI meter change-out project which allows for all customer meters to be read on the same date, during the three months ended June 30, 2017 ("Second Quarter 2017") the Company amended its billing processes to have all meters read on the last day of each month. As a result Revenues/kWhs recorded as at December 31, 2017 are based on actual bills-rendered during the period.

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

Prior to May 2017, kilowatt-hour sales throughout the month were based on meter readings that established electricity consumption since the last meter reading. The kWh accrual for the period was based on estimated electricity sales to customers since the last meter reading. The kWh accrual for the period is now 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, 2017 and 2016, 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 program ("STPP"), 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; and 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 (2017: \$0.19 million, 2016: \$0.16 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 C\$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 payout 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. All financial instruments are initially measured at fair value.

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 into earnings using the effective interest rate method over the life of the related financial instrument, outstanding balances are recognised as an increase of an asset or a reduction to a liability 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 program 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

Revenue from Contracts with Customers

ASU No. 2014-09 was issued in May 2014 and the amendments in this update, along with additional ASUs issued in 2016 and 2017 to clarify implementation guidance, create Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the codification. This standard clarifies the principles for recognizing revenue and enables users of financial statements to better understand and consistently analyze an entity's revenues across industries and transactions. The new guidance permits two methods of adoption: (i) the full retrospective method; and the cumulative impact of applying the standard would be recognized as at January 1, 2017, the earliest period presented; and (ii) the modified retrospective method, under which comparative periods would not be restated and the cumulative impact of applying the standard would be

recognized at the date of initial adoption, January 1, 2018, supplemented by additional disclosures. This standard is effective for annual and interim periods beginning after December 15, 2017. The Company will use the modified retrospective method.

The Company has reviewed the final assessments and conclusions of its utilities on tariff-based sales to retail and wholesale customers, which represents more than 98% of the Company's consolidated revenue, and has concluded that the adoption of this standard will not affect revenue recognition for tariff-based sales, and therefore will not have an impact on earnings.

The Company will add additional disclosures to address the requirement to provide more information regarding the nature, amount, timing and uncertainty of revenue and cash flows, which will result in revenues that fall outside the scope of the new standard. The Company will continue to present the following revenue categories from contracts with customers which will include electricity sales, fuel factor, renewables revenue; and other income.

Leases

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

Measurement of Credit Losses on Financial Instruments

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

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

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

applied retrospectively for the presentation of the net periodic benefit costs and prospectively, on and after the effective date, for the capitalization in assets of only the service cost component of net periodic benefit costs. The adoption of this update is not expected to have a material impact on earnings.

Targeted Improvements to Accounting for Hedging Activities

ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities, was issued in August 2017 and the amendments in this update better align risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. This update is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The amendments in this update should be reflected as of the beginning of the fiscal year of adoption. 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 the opening balance of retained earnings. Amended presentation and disclosure guidance is required only prospectively. The Company is assessing the impact that the adoption of this update will have on its consolidated financial statements.

4. Accounts Receivable

Accounts Receivable		
(\$ thousands)	As at December 31, 2017	As at December 31, 2016
Billings to consumers*	10,317	8,915
Unbilled revenues	-	2,241
Other receivables	1,440	1,197
Allowance for doubtful accounts	<u>(2,238)</u>	<u>(1,987)</u>
Total Accounts Receivable	9,519	10,366

*Includes billings to Datalink customers

Unbilled Revenues

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 2017 the Company amended its billing processes to have all meters read on the last day of each month. As a result, revenues and accounts receivables as at December 31, 2017 are based on actual bills-rendered during the period.

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

Other Receivables

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

5. Regulatory Assets and Liabilities

Regulatory Assets and Liabilities			
(\$ thousands)			
Asset/Liability	Description	As at December 31, 2017	As at December 31, 2016
Regulatory Assets	Fuel Tracker Account (a)	17,187	13,244
Regulatory Assets	Derivative contract (b)	-	116
Regulatory Assets	Miscellaneous Regulatory Assets (c)	218	245
Regulatory Assets	Government & Regulatory Tracker Account (d)	878	-
Total Regulatory Assets		18,283	13,605
Regulatory Liabilities	Derivative contract (b)	(52)	-
Regulatory Liabilities	Government & Regulatory Tracker Account (d)	-	(1,625)
Regulatory Liabilities	Miscellaneous Regulatory Liabilities (e)	-	-
Total Regulatory Liabilities		(52)	(1,625)

- 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 costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel 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 - A licence fee of 1% of gross revenues applies to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per kWh basis. Additionally, a regulatory fee of ½ of 1% is charged on gross revenues then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The government and regulatory tracker account is the actual fee incurred less the amount of funds received from consumers. The per kWh charge is then adjusted as necessary for the balance of this account.
- 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.

6. Inventories

The composition of inventories is shown in the table below:

Inventories		
(\$ thousands)	As at December 31, 2017	As at December 31, 2016
Fuel	2,046	2,289
Lubricating Oil	232	524
Line spares	124	104
Network & Fiber equipment	211	211
Other	=	8
Inventories	2,613	3,136

7. Property, Plant and Equipment

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
<i>Total of T&D, Generation and Other</i>	<u>839,895</u>	<u>352,019</u>	<u>487,876</u>
Telecommunications assets	546	108	438
Property, Plant and Equipment	840,441	352,127	488,314

Property, Plant and Equipment			
(\$ thousands)	Cost	Accumulated Depreciation	Net Book Value December 31, 2016
Transmission & Distribution (T&D)	322,512	121,149	201,363
Generation	413,515	169,159	244,356
Other:			
Land	5,304	-	5,304
Buildings	20,167	11,549	8,618
Equipment, motor vehicles and computers	25,158	18,044	7,114
<i>Total of T&D, Generation and Other</i>	<u>786,656</u>	<u>319,901</u>	<u>466,755</u>
Telecommunications assets	541	82	459
Property, Plant and Equipment	787,197	319,983	467,214

Included in PP&E are a number of capital projects in progress with a total cost to date of \$42.2 million (December 31, 2016: \$35.9 million). Included in the total cost is an amount of \$0.05 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, 2016: \$5.0 million). In addition, line inventory with a cost of \$4.3 million (December 31, 2016: \$3.3 million) is included in T&D. Engine spares with a net book value of \$13.7 million (December 31, 2016: \$13.8 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 2017 is 7.75% (2016: 7.75%) and will be adjusted annually. As a result, during Fiscal 2017, the Company recognised \$ 4.6 million in AFUDC (2016: \$5.4 million). GEC of \$5.3 million was recognised for the year ended December 31, 2017 (2016: \$4.3 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.

8. Intangible Assets

Intangible Assets			
(\$ thousands)	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	<u>75</u>	-	<u>75</u>
Intangible Assets	9,580	6,378	3,202
Intangible Assets			
(\$ thousands)	Cost	Accumulated Amortisation	Net Book Value December 31, 2016
Deferred licence renewal costs	1,890	821	1,069
DataLink, Ltd. deferred licence renewal costs	200	63	137
Computer Software	6,594	4,963	1,631
Other Intangible Assets in progress	127	-	127
Trademark Costs	<u>75</u>	-	<u>75</u>
Intangible Assets	8,886	5,847	3,039

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 licence.

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

Amortization of Intangible Assets					
(\$ thousands)	2018	2019	2020	2021	2022
Computer Software	329	429	409	477	321
Licence Renewal Costs	<u>107</u>	<u>107</u>	<u>107</u>	<u>107</u>	<u>107</u>
Amortization of Intangible Assets	436	536	516	584	428

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

	As at December 31, 2017	As at December 31, 2016
Computer Software	3.03 years	3.39 years
Deferred Licence Renewal costs	10.29 years	11.29 years
Datalink Deferred Licence Renewal Costs	10.25 years	11.25 years
Total weighted-average amortization period	5.64 years	6.27 years

9. Accounts Payable and Accrued Expenses

Accounts Payable and Accrued Expenses		
(\$ thousands)	As at December 31, 2017	As at December 31, 2016
Fuel Cost Payable	14,216	13,175
Trade Accounts Payable & Accrued Expenses	4,870	5,323
Accrued Interest	1,161	934
Dividends Payable	613	607
Other Accounts Payable	<u>3,246</u>	<u>3,432</u>
Total Accounts Payable and Accrued Expenses	24,106	23,471

10. Long-Term Debt

Long-Term Debt		
(\$ thousands)	As At December 31, 2017	As At December 31, 2016
5.09% Senior Unsecured Loan Notes due 2018	4,000	8,000
5.96% Senior Unsecured Loan Notes due 2020	9,000	12,000
5.65% Senior Unsecured Loan Notes due 2022	20,000	24,000
7.50% Senior Unsecured Loan Notes due 2024	40,000	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	-
4.64% Senior Unsecured Loan Notes due 2048	<u>20,000</u>	-
	273,000	224,000
Less: Current portion of long-term debt	(16,714)	(11,000)
Less: Deferred debt issue costs	<u>(1,404)</u>	<u>(1,254)</u>
	254,882	211,746

In March and May 2017, the Company issued US\$60 million of unsecured notes in a dual tranche of 15-year US\$40 million at 3.90% and 30-year US\$20million at 4.64%, respectively. The net proceeds from the issuances were used to finance capital expenditures and repay short-term borrowings.

The current portion of long term debt includes annual principal payments of \$4 million for the 5.09% Note, \$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	\$
2018	16,714
2019	12,714
2020	14,857
2021	14,130
2022	15,559
2023 and later	199,026

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

11. Capital Stock

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

Capital Stock	As at December 31, 2017	As at December 31, 2016
Authorised:		
Class A Ordinary Shares of CI\$0.05 each	60,000,000	60,000,000
9% Cumulative Participating Class B Preference Shares of \$1.00 each	250,000	250,000
Class C Preference Shares of \$1.00	419,666	419,666
Cumulative Participating Class D Share of CI\$0.56	1	1
Issued and Outstanding (Number of Shares):		
Class A Ordinary Shares	32,994,972	32,647,278
Class B Preference Shares	250,000	250,000
Issued and Outstanding (\$ Amount):		
Class A Ordinary Shares	1,963,986	1,943,290
Class B Preference Shares	<u>250,000</u>	<u>250,000</u>
Total Class A Ordinary & Class B Preference Shares	2,213,986	2,193,290

12. Share Based Compensation Plans

Share Options

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

The exercise price per share in respect of options is equal to the fair market value of the Class A Ordinary Shares on the date of grant. Each option is for a term not exceeding ten years, and will become exercisable on a cumulative basis at the end of each year following the date of grant. The maximum number of Class A Ordinary Shares under option shall be fixed and approved by the shareholders of the Company from time to time and is currently set at 1,220,100. Options are forfeited if they are not exercised prior to their respective expiry date or upon termination of employment prior to the completion of the vesting period.

Subject to certain amendments requiring shareholder approval, the Board of Directors may amend or discontinue the ESOP at any time without shareholder approval subject to 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, 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	<u>45,000</u>	<u>9.66</u>	<u>4.25</u>	-
Vested, end of the year	45,000	9.66	4.25	-

Share Options				
	Year Ended December 31, 2016	Year Ended December 31, 2016		
	Number of options	Weighted average exercise price per share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ thousands)
Outstanding at beginning of year	282,720	10.53	-	-
Granted	-	-	-	-
Exercised	(83,970)	9.58	-	192
Forfeited/Cancelled	(5,250)	11.61	-	61
Expired	-	0.00	-	-
Outstanding, end of year	<u>193,500</u>	<u>10.92</u>	<u>2.99</u>	-
Vested, end of the year	193,500	10.92	2.99	-

The following table summarizes additional information related to the stock options during 2017 and 2016:

Share Options		
(\$ thousands)	2017	2016
Stock Options expense recognised	-	1
Stock options exercised:		
Cash received for exercise of options	1,678	805
Intrinsic value realized by employees	301	192

Under the fair value method, the compensation expense was nil for the year ended December 31, 2017 (December 31, 2016: \$1 thousand).

The unrecognised compensation expense related to non-vested share options for the year ended December 31, 2017 was nil (December 31, 2016: \$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, 2017 relate to grants in March 2015 in the amount of 22,500, March 2016 in the amount of 23,500 and March 2017 in the amount of 29,735. 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, 2017, an expense of \$0.38 million (December 31, 2016: \$0.2 million) was recognised in earnings with respect to the PSU plan.

As at December 31, 2017, the total liability related to outstanding PSUs is \$ 0.7 million (December 31, 2016: \$0.6 million) and is included in Other Long Term Liabilities.

13. Earnings per Share

The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average Class A Ordinary Shares outstanding were 32,796,012 and 32,483,387 for the year ended December 31, 2017 and December 31, 2016 respectively.

The weighted average of Class A Ordinary Shares used for determining diluted earnings were 32,808,151 and 32,520,205 for the year ended December 31, 2017 and December 31, 2016, respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at December 31, 2017 the outstanding options are not materially dilutive as the market price of common shares is below or marginally lower than the exercise price.

Earnings per Share			
	Earnings December 31, 2017	Weighted average shares December 31, 2017	Earnings per Class A Ordinary Shares December 31, 2017
	(\$ thousands)		
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	=	<u>12</u>	=
Diluted Earnings per Common Share	22,825	32,808	0.70

Earnings per Share			
	Earnings December 31, 2016	Weighted average shares December 31, 2016	Earnings per Class A Ordinary Shares December 31, 2016
	(\$ thousands)		
Net earnings applicable to common shares	24,266		
Weighted Average share outstanding		32,483	
Basic Earnings Per Common Share			0.75
Effect of potential dilutive securities:			
Stock Options	=	<u>18</u>	=
Diluted Earnings per Common Share	24,266	32,501	0.75

14. Fair Value Measurement

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

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

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

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

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

Financial Instruments				
(\$ thousands)	As at December 31, 2017		As at December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	271,596	283,649	222,746	232,369
Fuel Option Contracts	52	52	116	116

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 December 2018.

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

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

Financial Instruments				
As at December 31, 2017				
(\$ thousands)				
Financial Liability	Total Fair Value	Level 1 - Quoted Prices in active markets for identical assets	Level 2 - Significant Other inputs	Level 3 - Significant unobservable inputs
Long-term debt, including current portion	283,649	-	283,649	-
Option contracts	52	-	52	-

Financial Instruments				
(\$ thousands)				
As at December 31, 2016				
(\$ thousands)				
Financial Liability	Total Fair Value	Level 1 - Quoted Prices in active markets for identical assets	Level 2 - Significant Other inputs	Level 3 - Significant unobservable inputs
Long-term debt, including current portion	232,369	-	232,369	-
Option contracts	116	-	116	-

15. Short-Term Debt

The current amount of short-term borrowings is \$nil (\$30 million as at December 31, 2016).

The Company has \$50.0 million of unsecured credit financing facilities with the Scotiabank & Trust (Cayman) Limited ("Scotia") and Royal Bank of Canada ("RBC"). The total available amount was \$49.0 million at December 31, 2017 (\$19.0 million at December 31, 2016).

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	<u>31,000</u>	=	<u>31,000</u>
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

Short-Term Financing			
(\$ thousands)			
Credit Facilities	Total Credit Financing Facilities December 31, 2016	Total Utilised December 31, 2016	Total Available December 31, 2016
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	<u>31,000</u>	<u>30,000</u>	<u>1,000</u>
Total	49,500	30,500	19,000
Provided by RBC:			
Corporate Credit Card Line*	500	500	-
Short-Term Financing	50,000	31,000	19,000

*. 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.

16. Finance Charges

The composition of finance charges were as follows:

Finance Charges		
(\$ thousands)	Year Ended December 31, 2017	Year Ended December 31, 2016
Interest costs - long-term debt	12,735	11,632
Other interest costs	349	538
AFUDC *	(4,545)	(5,402)
Finance Charges	8,539	6,768

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

17. 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 2017 amounted to \$1.07 million (Fiscal 2016: \$1.04 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, 2017.

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, 2017	As at December 31, 2016
Equity Assets	46%	39%
Fixed income investments	27%	29%
Money Market funds	19%	18%
Cash and Cash equivalents	8%	14%
Plan assets by allocation	100%	100%

The assets of the fund are traded and priced on active markets such as the New York Stock Exchange, American Stock Exchange, NASDAQ etc. 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, 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	-	1,784	-	1,784
Money Market funds	-	1,290	-	1,290
Cash and Cash equivalents	<u>526</u>	-	-	<u>526</u>
Asset Allocation	3,630	3,074	-	6,704

Asset Allocation				
(\$ thousands)				
As at December 31, 2016				
	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	2,405	-	-	2,405
Fixed income investments	-	1,770	-	1,770
Money Market funds	-	1,072	-	1,072
Cash and Cash equivalents	<u>882</u>	-	-	<u>882</u>
Asset Allocation	3,287	2,842	-	6,129

Pension Plan		
(\$ thousands)	As at December 31, 2017	As at December 31, 2016
Project Benefit Obligation		
Balance beginning of year	7,165	7,318
Interest Cost	306	327
Actuarial (gains)/ losses	639	(384)
Benefit payments	(88)	(96)
Balance end of year	8,022	7,165
Plan Assets		
Fair value, beginning of year	6,129	6,076
Actual return on plan assets	363	88
Employer contributions to plan	299	61
Benefit payments	(88)	(96)
	6,703	6,129
Funded Status - deficit	(1,319)	(1,036)
During the year ended December 31, 2017 \$0.07 million (December 31, 2016: \$0.2 million) was recorded as compensation expense, which comprises the following:		
Interest cost	306	327
Expected return on plan assets	(309)	(308)
Amortization of past service costs	-	-
Amortization of actuarial losses	74	223
	71	242
Significant assumptions used:		
Discount rate during year (%)	4.30	4.50
Discount rate at year end (%)	3.70	4.30
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)	-	1.00

The Accumulated Benefit Obligation ("ABO") as at December 31, 2017 was \$8.0 million (December 31, 2016: \$7.0 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, 2017	As at December 31, 2016
Assets:		
Other assets	-	-
Liabilities:		
Defined benefit pension liabilities	1,319	1,036

The following tables provide the components of other comprehensive loss for the years ended December 31, 2017 and 2016:

Other Comprehensive Income/(Loss)		
(\$ thousands)	As at December 31, 2017	As at December 31, 2016
Net actuarial (loss)/gain arising during the year	(586)	165
Amortization or curtailment recognition of past service cost	-	-
Amortization or settlement recognition of net actuarial gain	74	223
Total changes recognised in other comprehensive income/ (loss)	(512)	388

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, 2017	As at December 31, 2016
Past service credit (cost)	-	-
Net actuarial (loss)	(1,302)	(790)
Accumulated other comprehensive loss at year end	(1,302)	(790)
Cumulative employer contributions in excess of net periodic benefit cost	(17)	(246)
Net liability amount recognised in statement of financial position	(1,319)	(1,036)

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 2018.

During 2018, the Company is expected to make contributions of \$0.1 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
2018	331
2019	337
2020	343
2021	348
2022	354
2023-2027	1,835

18. **Foreign Exchange**

The closing rate of exchange on December 29, 2017 as reported by the Bank of Canada for the conversion of US dollars into Canadian dollars was Cdn\$1.2545 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 29, 2017 for conversion of Cayman Islands dollars into Canadian dollars was Cdn\$1.5054 per CI\$1.00 (December 31, 2016: Cdn\$1.6112).

19. 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 2017 and 2016 are summarized in the following table.

Related Party Transactions		
<i>(in thousands)</i>	As at December 31, 2017	As at December 31, 2016
Receivables from Newfoundland Power (a subsidiary of Fortis Inc.)	4	17
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	17	-
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	49	-
Total Related Party Receivables	70	17
Payables to Fortis Inc. (the company's majority shareholder)	5	4
Payables to Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	2	-
Total Related Party Payables	7	4

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

The Company rents office facilities from a related party, Adare Investments Ltd., a Company owned by the retired Chairman of the Company's Board of Directors, on a 5 year lease agreement ending June 30, 2019. Rent expenses totaled \$92,962 for Fiscal 2017 (\$91,596 for Fiscal 2016).

20. Commitments

As at December 31, 2017, the Company's consolidated commitments in each of the next five years and for periods thereafter are as follows:

Commitments					
<i>(\$thousands)</i>	Total	2018	2019-2020	2021-2022	2023 Onward
Accounts payable and accrued expenses	21,622	21,622	-	-	-
Consumer's deposits and advances for construction	8,667	8,667	-	-	-
Letter of Guarantee	500	500	-	-	-
Long term debt	273,000	16,714	27,571	29,688	199,027
Long term debt interest	<u>120,831</u>	<u>12,648</u>	<u>22,541</u>	<u>18,767</u>	<u>66,875</u>
Commitments	424,620	60,151	50,112	48,455	265,902

During 2015, the Company entered into a Power Purchase Agreement ("PPA") with Entropy Cayman Solar Limited to purchase up to 2.1 MW per year of associated energy 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 will also provide renewable energy at a competitive initial price of \$0.17 cents per kWh. The PPA qualifies for the Normal Purchase Normal Sale exemption under Accounting Standards Codification ("ASC") 815 and does not qualify as a derivative.

The Company has a primary fuel supply contract with RUBiS Cayman Islands Limited ("RUBiS"). Under the agreement the Company is committed to purchase approximately 60% of its diesel fuel requirements for its

generating plant from RUBiS. The Company also has a secondary fuel supply contract with Sol Petroleum Cayman Limited (“Sol”) and is committed to purchase approximately 40% of the Company’s fuel requirements for its generating plant from Sol. Contracts with RUBiS and Sol were executed in September 2012. Both contracts expired on July 31, 2014 with the option to renew for two additional 18 month terms. The Company executed 18 month fuel supply contracts in September 2014 upon the expiration of its previous fuel supply contract with both RUBiS and Sol. The Company renewed its contract with RUBiS on September 1, 2016 for the final term which expired on August 31, 2017. The contract with Sol was renewed for the final term on March 1, 2016 which expired on August 31, 2017. The fuel supply contracts are currently under negotiations. Extension of previous terms of the expired contracts have been agreed upon until negotiations have been completed. 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, 2017 was \$2.04 million (December 31, 2016: \$2.3 million). This amount includes all fuel held in CUC’s bulk fuel storage tanks, service tanks and day tanks located at the North Sound Road Power Plant.

Contingency

On July 11, 2017 OfReg issued ICT 2017-1 Determination Pole Attachment Reservation Fees. OfReg’s decision was that Datalink’s charge of Reservation Fees in the manners provided for in the current contracts, in its view, was contrary to the ICT Law. Under the determination, Datalink is required to remove references to reservation fees in its contracts with other telecomm providers and provide a refund to the telecomms of fees charged, including fees charged prior to 2017. Datalink is to amend the contracts within 30 days of the determination and negotiate the amounts to be refunded within 60 days of the determination.

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 following the August 9, 2017 refusal by OfReg to suspend the decision and allow DataLink time to respond. Both the stay and permission to apply for Judicial Review were granted on August 11, 2017.

An order for directions was agreed between the parties and a timeline negotiated. A court hearing has been set for four days beginning on June 4, 2018.

Ten-Year Summary (Unaudited, supplementary)

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

	2017	2016
Operating Revenues	170,941	161,702
Other revenues and adjustments	4,934	5,079
Total revenues	175,875	166,781
Operating expenses	143,561	134,802
Income before interest	32,314	31,979
Finance Charges	8,539	6,768
Net Earnings for the Year	23,775	25,211
Capitalisation:		
Class A Ordinary Shares (nominal value)	1,964	1,943
9% Cumulative Participating Class B Preference Shares (nominal value)	250	250
Share Premium	123,376	119,096
Long-term loans	271,596	222,746
Total capitalisation	347,186	344,035
Capital expenditures	52,408	47,207
Earnings per Class A Ordinary Share (\$/Share)	0.70	0.75
Dividends per Class A Ordinary Share (\$/Share)	0.680	0.675
Book value per Class A Ordinary (\$/Share)	6.78	6.74
Statistical Record:		
Net kWh generation (millions of kWh)	654.3	650.3
Net kWh sales (millions of kWh)	621.8	606.7
Peak load (MW) gross	105.6	103.4
Plant capacity (MW)	160.95	160.95
Total customers (actual number)	29,160	28,678

Ten-Year Summary

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

2015	2014	2013	2012	2011	2010	2009	TP 2008
188,880	231,705	226,220	223,549	218,099	180,096	158,809	150,348
4,876	4,602	4,300	4,199	4,032	3,108	3,109	2,526
193,756	236,307	230,520	227,748	222,131	183,204	161,918	152,874
163,613	206,377	201,080	200,932	193,082	154,182	134,834	135,122
30,143	29,930	29,440	26,816	29,049	29,022	27,084	17,752
7,301	9,115	9,018	9,125	8,659	9,143	7,071	5,153
22,842	20,815	20,422	17,691	20,390	19,879	20,013	12,599
1,927	1,742	1,730	1,715	1,704	1,694	1,683	1,672
250	250	250	250	250	250	250	250
116,201	83,044	81,023	78,524	76,806	75,355	73,729	72,092
236,594	252,000	219,000	188,500	204,000	178,290	200,159	174,643
354,972	337,036	302,003	268,989	282,760	255,589	275,821	248,657
77,947	39,472	29,323	30,788	39,624	21,433	42,665	27,981
0.71	0.68	0.68	0.58	0.68	0.67	0.67	0.45
0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.495
6.62	6.14	6.13	6.03	6.04	6.07	5.90	5.87
623.7	604.7	595.6	587.1	594.0	593.5	597.4	400.7
582.0	564.2	555.7	547.8	554.0	553.8	558.1	376.6
100.7	99.7	97.4	95.9	99.0	102.1	97.5	93.8
131.65	131.65	149.54	149.54	151.2	151.2	152.6	136.6
28,204	27,784	27,364	27,035	26,636	26,151	25,461	24,518

Board of Directors



Standing:

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

Gary Smith ^
*President and Chief Executive Officer
Newfoundland Power Inc.
Newfoundland
Canada*

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

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

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

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

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



David C. Watler
Vice President Operations

Sacha N. Tibbetts
Vice President Customer Services & Technology

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

J.F. Richard Hew
President & Chief Executive Officer

Shareholder and Corporate Information

Shareholders

Registered shareholders as of December 31, 2017 were as follows:

<i>Class of Shares</i>	<i>Shareholders</i>	<i>Shares Held</i>
Class A Ordinary Shares	2,000	32,994,972
9% Class B Preference Shares	122	250,000

Fortis Energy (Bermuda) Ltd., a wholly-owned subsidiary of Fortis Inc., held 19,460,326 Class A Ordinary Shares, or 59% of the outstanding shares as of December 31, 2017. 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 Thursday, May 10, 2018 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 invest 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

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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