Caribbean Utilities Company, Ltd.

2018 Second Quarter Report

June 30, 2018

CUC
You've got the power

INVESTORS IN PEOPLE | Gold Until 2020

Certified System
North Sound Road Site
ISO 14001
QMI-SAI Global

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

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

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

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

Table of Contents:

Fellow Shareholders,

I am pleased with the progress Caribbean Utilities Company, Ltd. ("CUC" or "the Company") has made over the first two quarters of 2018. For the period of the three months ending June 30, 2018 ("Second Quarter 2018"), the Company recorded an increase in net earnings due to additional electricity sales revenues booked in the quarter and other income.

Sales for the three months ended June 30, 2018 ("Second Quarter 2018') totalled 159.7 million kilowatt hour ("kWh"), a decrease of 1.3 million kWh in comparison to 161.0 million kWh for the Second Quarter 2017. This decrease was driven by a 6% reduction in the average residential kWh consumption in the Second Quarter 2018 compared to Second Quarter 2017.

Sales for the six months ended June 30, 2018 totalled 300.2 million kWh, an increase of 2.6 million kWh in comparison to 297.6 million kWh for the six months ended June 30, 2017. Sales were positively impacted by the 2% increase in total customers and an increase in the average consumption of commercial customers.

The Grand Cayman economy continues to record growth and the employment statistics improved for the first part of 2018. This augurs well for the Company as there is a correlation between these factors and electricity sales.

Net earnings for the three months ended June 30, 2018 totalled $7.0 million, an increase of $0.9 million when compared to net earnings of $6.1 million for the three months ended June 30, 2017. The increase is attributable to higher electricity sales revenues booked in the quarter and other income. These items were partially offset by higher depreciation, transmission and distribution and maintenance costs.

The introduction of demand rates for the large commercial customers, to be phased in over a three -year period beginning on January 1, 2018, was intended to be revenue neutral. For the First Quarter 2018 the electricity sales revenues for large commercial customers under the newly introduced demand rate were less than what would have been billed under the previous energy only rate. The Company applied to the Cayman Islands Utility Regulation and Competition Office ("OfReg") to request a recovery of the shortfall and an adjustment in the rate going forward. In June 2018, OfReg approved an increase of the large commercial demand rate going forward.

These new rates have been determined, based on existing metered data, to better achieve revenue neutrality across the aggregated set of demand customers. The Company was also granted approval to record the revenue shortfall of $1.0 million for the first five months of 2018 which positively impacted large commercial electricity sales revenues. The revenue shortfall will be recovered over years two and three of the demand rate implementation in order to smoothen the effects of the adjustment to the large commercial customers.

Net earnings for the six months ended June 30, 2018 totalled $9.7 million, a decrease of $0.9 million when compared to net earnings of $10.6 million for the six months ended June 30, 2017. The decrease is attributable to the higher depreciation, transmission and distribution costs and maintenance costs. These items were partially offset by higher electricity sales revenues, foreign exchange income and other income.

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

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the six months ended June 30, 2018 were $9.5 million or $0.29 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of $10.4 million or $0.32 per Class A Ordinary Share for the six months ended June 30, 2017.

The Company's capital projects are progressing well. The multi-year project to replace the existing High Pressure Sodium ("HPS") street lights with more energy efficient LED lights is on track. This will provide benefits to the community such as: an overall reduction in cost to customers, lower air emissions due to burning less fuel and a higher quality lighting system. The programme which started in 2017 will run for 5 years at a total project cost of approximately $3.6 million. The Company achieved a substantial reduction in the cost of the LED fixtures by participating in the Fortis purchase programme.

Work on the new Seven Mile Beach sub-station has started as well as at the Prospect sub-station. This work is necessary to meet load growth and to improve reliability in both of these areas. The total estimated cost for these sub-stations over the next five years is $57.8 million.

During the period under review, the Company hosted its Second Energy Efficiency Forum and Fair in June. The event was designed to educate customers on how they can be more efficient in the use of electricity and at the same time to identify ways to protect the environment.

Total renewable energy production by the Entropy 5 MW solar farm and Customer Owned Renewable Energy (CORE) on the grid continues to grow with 3% of total energy resources now being renewable compared to 1% a year ago. The Company will continue to pursue and support renewable energy programmes in support of the National Energy Policy and directed by its own Integrated Resource Plan.

After a successful external audit of the Environmental Management System ("EMS") in March 2018 CUC received its certification to the ISO 14001:2015 standard. ISO 14001:2015 is an internationally recognized criteria for an EMS and can provide assurance to a company's management and employees as well as external stakeholders that environmental impacts are being measured and improved. The Company's EMS has been registered since 2004, and reflects its commitment to providing service in a manner that is environmentally responsible.

Our Company continues to succeed and grow because of the talented, dedicated and engaged people across the organization and around the globe. We continue to heavily invest in the training and developing our employees to ensure that they are challenged, supported and positioned to be the best that they can be.

The Company was pleased to join with a number of its supervisors who celebrated their completion of the Level 3 Certificate in Leadership and Management from the Institute of Leadership and Management ("ILM"). The Level 3 certification is a comprehensive course designed to give practicing and aspiring first line managers a solid foundation in their formal development. To date 26% of the current supervisors have successfully completed the course.

In May, the Company celebrated with twenty-two employees who received long service awards for having careers spanning from 10 years to 35 years. Together, they have given 520 years of service. We are grateful to them for the significant contribution that they have made to the Company over these many years.

J.F. Richard Hew
President & Chief Executive Officer

July 31, 2018

Interim Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or "the Company") consolidated financial statements for the twelve months ended December 31, 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.

Additional information in this MD&A has been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, which are disclosed in the notes to the Company's 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, weather and the Rights Offering. CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

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

July 31, 2018

Financial and Operational Highlights

Financial and Operational Highlights

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

	Three Months Ending June 30, 2018	Three Months Ending June 30, 2017	Six Months Ending June 30, 2018	Six Months Ending June 30, 2017	Change	% Change
Electricity Sales Revenues	**22,486**	21,078	**40,465**	39,227	**1,238**	3%
Fuel Factor Revenues	**24,178**	20,580	**46,896**	40,333	**6,563**	16%
Renewables Revenues	**1,099**	501	**1,876**	917	**959**	105%
Total Operating Revenues	**47,763**	42,159	**89,237**	80,477	**8,760**	11%
Fuel & Lube Costs	**24,178**	20,580	**46,896**	40,333	**6,563**	16%
Renewables Costs	**1,099**	501	**1,876**	917	**959**	105%
Other Operating Expenses	**14,781**	13,582	**29,541**	26,378	**3,163**	12%
Total Operating Expenses	**40,058**	34,663	**78,313**	67,628	**10,685**	16%
Net Earnings for the Period	**7,042**	6,136	**9,707**	10,595	**(888)**	-8%
Cash Flow related to Operating Activities	**10,217**	8,448	**23,536**	22,497	**1,039**	5%
Per Class A Ordinary Share:						
Basic Earnings	**0.21**	0.19	**0.29**	0.32	**(0.03)**	-9%
Dividends Paid	**0.175**	0.170	**0.345**	0.340	**0.005**	1%
Total Customers	**29,377**	28,803	**29,377**	28,803	**574**	2%
Total Employees*	**218**	209	**218**	209	**9**	4%
Customers per Employee (#)	**135**	138	**135**	138	**(3)**	-2%
System Availability (%)	**99.91**	99.95	**99.91**	99.95	**(0.04)**	0%
Peak Load Gross (MW)	**102.8**	104.8	**102.8**	104.8	**(2.0)**	-2%
Millions of kWh:						
Net Generation	**163.1**	168.1	**306.1**	314.6	**(8.5)**	-3%
Total Energy Supplied	**164.7**	165.6	**310.2**	308.9	**1.3**	0%
Kilowatt-Hour Sales	**159.7**	161.0	**300.2**	297.6	**2.6**	1%
Sales per employee	**0.74**	0.77	**1.38**	1.42	**(0.04)**	-3%

* Total Full time CUC employees

Corporate and Regulatory Overview

The principal activity of the Company is to generate, transmit and distribute electricity in its licence area of Grand Cayman, Cayman Islands pursuant to a 20-year exclusive 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).

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 7.00% to 9.00% range (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 2018, following review and approval by the OfReg, the Company increased its base rates by 1.8%. This increase was a result of the 2017 RORB and the increase in the applicable United States ("US") and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2017. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80% based on the range of the RORB values. The required rate adjustment of 1.8% can be calculated by applying 80% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 2.2%. All fuel, lubricating oil and renewable 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.

CUC submitted its 2018-2022 Capital Investment Plan in the amount of $234 million to OfReg. It is expected that this plan will be approved in the Third Quarter of 2018.

Prior to May 1, 2018, a licence fee of 1%, payable to the Government, was charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge. In addition to the licence fee, a regulatory fee of ½ of 1% was charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month. Effective May 1, 2018, OfReg approved a change to the Licence & Regulatory fee structure, whereby the objective is to collect fixed amounts annually of $2.9 million and $1.4 million respectively. This translates to a rate of $0.0149 per kWh, which is applied to customer billings with consumption over 1,000 kWh per month as a pass-through charge.

In the event of a natural disaster as defined in the T&D Licence, the actual increase in base rates will be capped for the year at 60% of the change in the Price Level Index and the difference between the calculated rate increase and the actual increase expressed as a percentage, shall be carried over and applied in addition to the normal RCAM adjustment in either of the two following years if 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 the time of destruction. Z Factor rate changes will be required for insurance deductibles and other extraordinary expenses. The Z Factor is the amount, expressed in cents per kWh, approved by the 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.

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

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

Consolidation Accounting Policy

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

Sales

Sales for the three months ended June 30, 2018 ("Second Quarter 2018") totalled 159.7 million kWh, a decrease of 1.3 million kWh in comparison to 161.0 million kWh for the Second Quarter 2017. This decrease was driven by a 6% reduction in the average residential kWh consumption in the Second Quarter 2018 compared to Second Quarter 2017.

Sales for the six months ended June 30, 2018 totalled 300.2 million kWh, an increase of 2.6 million kWh in comparison to 297.6 million kWh for the six months ended June 30, 2017. Sales were positively impacted by the 2% increase in total customers and an increase in the average consumption of commercial customers.

Total customers as at June 30, 2018 were 29,377, an increase of 574 customers, or 2%, compared to 28,803 customers as at June 30, 2017.

The following tables present customer and sales highlights:

Customers

(numbers)	Ended June 30, 2018	Ended June 30, 2017	% Change
Residential	**25,020**	24,531	2%
Commercial	**4,357**	4,272	2%
Total Customers	**29,377**	28,803	2%

Sales

(thousands kWh)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Change	% Change
Residential	**80,472**	84,265	**146,495**	149,221	**(2,726)**	-2%
Commercial	**77,644**	74,986	**150,205**	144,936	**5,269**	4%
Other (street lighting, etc.)	**1,627**	1,707	**3,463**	3,407	**56**	2%
Total Sales	**159,743**	160,958	**300,163**	297,564	**2,599**	1%

Average Monthly Consumption per Customer

(kWh)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Change	% Change
Residential	**1,073**	1,146	**978**	1,015	**-37**	-4%
Commercial	**67,811**	55,133	**62,806**	55,474	**7,332**	13%

Earnings

Operating income for Second Quarter 2018 totalled $7.7 million, an increase of $0.2 million when compared to operating income of $7.5 million for Second Quarter 2017. The increase is attributable to higher electricity sales revenues and decreases in general and administration and consumer services costs. These items were partially offset by higher depreciation, transmission and distribution and maintenance costs.

Net earnings for Second Quarter 2018 totalled $7.0 million, an increase of $0.9 million from $6.1 million in Second Quarter 2017. The increase is attributable to higher electricity sales revenues and other income. These items were partially offset by higher depreciation, transmission and distribution and maintenance costs.

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

Net earnings for the six months ended June 30, 2018 totalled $9.7 million, a decrease of $0.9 million when compared to net earnings of $10.6 million for the six months ended June 30, 2017. The decrease is attributable to the higher depreciation, transmission and distribution costs and maintenance costs. These items were partially offset by higher electricity sales revenues, foreign exchange income and other income.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the six months ended June 30, 2018 were $ 9.5 million, or $0.29 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of $10.4 million or $0.32 per Class A Ordinary Share for the six months ended June 30, 2017.

Following OfReg approval, effective January 1, 2018 the Company implemented demand rate billing for its large commercial customer rate class to replace the pre-2018 energy charge rate component with a combination of energy and demand charges. Demand rate structures are typically used to better align billings with the costs to serve a particular rate class of customers.

In order to facilitate a smoother transition to the new rate structure, demand rates are being implemented over a three-year period. This phase-in plan is intended to gradually introduce demand rates to the entire large commercial customer class and provide a true-up mechanism to ensure the new rates are revenue-neutral compared to the existing rates.

During the period of January 1, 2018 to May 31, 2018, Electricity Sales Revenues for large commercial customers under the newly introduced demand rate were less than what would have been billed under the previous energy only rate. The Company applied to OfReg for a review of this shortfall to ensure revenue neutrality which would provide for the same revenues as if billed under the previous energy only rates. In June 2018, OfReg approved an increase of the rates going forward. The Company was also granted approval to record the revenue shortfall and a regulatory asset of $1.0 million for the first five months of 2018 which positively impacted electricity sales revenues. The revenue shortfall will be recovered over years two and three of the implementation in order to smoothen the effects of the adjustment to the large commercial customers.

Operating Revenues

Total operating revenues were as follows:

Revenues

($ thousands)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Change	% Change
Residential	**10,689**	10,964	**19,482**	19,472	**10**	0%
Commercial	**11,594**	9,952	**20,624**	19,425	**1,199**	6%
Other (street lighting, etc.)	**203**	162	**359**	330	**29**	9%
Electricity Sales Revenues	**22,486**	21,078	**40,465**	39,227	**1,238**	3%
Fuel Factor Revenues	**24,178**	20,580	**46,896**	40,333	**6,563**	16%
Renewables Revenues	**1,099**	501	**1,876**	917	**959**	105%
Total Operating Revenues	**47,763**	42,159	**89,237**	80,477	**8,760**	11%

Operating revenues for the Second Quarter 2018 were $47.8 million, an increase of $5.6 million from $42.2 million for the Second Quarter 2017. Operating revenues for the six months ended June 30, 2018 were $89.2 million, an increase of $8.7 million from $80.5 million for the six months ended June 30, 2017. The increase in operating revenues for the three and six months ended June 30, 2018 was due primarily to increases in commercial electricity sales and increases in fuel factor and renewables revenue. Operating revenues for Second Quarter 2018 were also positively impacted by the approval from OfReg to record revenues of $0.6 million for the demand rate billing of commercial customers due to the revenue shortfall experienced during the first three months of 2018.

Other revenues (street lighting, etc.) for the Second Quarter 2018 totalled $0.2 million, comparable to $0.2 million for the Second Quarter 2017. Other revenues for the six months ended June 30, 2018 totalled $0.4 million, an increase of $0.1 million from $0.3 million for the six months ended June 30, 2017.

Electricity sales revenues were $22.5 million for the Second Quarter 2018, an increase of $1.4 million from $21.1 million for the Second Quarter 2017. Electricity sales revenues were $40.5 million for the six months ended June 30, 2018, an increase of $1.3 million from $39.2 million for the six months ended June 30, 2017. Electricity sales revenues for the three and six months ended June 30, 2018 increased when compared to the same periods last year due to the 1.8%

and 1.6% base rate increases effective June 1, 2018 and June 1, 2017 respectively. Sales for the six months ended June 30, 2018 were also impacted by an increase in kWh sales.

Fuel factor revenues for the Second Quarter 2018 totalled $24.2 million, an increase of $3.6 million, compared to fuel factor revenues of $20.6 million for the Second Quarter 2017. The average Fuel Cost Charge rate billed to consumers for the Second Quarter 2018 was $0.17 per kWh, compared to the average Fuel Cost Charge rate of $0.14 per kWh for the Second Quarter 2017. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

Fuel factor revenues for the six months ended June 30, 2018 totalled $46.9 million, an increase of $6.6 million compared to fuel factor revenues of $40.3 million for the six months ended June 30, 2017. Fuel factor revenues for the six months ended June 30, 2018 increased when compared to the six month period ended June 30, 2017 due to an increase in global oil prices.

Renewables revenues for Second Quarter 2018 totalled $1.1 million, an increase of $0.6 million compared to renewables revenues of $0.5 million for the Second Quarter 2017. The renewables revenues are a combination of charges from the Customer Owned Renewable Energy ("CORE") programme and Entropy Cayman Solar Limited ("Entropy") 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 for a 25-year term. This 5 MW solar project was completed in June 2017 and in July 2017 the solar farm launched production. Prior to the three months ending September 30, 2017, renewables revenues consisted solely of revenue from the CORE programme.

Renewables revenues for the six months ended June 30, 2018 totalled $1.9 million, an increase of $1.0 million compared to renewables revenues of $0.9 million for the six months ended June 30, 2017.

Operating Expenses

Operating expenses were as follows:

Operating Expenses
($ thousands)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Change	% Change
Power Generation Expenses	**26,265**	21,943	**50,679**	42,951	**7,728**	18%
General and Administration	**2,088**	2,134	**4,061**	4,253	**(192)**	-5%
Consumer Service	**807**	1,174	**1,405**	1,684	**(279)**	-17%
Transmission and Distribution	**1,190**	706	**2,355**	1,254	**1,101**	88%
Depreciation	**8,186**	7,659	**16,480**	15,104	**1,376**	9%
Maintenance	**1,366**	925	**3,007**	2,126	**881**	41%
Amortization of Intangible Assets	**156**	122	**326**	256	**70**	27%
Total Operating Expenses	**40,058**	34,663	**78,313**	67,628	**10,685**	16%

Operating expenses for the Second Quarter 2018 totalled $40.1 million, a $5.4 million increase from $34.7 million for the Second Quarter 2017. This increase was due primarily to higher power generation, depreciation and transmission and distribution costs, partially offset by lower consumer services costs for the Second Quarter 2018 when compared to the Second Quarter 2017.

Operating expenses for the six months ended June 30, 2018 totalled $78.3 million, a $10.7 million increase from $67.6 million for the six months ended June 30, 2017. This increase was due primarily to higher power generation, transmission and distribution costs and maintenance costs, partially offset by lower general and administration costs and consumer services costs.

Power Generation

Power generation costs for the Second Quarter 2018 increased $4.4 million to $26.3 million when compared to $21.9 million for the Second Quarter 2017. Power generation costs for the six months ended June 30, 2018 increased $7.7 million to $50.7 million when compared to $43.0 million for the six months ended June 30, 2017. This increase for the three and six months ended June 30, 2018 is a result of higher fuel costs.

Power generation expenses were as follows:

Power Generation

($ thousands) *Fuel and Lubricating Oil costs stated net of deferred charges*

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Change	% Change
Fuel costs (net of deferred fuel and renewables charges)	**23,819**	20,247	**46,208**	39,656	6,552	17%
Lubricating Oil costs (net of deferred lubricating oil charges)	**359**	333	**688**	678	10	1%
Renewables costs	**1,099**	501	**1,876**	917	959	105%
Other generation expenses	**988**	862	**1,907**	1,700	207	12%
Total Power Generation expenses	**26,265**	21,943	**50,679**	42,951	7,728	18%

The Company's average price per imperial gallon ("IG") of fuel for the Second Quarter 2018 increased 23% to $3.06, compared to $2.49 for the Second Quarter 2017.

Net generation was 163.1 million kWh for the Second Quarter 2018, a 3% decrease when compared to 168.1 million kWh for the Second Quarter 2017. Net fuel efficiency for the Second Quarter 2018 of 18.82 kWh per IG decreased when compared to net fuel efficiency for the Second Quarter 2017 of 19.05 kWh per IG.

Net generation was 306.1 million kWh for the six months ended June 30, 2018 a 3% decrease when compared to 314.6 million kWh for the six months ended June 30, 2017. Net fuel efficiency for the six months ended June 30, 2018 of 18.87 kWh per IG decreased when compared to net fuel efficiency for the six months ended June 30, 2017 of 19.32 kWh per IG. This decrease in net fuel efficiency for the three and six months ended June 30, 2018 is due primarily to the additional maintenance performed during the period.

The Company's average price per IG of lubricating oil for the Second Quarter 2018 increased to $9.77 when compared to $9.44 for the Second Quarter 2017. The Company's average price per IG of lubricating oil for the six months ended June 30, 2018 increased to $9.76 when compared to $9.39 for the six months ended June 30, 2017.

The Fuel Tracker Account is comprised of total diesel fuel, lubricating oil and renewables costs to be recovered from consumers.

In March 2011, the OfReg approved the Fuel Price Volatility Management Program. 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 and 2018 which remain outstanding at June 30, 2018, utilize call options and call spreads to promote transparency in pricing. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

Renewables costs for Second Quarter 2018 totalled $1.1 million, an increase of $0.6 million when compared to renewables costs of $0.5 million for Second Quarter 2017. For Second Quarter 2018 the renewables costs are a combination of charges from the CORE programme and Entropy. For Second Quarter 2017 the renewables costs are charges solely from the CORE programme.

Other generation expenses for the Second Quarter 2018 totalled $1.0 million, an increase of $0.1 million compared to other generation expenses of $0.9 million for the Second Quarter 2017. Other generation expenses for the six months ended June 30, 2017 totalled $1.9 million, an increase of $0.2 million compared to other generation expenses of $1.7 million for the six months ended June 30, 2017.

General and Administration ("G&A")

G&A expenses for the Second Quarter 2018 totalled $2.1 million, comparable to $2.1 million for the Second Quarter 2017.

GEC totalled $1.3 million for Second Quarter 2018, an increase of $0.2 million when compared to $1.1 million for Second Quarter 2017.

G&A expenses for the six months ended June 30, 2018 totalled $4.1 million, $0.2 million decrease compared to G&A expenses of $4.3 million for the six months ended June 30, 2017.

GEC totalled $2.6 million for the six months ended June 30, 2018, an increase of $0.4 million when compared to GEC of $2.2 million for the six months ended June 30, 2017.

Consumer Services ("CS")

CS expenses for the Second Quarter 2018 totalled $0.8 million, a $0.4 million decrease compared to $1.2 million for the Second Quarter 2017. This decrease is primarily attributable to decreased provision for bad debts recorded in Second Quarter 2018. In Second Quarter 2017 the Company recorded bad debt provision of $0.3 million related to the OfReg Determination case against DataLink (see Note 17 of the condensed consolidated interim financial statements).

CS expenses for the six months ended June 30, 2018 totalled $1.4 million, a $0.3 million decrease compared to $1.7 million for the six months ended June 30, 2017.

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

Trade and other accounts receivable		
($ thousands)		
	As at June 30, 2018	**As at December 31, 2017**
Current	**8,573**	5,628
Past due 31-60 days	**535**	556
Past due 61-90 days	**527**	504
Past due over 90 days	**4,153**	5,069
Total Accounts Receivable	**13,788**	11,757
Less: Allowance for doubtful accounts	**(2,270)**	(2,238)
Less: Consumer Deposits	**(8,860)**	(8,433)
Trade receivables less allowance for doubtful accounts and consumer deposits	**2,658**	1,086

Trade receivables less allowance for doubtful accounts and consumer deposits as at June 30, 2018 totalled $2.7 million, an increase of $1.6 million, or 145% when compared to $1.1 million as at December 31, 2017. This increase was primarily related to an increase in the current category. The current category of receivables increased by $2.9 million or 52% due to higher electricity billings. The over 90 day category of receivables decreased by $0.9 million due to a reduction of receivables recorded by CUC and DataLink.

Transmission and Distribution ("T&D")

T&D expenses for the Second Quarter 2018 totalled $1.2 million, an increase of $0.5 million compared to T&D expenses for the Second Quarter 2017 of $0.7 million. T&D expenses for the six months ended June 30, 2018 totalled $2.4 million, an increase of $1.1 million compared to T&D expenses for the six months ended June 30, 2017 of $1.3 million. T&D expenses for the three and six months ended June 30, 2018 were impacted by payroll costs, personnel related costs and higher line maintenance materials costs.

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

Depreciation expenses for the Second Quarter 2018 totalled $8.2 million, an increase of $0.5 million, from $7.7 million for the Second Quarter 2017. Depreciation expenses for the six months ended June 30, 2018 totaled $16.5 million, an increase of $1.4 million, from $15.1 million for the six months ended June 30, 2017. The increase in depreciation expenses for the three and six months ended June 30, 2018 is due to capital projects completed after June 2017.

Maintenance

Maintenance expenses for the Second Quarter 2018 totalled $1.4 million, an increase of $0.5 million when compared to $0.9 million for the Second Quarter 2017. Maintenance expenses for the six months ended June 30, 2018 totalled $3.0 million, an increase of $0.9 million when compared to $2.1 million for maintenance expenses for the six months ended June 30, 2017. This increase in maintenance for the three and six months ended June 30, 2018 is due primarily to the increase in scheduled maintenance, higher generator maintenance materials and increase in training for employees in the Second Quarter 2018 when compared to Second Quarter 2017.

Amortization

Amortization of intangible assets for the Second Quarter 2018 totalled $0.2 million, an increase of $0.1 million when compared to $0.1 million for the Second Quarter 2017. The increase in amortization is attributable to software purchases made in prior periods.

Amortization of intangible assets for the six months ended June 30, 2018 totalled $0.3 million, comparable to $0.3 million for the six months ended June 30, 2017.

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

Other Income and Expenses

Net Other Expenses for the Second Quarter 2018 totalled $0.7 million, a decrease of $0.7 million from $1.4 million for the Second Quarter 2017. Net Other Expenses for the six months ended June 30, 2018 totalled $1.2 million, a decrease of $1.1 million compared to Net Other Income of $2.3 million for the six months ended June 30, 2017.

Other Income & Expenses

($ thousands)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Change	% Change
Total interest costs	**(3,322)**	(3,329)	**(6,640)**	(6,356)	(284)	4%
AFUDC	**1,328**	1,067	**2,462**	1,981	481	24%
Total finance charges	**(1,994)**	(2,262)	**(4,178)**	(4,375)	197	-5%
Foreign exchange gain	**394**	305	**1,073**	613	460	75%
Other income	**937**	597	**1,888**	1,508	380	25%
Total Net Other Expense	**(663)**	(1,360)	**(1,217)**	(2,254)	1,037	-46%

Finance charges for the Second Quarter 2018 totalled $2.0 million, a $0.3 million decrease from $2.3 million for the Second Quarter 2017. This decrease is as a result of higher Allowance for Funds Used During Construction ("AFUDC") in Second Quarter 2018.

Finance charges for the six months ended June 30, 2018 totalled $4.2 million, a $0.2 million decrease from $4.4 million for the six months ended June 30, 2017. This decrease is as a result of higher AFUDC partially offset by higher interest on long and short term debt for the six months ended June 30, 2018.

Under the T&D Licence there is a provision for an Allowance for Funds Used During Construction. 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 2018 is 8% (2017: 7.75%) as agreed with the OfReg in accordance with the T&D Licence, and is reviewed annually.

The AFUDC amount for the Second Quarter 2018 totalled $1.3 million, an increase of $0.2 million from $1.1 million for the Second Quarter 2017. The AFUDC amount for the six months ended June 30, 2018 totalled $2.5 million, an increase of $0.5 million from $2.0 million for the six months ended June 30, 2017. This increase was attributable to higher capital expenditure, driven primarily by a higher average of work in progress capital projects for the three and six month periods ended June 30, 2018.

Foreign exchange gains and losses are the result of monetary assets and liabilities denominated in foreign currencies that are translated into United States dollars at the exchange rate prevailing on the Balance Sheet date. Revenue and expense items denominated in foreign currencies are translated into United States dollars at the exchange rate prevailing on the transaction date. Foreign exchange gains for the Second Quarter 2018 totalled $0.4 million, a $0.1 million increase when compared to $0.3 million in the Second Quarter 2017. Foreign exchange gains for the six months ended June 30, 2018 totalled $1.1 million, a $0.5 million increase when compared to $0.6 million for the six months ended June 30, 2017.

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

Other income totalled $0.9 million for the Second Quarter 2018, a $0.3 million increase when compared to other income of $0.6 million for the Second Quarter 2017. Other income totalled $1.9 million for the six months ended June 30, 2018, a $0.4 million increase when compared to other income of $1.5 million for the six months ended June 30, 2017. This increase is mainly due to an increase in the miscellaneous revenue and reconnection fees recorded by the Company in Second Quarter 2018 and a performance penalty which was recorded in Second Quarter 2017.

Revenues from DataLink for the Second Quarter 2018 are recorded in Other Income in the amount of $0.4 million, comparable to $0.4 million for the Second Quarter 2017.

Revenues from DataLink for the six months ended June 30, 2018 are recorded in Other Income in the amount of $0.8 million, an increase of $0.1 million when compared to $0.7 million for the six months ended June 30, 2017.

The Economy

In February 2018, the Cayman Islands Government released the 2017 Consumer Price Index ("CPI") Report. The average CPI for 2017 increased 1.9% from the average CPI in 2016. This increase was the result of increasing inflation in all quarters throughout 2017, the highest being seen in the second quarter at 2.8%. Of the 12 divisions monitored in the CPI calculation, two divisions saw price declines in 2017: education, and miscellaneous goods and services. The divisions with the largest increases were transport and household furnishings and equipment.

In May 2018, the Minister of Finance, Honourable Roy McTaggart, presented an economic update on the Cayman Islands at the Chamber of Commerce's Economic Forum. The Minister reported that the overall economic activity in the Cayman Islands grew by an estimated 2.9% in 2017 compared to 2016. Construction led the growth, and growth rates were indicated for a number of other sectors including hotels and restaurants, business activities and the financing and insurance sector. The Economics and Statistics Office is forecasting annual GDP growth of 2.8% for 2018.

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

Indicators for the Financial Services Industry					
(numbers)	**As at June 30, 2018**	**As at December 31, 2017**	**As at December 31, 2016**	**As at December 31, 2015**	**As at December 31, 2014**
Bank Licences	**149**	150	159	184	198
Mutual Funds	**10,708**	10,559	10,586	10,940	11,010
Mutual Fund Administrators	**93**	97	106	108	115
Registered Companies	**103,759**	99,327	96,248	98,838	99,459
Captive insurance companies	**726**	724	740	739	788

The tourism sector is the second main pillar of the Cayman Islands economy. The Cayman Islands tourism demographic is largely comprised of visitors from the 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.

Second Quarter 2018 air arrivals increased by 11% when compared to 2017 and cruise arrivals saw an increase of 26% when compared to the same period in 2017. Air arrivals have a direct impact on the Company's sales growth as these visitors are stay-over visitors who occupy local accommodation services. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

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

Tourist Arrivals to the Cayman Islands					
(numbers)	**2018**	**2017**	**2016**	**2015**	**2014**
By Air	**118,758**	106,998	97,712	97,855	101,085
By Sea	**390,012**	310,616	363,219	364,808	318,500
Total	**508,770**	417,614	460,931	462,663	419,585

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 it is anticipated that the airport should accommodate the projected growth in air arrivals. The airport will provide a vastly improved airlift service for Grand Cayman's tourists.

The new design expands the current facility, features a larger terminal which accommodates 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 includes 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 likely 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, Cayman Financial Review, Cayman Islands Department of Tourism and Health City websites; www.gov.ky www.ESO.ky www.cimoney.com.ky www.caymanfinancialreview.com www.caymanislands.ky www.healthcitycaymanislands.com.

Liquidity

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

Cash Flows

($ thousands)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Change	% Change
Beginning cash	**5,231**	19,314	**7,258**	9,861	**(2,603)**	-26%
Cash provided by/(used in):						
Operating activities	**10,217**	8,448	**23,536**	22,497	**1,039**	5%
Investing activities	**(13,522)**	(13,772)	**(23,378)**	(23,221)	**(157)**	1%
Financing activities	**4,618**	7,780	**(872)**	12,633	**(13,505)**	-107%
Ending cash	**6,544**	21,770	**6,544**	21,770	**(15,226)**	-70%

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for the Second Quarter 2018, was $10.2 million, a $1.8 million increase when compared to $8.4 million for the Second Quarter 2017. This increase is primarily attributable to higher earnings, the movement in non-cash working capital balances in the Second Quarter 2018 when compared to the same period last year.

Cash flow provided by operations, after working capital adjustments, for the six months ended June 30, 2018, was $23.5 million, a $1.0 million increase when compared to $22.5 million for the six months ended June 30, 2017. This increase is primarily attributable to the movement in non-cash working capital balances and regulatory deferrals for the six month period ending June 30, 2018 when compared to the same period last year.

Investing Activities:

Cash used in investing activities for the Second Quarter 2018 totalled $13.5 million, a decrease of $0.3 million from $13.8 million for the Second Quarter 2017. This decrease is due mainly to greater contributions in aid of construction in the Second Quarter 2018 when compared to the Second Quarter 2017.

Cash used in investing activities for the six months ended June 30, 2018 totalled $23.4 million, an increase of $0.2 million from $23.2 million for the six months ended June 30, 2017. This increase is due mainly to higher expenditures related to property, plant and equipment for the six months ended June 30, 2018 which were partially offset by greater contributions in aid of construction.

Financing Activities:

Cash provided by financing activities for the Second Quarter 2018 totalled $4.6 million, a decrease of $3.2 million compared to cash provided by financing activities of $7.8 million for the Second Quarter 2017. This decrease in cash is attributable to higher repayments of debt, partially offset by proceeds from the bank overdraft facilities in the Second Quarter 2018.

Cash used in financing activities for the six months ended June 30, 2018 totalled $0.9 million, a decrease of $13.5 million compared to cash provided by financing activities of $12.6 million for the six months ended June 30, 2017. This decrease in cash used in financing activities is attributable to the repayment of long-term debt and higher dividend payments in 2018 which were partially offset by the proceeds from short-term debt and shares issued through approved share plans.

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 program (see the "Business Risks" section of this MD&A for Liquidity Risk details).

Transactions with Related Parties

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

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

Related Party Transactions *(in thousands)*	**As at June 30, 2018**	**As at December 31, 2017**
Receivables from Newfoundland Power (a subsidiary of Fortis Inc.)	**4**	4
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	**-**	17
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	**14**	49
Receivables from Fortis Inc.	**1**	-
Total Related Party Receivables	**19**	70
Payables to Fortis Inc. (the company's majority shareholder)	**6**	5
Payables to Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	**-**	2
Total Related Party Payables	**6**	7

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

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at June 30, 2018, are outlined in the following table:

Contractual Obligations ($ thousands)	**Total**	**< 1 year**	**1 to 3 years**	**4 to 5 years**	**> 5 years**
Total debt	259,285	12,714	31,987	30,753	183,831
Long-term debt interest	114,293	12,130	21,656	17,869	62,638
Defined benefit pension	18	18	-	-	-
Total	**373,596**	**24,862**	**53,643**	**48,622**	**246,469**

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 megawatt hours ("MWh") 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 also provides 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. The Company executed 24 month fuel supply contracts in June 2018 upon the expiration of its previous fuel supply contract with both RUBiS and Sol, with the option to renew for two additional terms of 18 months at the end of the term. 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, 2017 to June 30, 2018:

Significant changes in Balance Sheet

(from December 31, 2017 to June 30, 2018)

Balance Sheet Account	Increase/ (Decrease) *($ thousands)*	Explanation
Cash and Cash Equivalents	(714)	Decrease due to cash provided by operating activities of $23.5 million and partially offset by cash used in investing activities of $23.3 million and cash used in financing activities of $0.9 million.
Accounts Receivable	1,999	An increase in CUC's receivables of $2.9 million which was partially offset by a decrease of $0.5 million of miscellaneous billings and $0.5 million of DataLink receivables.
Regulatory Assets	5,041	Increase due to higher fuel costs and regulatory asset recorded in June 2018 for the demand rate billing.
Prepayments	(1,076)	Decrease due to the timing of expense recognition.
Property, Plant and Equipment	5,482	Net increase is comprised of (1) capital expenditures of $22.7 million (2) depreciation expense of $16.5 million and (3) $0.4 million in accrued capital expenditure and (4) $1.1 million in funds received in aid of construction.
Accounts Payable and Accrued Expenses	489	Increase attributable to increases in fuel costs payable which were partially offset by decreases in capital expenditure accruals and decrease in restricted cash.
Short Term Debt	20,000	Increase due to drawdown of Scotiabank capital expenditure facility in May 2018.
Current Portion of Long Term Debt	(4,000)	Decrease due to full repayment of Company's 5.09% Unsecured Note Loan in June 2018.
Consumers' Deposits and Advances for Construction	1,497	Increase due to additional customer deposits of $0.4 million and increase in advances received for construction of $1.1 million.
Long-Term Debt	(9,642)	Decrease due to principal payments made on the Company's Senior Unsecured Notes in the Second Quarter 2018.
Share Premium	1,475	The Company issued 120,082 shares through its share purchase plans.
Retained Earnings	(1,910)	Decrease due to Class A dividends of $11.4 million and Class B dividends of $0.2 million offset by net earnings for the period of $9.7 million.

Capital Resources

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

To help ensure access to capital, the Company targets a long-term capital structure comprising 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 Class A Ordinary Share rights offering that occurred in 2015 and the Company's Share Purchase Plans.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 60% of the Company's consolidated capital structure, as defined by short-term and long-term debt agreements. As at June 30, 2018, the Company was in compliance with all debt covenants.

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

Capital Structure	June 30, 2018 ($ thousands)	%	December 31, 2017 ($ thousands)	%
Total debt	**277,954**	**55**	271,596	55
Shareholder's equity	**224,009**	**45**	224,423	45
Total	**501,963**	**100**	496,019	100

The change in the Company's capital structure between December 31, 2017 and June 30, 2018 was driven by an increase in total debt and partially offset by a decrease in equity. The increase in total debt is a result of the increase in short-term debt partially offset by the payment of long-term debt in Second Quarter 2018.

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

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

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

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

In January 2018, 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 that allows the Company to earn good returns on its rate base, solid credit metrics and a stable island economy and the demand for electricity. Ratings were impacted by factors such as hurricane event risk and the small size of the Company's customer base.

Credit Facilities

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

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

Of the total above, $26.0 million was available at June 30, 2018.

Capital Expenditures

Capital expenditures for the three months ended June 30, 2018 were $14.5 million, a $0.6 million, or 4% increase from $13.9 million in capital expenditures for the three months ended June 30, 2017.

Capital expenditures for the six months ended June 30, 2018 were $22.7 million, a $0.6 million, or 3% decrease from $23.3 million in capital expenditures for the six months ended June 30, 2017.

The capital expenditures for the six months ended June 30, 2018 primarily relate to:

- Distribution system extension and upgrades - $7.9 million
- Prospect 69/13kV Substation - $2.8 million
- Generation Replacement Cost - $4.5 million
- LED Lighting Replacement - $1.2 million
- 13KV Pole Mounted Smart Switches - $0.5 million
- Engine Room Upgrades - $0.4 million

AFUDC of $2.5 million was capitalized in the six months ended June 30, 2018.

Capital expenditures				
($ thousands)				
	Three Months Ended June 30, 2018	**Three Months Ended June 30, 2017**	**Six Months Ended June 30, 2018**	**Six Months Ended June 30, 2017**
Transmission	**5,222**	1,044	**5,418**	1,878
Distribution	**5,069**	7,103	**9,720**	10,842
Generation	**3,957**	5,024	**7,013**	9,510
Other	**230**	716	**598**	1,089
Total	**14,478**	13,887	**22,749**	23,319

Off Balance-Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect the liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at June 30, 2018.

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

Economic Conditions

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

Regulation

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

Weather

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

Environmental Matters

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

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

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

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

Insurance - Terms and Coverage

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

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

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

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

Defined Benefit Pension Plan

The Company maintains a defined benefit pension plan, which provides a specified monthly benefit on retirement irrespective of individual investment returns. The assumed long-term rate of return on pension plan assets for the purposes of estimating pension expense for 2018 is 5%. This compares to assumed long-term rates of return of 5% used during 2017. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The gain 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 2018 is 3.7% compared to the discount rate assumed during 2017 of 4.3%.

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

A discussion of the critical accounting estimates associated with pensions is provided 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, 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 rating 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 $20.0 million (2017: $nil).

Changes in Accounting Policies

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

Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and requires additional disclosures. The Company adopted the new standard using the modified retrospective approach, under which comparative periods are not restated and the cumulative impact is recognized at the date of adoption supplemented by additional disclosures (Note 5). Upon adoption, there were no adjustments to the opening balance of retained earnings.

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

Operating Revenues

($ thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Electricity Sales Revenues				
Residential	**10,689**	10,964	**19,482**	19,472
Commercial	**11,594**	9,952	**20,624**	19,425
Other (street lighting etc.)	**203**	162	**359**	330
Total Electricity Sales Revenues	**22,486**	21,078	**40,465**	39,227
Fuel Factor	**24,178**	20,580	**46,896**	40,333
Renewables	**1,099**	501	**1,876**	917
Total Operating Revenues	**47,763**	42,159	**89,237**	80,477

Electricity Sales revenue

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

Fuel Factor

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

Renewables

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

FUTURE ACCOUNTING POLICIES

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

Leases

ASU No. 2016-02, *Leases (ASC Topic 842)*, was issued in February 2016, is effective for the Company on January 1, 2019 with earlier adoption permitted, and is to be applied using a modified retrospective approach with practical expedient options. Principally, it requires balance sheet recognition of a right-of-use asset and a lease liability by lessees for those leases that are classified as operating leases along with additional disclosures. Based on the Company' assessment to date, leasing activities accounted for as operating leases primarily relate to office facilities and utility plant and equipment.

The Company expects to elect a package of practical expedients that allow the Company to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. Any significant developments in its implementation efforts could change the Company's expected election of transition practical expedients.

The Company continues to assess the impact that the adoption of this ASU will have on its consolidated financial statements and continues to monitor standard-setting activities that may affect the transition requirements of the new lease standard.

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016, is effective for the Company on January 1, 2021 and is to be applied on a modified retrospective basis. The Company intends to early adopt on January 1, 2020. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. The Company is assessing the impact of adoption.

Targeted Improvements to Accounting for Hedging Activities

ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, was issued in August 2017, is effective for the Company on January 1, 2019 with earlier adoption permitted and is to be applied as of the beginning of the fiscal year of adoption. Principally, it better aligns risk management activities and financial reporting for hedging relationships through changes to designation, measurement, presentation and disclosure guidance. For cash flow and net investment hedges existing at the date of adoption, the amendments should be applied as a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to opening retained earnings. Amended presentation and disclosure guidance is to be applied prospectively. The Company is assessing the impact of adoption.

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 June 30, 2018 are based upon actual bills-rendered during the period.

Prior to May 2017, revenue was derived from the sale of electricity taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills were issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual was based on actual electricity sales to billed in arrears. The process for recording accrued unbilled electricity consumption resulted in adjustments of electricity revenue in the periods they were earned. As at June 30, 2018, the amount of unbilled revenue recorded in Electricity Sales was $nil (June 30, 2017: $nil).

Kilowatt Hour ("kWh") Sales

KWh sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. Prior to May 2017, 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 June 30, 2018, the amount of estimated kWh sales was nil kWh (June 30, 2017: nil).

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 June 30, 2018, the Company has a long term liability of $1.3 million (December 31, 2017: $1.3 million).

Property, Plant and Equipment Depreciation

Depreciation is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at June 30, 2018, the net book value of the Company's PP&E was $493.8 million compared to $488.3 million as at December 31, 2017, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the Second Quarter 2018 was $8.2 million ($7.7 million for the Second Quarter 2017). Due to the value of the Company's property, plant and equipment, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

Quarterly Results

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended September 30, 2016 through June 30, 2018. 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
June 30, 2018	47,763	7,042	6,929	0.21	0.21
March 31, 2018	41,474	2,665	2,552	0.08	0.08
December 31, 2017	44,311	5,475	4,862	0.15	0.15
September 30, 2017	46,153	7,707	7,594	0.23	0.23
June 30, 2017	42,159	6,136	6,023	0.19	0.19
March 31, 2017	38,319	4,461	4,348	0.13	0.13
December 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 2018/June 2017

Operating income for Second Quarter 2018 totalled $7.7 million, an increase of $0.2 million when compared to operating income of $7.5 million for Second Quarter 2017. The increase is attributable to higher electricity sales revenues and decreases in general and administration and consumer services costs. These items were partially offset by an increase in depreciation, transmission and distribution and maintenance costs.

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

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

Following OfReg approval, effective January 1, 2018 the Company implemented demand rate billing for its large commercial customer rate class to replace the pre-2018 energy charge rate component with a combination of energy and demand charges. Demand rate structures are typically used to better align billings with the costs to serve a particular rate class of customers.

In order to facilitate a smoother transition to the new rate structure, demand rates are being implemented over a three-year period. This phase-in plan is intended to gradually introduce demand rates to the entire large commercial customer class and provide a true-up mechanism to ensure the new rates are revenue-neutral compared to the existing rates.

During the period of January 1, 2018 to May 31, 2018, Electricity Sales Revenues for large commercial customers under the newly introduced demand rate were less than what would have been billed under the previous energy only rate. The Company applied to OfReg for a review of this shortfall to ensure revenue neutrality which would provide for the same revenues as if billed under the previous energy only rates. In June 2018, OfReg approved an increase of the rates going forward. The Company was also granted approval to record the revenue shortfall and a regulatory asset of $1.0 million for the first five months of 2018 which positively impacted electricity sales revenues. The revenue shortfall will be recovered over years two and three of the implementation in order to smoothen the effects of the adjustment to the large commercial customers.

March 2018/March 2017

Operating income for First Quarter 2018 totalled $3.2 million, a decrease of $2.2 million when compared to operating income of $5.4 million for First Quarter 2017. The decrease was due to an increase in depreciation, transmission and distribution and maintenance costs in First Quarter 2018. These items were partially offset by a 3% increase in kilowatt hour ("kWh') sales and lower general and administration costs.

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

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

During the First Quarter 2018, Electricity Sales Revenues for large commercial customers under the newly introduced demand rate were less than what would have been billed under the previous energy only rate. Management's estimate of the shortfall of billings under the demand rate of large commercial customers was $0.6 million. The Company applied to OfReg for a review of this shortfall to ensure revenue neutrality which would provide for the same revenues as if billed under the previous energy only rates. A decision on the adjustment of the rates going forward was made during the Second Quarter of 2018.

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 was 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 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.

Disclosure Controls and Procedures

The President and Chief Executive Officer ("CEO") and the VP Finance and Chief Financial Officer ("CFO"), together with Management, have established and maintained the Company's disclosure controls and procedures (DC&P), to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the year ending December 31, 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 June 30, 2018.

Internal Controls over Financial Reporting ("ICFR")

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

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated 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 June 30, 2018.

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 third quarter 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.

Outstanding Share Data

At July 31, 2018 the Company had issued and outstanding 33,115,054 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 July 31, 2018 is as follows.

Conversion of Securities into Common Shares As at July 31, 2018 (Unaudited)	**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*.

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

Unaudited	Note	As at June 30, 2018	As at December 31, 2017
Assets			
Current Assets			
Cash		**6,544**	7,258
Accounts Receivable, net	6	**11,518**	9,519
Related Party Receivables	15	**19**	70
Regulatory Assets	7	**23,324**	18,283
Inventories		**3,103**	2,613
Prepayments		**548**	1,624
Total Current Assets		**45,056**	39,367
Property, Plant and Equipment, net	8	**493,796**	488,314
Intangible Assets, net		**3,146**	3,202
Other Assets		**12**	12
Total Assets		**542,010**	530,895
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank Overdraft	9	**3,470**	-
Accounts Payable and Accrued Expenses		**24,595**	24,106
Related Party Payables	15	**6**	7
Regulatory Liabilities	7	**-**	52
Short-Term Debt	9	**20,000**	-
Current Portion of Long-Term Debt	12	**12,714**	16,714
Consumers' Deposits and Advances for Construction		**10,164**	8,667
Total Current Liabilities		**70,949**	49,546
Defined Benefit Pension Liability		**1,265**	1,319
Long-Term Debt	12	**245,240**	254,882
Other Long-Term Liabilities		**547**	725
Total Liabilities		**318,001**	306,472
Commitments and Contingency	16, 17		
Shareholders' Equity			
Share Capital	10	**2,221**	2,214
Share Premium		**124,851**	123,376
Additional Paid-in Capital		**467**	467
Retained Earnings		**97,758**	99,668
Accumulated Other Comprehensive Loss		**(1,288)**	(1,302)
Total Shareholders' Equity		**224,009**	224,423
Total Liabilities and Shareholders' Equity		**542,010**	530,895

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Condensed Consolidated Statements of Earnings

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

Unaudited	Note	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Operating Revenues					
Electricity Sales	5	**22,486**	21,078	**40,465**	39,227
Fuel Factor	5	**24,178**	20,580	**46,896**	40,333
Renewables	5	**1,099**	501	**1,876**	917
Total Operating Revenues		**47,763**	42,159	**89,237**	80,477
Operating Expenses					
Power Generation		**26,265**	21,943	**50,679**	42,951
General and Administration		**2,088**	2,134	**4,061**	4,253
Consumer Services		**807**	1,174	**1,405**	1,684
Transmission and Distribution		**1,190**	706	**2,355**	1,254
Depreciation		**8,186**	7,659	**16,480**	15,104
Maintenance		**1,366**	925	**3,007**	2,126
Amortization of Intangible Assets		**156**	122	**326**	256
Total Operating Expenses		**40,058**	34,663	**78,313**	67,628
Operating Income		**7,705**	7,496	**10,924**	12,849
Other (Expenses)/Income					
Finance Charges	13	**(1,994)**	(2,262)	**(4,178)**	(4,375)
Foreign Exchange Gain	14	**394**	305	**1,073**	613
Other Income		**937**	597	**1,888**	1,508
Total Net Other (Expenses)/Income		**(663)**	(1,360)	**(1,217)**	(2,254)
Net Earnings for the Period		**7,042**	6,136	**9,707**	10,595
Preference Dividends Paid- Class B		**(113)**	(113)	**(226)**	(225)
Earnings on Class A Ordinary Shares		**6,929**	6,023	**9,481**	10,370
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)		**33,045**	32,750	**33,073**	32,778
Earnings per Class A Ordinary Share		**0.21**	0.19	**0.29**	0.32
Diluted Earnings per Class A Ordinary Share		**0.21**	0.19	**0.29**	0.32
Dividends Declared per Class A Ordinary Share		**0.175**	0.170	**0.345**	0.340

See accompanying Notes to Condensed Consolidated Interim Financial Statements

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

Unaudited	Three Months Ended June 30, 2018	Three months Ended June 30, 2017	Six Months Ended June 30, 2018	Six months Ended June 30, 2017
Net Earnings for the Period	**7,042**	6,136	**9,707**	10,595
Other Comprehensive Income:				
Defined Benefit Pension Plans:				
Amortization of Net Actuarial Loss	**7**	18	**14**	37
Total Other Comprehensive Income	**7**	18	**14**	37
Comprehensive Income	**7,049**	6,154	**9,721**	10,632

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Condensed Consolidated Statements of Shareholders' Equity

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

Unaudited	Class A Ordinary Shares (in thousands)	Class A Ordinary Shares Value ($)	Preference Shares ($)	Share Premium ($)	Additional Paid-in Capital ($)	Accumulated Other Comprehensive Loss ($)	Retained Earnings ($)	Total Equity ($)
As at December 31, 2017	**32,995**	**1,964**	**250**	**123,376**	**467**	**(1,302)**	**99,668**	**224,423**
Net earnings	-	-	-	-	-	-	9,707	9,707
Common share issuance and stock options plans	120	7	-	1,475	-	-	-	1,482
Defined benefit plans	-	-	-	-	-	14	-	14
Dividends on common shares	-	-	-	-	-	-	(11,391)	(11,391)
Dividends on preference shares	-	-	-	-	-	-	(226)	(226)
As at June 30, 2018	**33,115**	**1,971**	**250**	**124,851**	**467**	**(1,288)**	**97,758**	**224,009**
As at December 31, 2016	**32,647**	**1,943**	**250**	**119,096**	**467**	**(790)**	**99,156**	**220,122**
Net earnings	-	-	-	-	-	-	10,595	10,595
Common share issuance and stock options plans	205	12	-	2,437	-	-	-	2,449
Defined benefit plans	-	-	-	-	-	37	-	37
Dividends on common shares	-	-	-	-	-	-	(11,131)	(11,131)
Dividends on preference shares	-	-	-	-	-	-	(225)	(225)
As at June 30, 2017	**32,852**	**1,955**	**250**	**121,533**	**467**	**(753)**	**98,395**	**221,847**

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Condensed Consolidated Statements of Cash Flows

(expressed in thousands of United States Dollars)

Unaudited	**Three Months Ended June 30, 2018**	**Three Months Ended June 30, 2017**	**Six Months Ended June 30, 2018**	**Six Months Ended June 30, 2017**
Operating Activities				
Net Earnings for the period	**7,042**	6,136	**9,707**	10,595
Items not affecting cash:				
Depreciation	**8,186**	7,659	**16,480**	15,104
Amortization of Intangible Assets	**156**	122	**326**	256
Non-cash Pension Expenses	**-**	-	**-**	(43)
Amortization of Deferred Financing Costs	**37**	37	**72**	70
	15,421	13,954	**26,585**	25,982
Net Changes in Working Capital Balances Related to Operations:	**(2,502)**	(2,960)	**2,044**	1,305
Net Change in Regulatory Deferrals	**(2,702)**	(2,546)	**(5,093)**	(4,790)
Cash flow related to operating activities	**10,217**	8,448	**23,536**	22,497
Investing Activities				
Purchase of Property, Plant and Equipment	**(14,478)**	(14,351)	**(24,264)**	(23,800)
Proceeds from Sale of Property, Plant and Equipment	**-**	-	**45**	-
Costs related to Intangible Assets	**(144)**	(83)	**(270)**	(136)
Contributions in Aid of Construction	**1,100**	662	**1,111**	715
Cash flow related to investing activities	**(13,522)**	(13,772)	**(23,378)**	(23,221)
Financing Activities				
Proceeds from Long-Term Debt Financing	**-**	20,000	**-**	60,000
Proceeds from Short-Term Debt	**20,000**	-	**20,000**	-
Repayment of Long-Term Debt	**(13,714)**	(8,000)	**(13,714)**	(38,000)
Increase in Bank Overdraft	**3,470**	-	**3,470**	-
Dividends Paid	**(5,895)**	(5,652)	**(12,110)**	(11,816)
Net Proceeds from Share Issues	**757**	1,432	**1,482**	2,449
Cash flow related to financing activities	**4,618**	7,780	**(872)**	12,633
Increase / (Decrease) in net cash	**1,313**	2,456	**(714)**	11,909
Cash - Beginning of the period	**5,231**	19,314	**7,258**	9,861
Cash - End of the period	**6,544**	21,770	**6,544**	21,770
Supplemental disclosure of cash flow information:				
Interest paid during the period	**6,637**	5,610	**6,625**	5,785

See accompanying Notes to Condensed Consolidated Interim Financial Statements

***Unaudited – June 30, 2018** (expressed in thousands of United States dollars unless otherwise stated)*

1. Nature of Operations and Consolidated Financial Statement Presentation

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

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

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

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

All intercompany balances and transactions have been eliminated on consolidation.

Rate Regulated Operations

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel cost charges, renewables costs and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the Rate Cap and Adjustment Mechanism ("RCAM"). Effective June 1, 2018, following review and approval by the OfReg, the Company increased its base rates by 1.8%. This increase was a result of the 2017 Return on Rate Base ("RORB") and the increase in the applicable United States ("US") and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2017. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80% based on the range of the RORB values. The required rate adjustment of 1.8% can be calculated by applying 80% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 2.2%. All fuel, lubricating oil and renewable costs are passed through to customers without mark-up as a per kWh charge.

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

Seasonality

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

Taxation

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

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

2. Summary of Significant Accounting Policies

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, these Condensed Consolidated Interim Financial Statements do not include all information and notes required by US GAAP for annual financial statements. Since the Condensed Consolidated Interim Financial Statements and Notes do not include all information and notes required by US GAAP for annual financial statements, the Condensed Consolidated Interim Financial Statements and other information included in this quarterly report should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2017.

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

3. Changes in Accounting Policies

New Accounting Policies

Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers, which requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company adopted the standard using the modified retrospective method, under which comparative figures were not restated. The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by OfReg. The adoption of this standard does not change the Company's revenue recognition policy and does not have an impact on net earnings. Additional disclosure on revenue as a result of the adoption of ASC Topic 606 is provided in Note 5.

4. Future Accounting Policies

Leases

ASU No. 2016-02, *Leases (ASC Topic 842)*, was issued in February 2016, is effective for the Company on January 1, 2019 with earlier adoption permitted, and is to be applied using a modified retrospective approach with practical expedient options. Principally, it requires balance sheet recognition of a right-of-use asset and a lease liability by lessees for those leases that are classified as operating leases along with additional disclosures. Based on the Company's assessment to date, leasing activities accounted for as operating leases primarily relate to office facilities and utility plant and equipment.

The Company expects to elect a package of practical expedients that allow the Company to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. Any significant developments in its implementation efforts could change the Company's expected election of transition practical expedients.

The Company continues to assess the impact that the adoption of this ASU will have on its consolidated financial statements and continues to monitor standard-setting activities that may affect the transition requirements of the new lease standard.

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016, is effective for the Company on January 1, 2021 and is to be applied on a modified retrospective basis. The Company intends to early adopt on January 1, 2020. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. The Company is assessing the impact of adoption.

Targeted Improvements to Accounting for Hedging Activities

ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, was issued in August 2017, is effective for the Company on January 1, 2019 with earlier adoption permitted and is to be applied as of the beginning of the fiscal year of adoption. Principally, it better aligns risk management activities and financial reporting for hedging relationships through changes to designation, measurement, presentation and disclosure guidance. For cash flow and net investment hedges existing at the date of adoption, the amendments should be applied as a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to opening retained earnings. Amended presentation and disclosure guidance is to be applied prospectively. The Company is assessing the impact of adoption.

5. Operating Revenues

Operating Revenues ($ thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Electricity Sales Revenues				
Residential	**10,689**	10,964	**19,482**	19,472
Commercial	**11,594**	9,952	**20,624**	19,425
Other (street lighting etc.)	**203**	162	**359**	330
Total Electricity Sales Revenues	**22,486**	21,078	**40,465**	39,227
Fuel Factor	**24,178**	20,580	**46,896**	40,333
Renewables	**1,099**	501	**1,876**	917
Total Operating Revenues	**47,763**	42,159	**89,237**	80,477

Electricity Sales revenue

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

Fuel Factor

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

Renewables

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

6. Accounts Receivable, net

Accounts Receivable ($ thousands)	As at June 30, 2018	As at December 31, 2017
Billings to consumers	**12,779**	10,317
Other receivables	**1,009**	1,440
Allowance for doubtful accounts	**(2,270)**	(2,238)
Total Accounts Receivable, net	**11,518**	9,519

Other receivables

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

7. Regulatory Assets and Liabilities

Regulatory Assets and Liabilities			
($ thousands)			
Asset/Liability	**Description**	**As at June 30, 2018**	**As at December 31, 2017**
Regulatory Assets	Fuel Tracker Account	**20,594**	17,187
Regulatory Assets	Derivative contracts	**226**	-
Regulatory Assets	Miscellaneous Regulatory Assets	**205**	218
Regulatory Assets	Government & Regulatory Tracker Account	**1,254**	878
Regulatory Assets	Demand rate	**1,045**	-
Total Regulatory Assets		**23,324**	18,283
Regulatory Liabilities	Derivative contracts	**-**	(52)
Total Regulatory Liabilities		**-**	(52)

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

Property, Plant and Equipment, net		
($ thousands)	**Cost June 30, 2018**	**Net Book Value June 30, 2018**
Transmission & Distribution (T&D)	368,701	229,874
Generation	439,178	241,270
Other:		
Land	5,304	5,304
Buildings	21,473	9,171
Equipment, motor vehicles and computers	27,557	7,751
Total of T&D, Generation and Other	862,213	493,370
Telecommunications assets	546	426
Property, Plant and Equipment, net	**862,759**	**493,796**

Property, Plant and Equipment, net		
($ thousands)	**Cost December 31, 2017**	**Net Book Value December 31, 2017**
Transmission & Distribution (T&D)	354,851	221,990
Generation	431,688	243,905
Other:		
Land	5,304	5,304
Buildings	20,942	8,899
Equipment, motor vehicles and computers	27,110	7,778
Total of T&D, Generation and Other	839,895	487,876
Telecommunications assets	546	438
Property, Plant and Equipment, net	840,441	488,314

9. Short-Term Financing

The Company has $50.0 million at June 30, 2018 ($50.0 million at December 31, 2017) of unsecured credit financing facilities with Scotiabank & Trust (Cayman) Limited ("Scotia") and Royal Bank of Canada ("RBC"). The total available amount was $26.0 million at June 30, 2018 ($49 million at December 31, 2017).

Short-Term Financing			
($ thousands)			
Credit Facilities	**Total Credit Financing Facilities June 30, 2018**	**Total Utilized June 30, 2018**	**Total Available June 30, 2018**
Provided by Scotia:			
Letter of Guarantee	1,000	500	500
Operating, Revolving Line of Credit	10,000	3,470	6,530
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	31,000	20,000	11,000
Total	**49,500**	**23,970**	**25,530**
Provided by RBC:			
Corporate Credit Card Line*	500	-	500
Short – Term Financing	**50,000**	**23,970**	**26,030**

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 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.

10. Capital Stock

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

Capital Stock	As at June 30, 2018	As at December 31, 2017
Authorised:		
Class A Ordinary Shares of CI$0.05 each	**60,000,000**	60,000,000
9% Cumulative Participating Class B Preference Shares of $1.00 each	**250,000**	250,000
Class C Preference Shares of $1.00	**419,666**	419,666
Cumulative Participating Class D Share of CI$0.56	**1**	1
Issued and Outstanding (Number of Shares):		
Class A Ordinary Shares	**33,115,054**	32,994,972
Class B Preference Shares	**250,000**	250,000
Issued and Outstanding ($ Amount):		
Class A Ordinary Shares	**1,971,134**	1,963,986
Class B Preference Shares	**250,000**	250,000
Total Class A Ordinary & Class B Preference Shares	**2,221,134**	2,213,986

11. Share Based Compensation Plans

Share Options:

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

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

Share Options	Six Months Ended June 30, 2018 Number of Options	Six Months Ended June 30, 2018 Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($ thousands)
Outstanding at Beginning of Period	45,000	9.66	4.25	-
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited/Cancelled	-	-	-	-
Expired	-	-	-	-
Outstanding, End of Period	45,000	9.66	3.74	-
Vested, End of the Period	**45,000**	**9.66**	**3.74**	**-**

Under the fair value method, the compensation expense was $nil for the six month period ended June 30, 2018 (June 30, 2017: $0.2 million).

12. 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.

There have been no changes in the methodologies used at June 30, 2018. The estimated fair values of the Company's financial instruments, including derivative financial instruments, are as follows:

Financial Instruments				
	As at June 30, 2018		As at December 31, 2017	
($ thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt, including Current Portion	**257,954**	**263,631**	271,596	283,649
Fuel Option Contracts	**226**	**226**	52	52

The Company's long term debt and fuel derivative contracts, based on the three levels that distinguish the level of pricing observability utilized in measuring fair value, have been classified as Level 2. There were no transfer between levels for the period ended June 30, 2018.

13. Finance Charges

The composition of finance charges were as follows:

Finance Charges				
($ thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Interest costs - long-term debt	**3,198**	3,280	**6,467**	6,102
Other interest costs	**124**	49	**173**	254
AFUDC	**(1,328)**	(1,067)	**(2,462)**	(1,981)
Finance Charges	**1,994**	2,262	**4,178**	4,375

14. Foreign Exchange

The closing rate of exchange on June 30, 2018 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn $1.3168 per US$1.00 (December 2017: Cdn$1.2545). The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by the Cayman Islands Monetary Authority is fixed at CI$1.00 per US$1.20. Thus, the rate of exchange as of June 30, 2018 for conversion of Cayman Islands dollars into Canadian dollars was Cdn $1.5802 per CI$1.00 (December 29, 2017: Cdn $1.5054).

15. Transactions with Related Parties

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

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

Related Party Transactions		
(in thousands)	**As at June 30, 2018**	**As at December 31, 2017**
Receivables from Newfoundland Power (a subsidiary of Fortis Inc.)	**4**	4
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	**-**	17
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	**14**	49
Receivables from Fortis Inc.	**1**	-
Total Related Party Receivables	**19**	70
Payables to Fortis Inc. (the company's majority shareholder)	**6**	5
Payables to Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	**-**	2
Total Related Party Payables	**6**	7

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

16. Commitments

As at June 30, 2018, the Company's consolidated commitments in each of the next five years and for periods thereafter are as follows:

Commitments ($ thousands)	**Total**	**2018**	**2019-2020**	**2021-2022**	**2023 Onward**
Bank Overdraft	3,470	3,470	-	-	-
Accounts Payable and Accrued Expenses	24,595	24,595			
Consumer's Deposits and Advances for Construction	10,164	10,164	-	-	-
Letter of Guarantee	500	500	-	-	-
Long Term Debt	259,285	12,714	31,987	30,753	183,831
Long Term Debt Interest	114,293	12,130	21,656	17,869	62,638
Commitments	**412,307**	**63,573**	**53,643**	**48,622**	**246,469**

During 2015, the Company entered into a Power Purchase Agreement ("PPA") with Entropy Cayman Solar Limited to purchase up to 2.1 megawatt hours ("MWh") 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 also provides 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. The Company executed 24 month fuel supply contracts in June 2018 upon the expiration of its previous fuel supply contract with both RUBiS and Sol, with the option to renew for two additional terms of 18 months at the end of the term. 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 June 30, 2018 was $2.3 million (December 31, 2017: $2.0 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Road Power Plant.

17. 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 was held in June 2018. The Company is awaiting a decision on this case.

Shareholder Information

Shareholder Plans

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

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

Duplicate Annual Reports

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

Our Registrar and Transfer Agents are as follows:

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

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

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

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