

Caribbean Utilities Company, Ltd.
2019 Annual Report



“Empowering Cayman to be a **Global Leader**”

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. CUC currently has an installed generating capacity of 161 megawatts (“MW”). The record peak load of 113.5 MW was experienced on August 28, 2019. CUC is committed to providing a safe and reliable supply of electricity to over 30,000 customers. CUC has been through many challenging and exciting periods, keeping pace with Grand Cayman’s development for over the past 50 years.

About the Cayman Islands

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 68,000, are comprised of three islands: Grand Cayman, Cayman Brac and Little Cayman. Located approximately 150 miles south of Cuba, 460 miles south of Miami and 167 miles northwest of Jamaica, the largest island is Grand Cayman with an area of 76 square miles.

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

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Readers should review the note on page 10 in this Annual Report, in the Management's Discussion and Analysis section, concerning the use of forward-looking statements, which applies to the entirety of this Annual Report to shareholders of CUC.

Highlights

Financial Results in Brief

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

	Year Ended December 31, 2019	Year Ended December 31, 2018	Change %
Operating Revenues	203,246	194,578	4%
Electricity Sales Revenues	92,010	86,335	7%
Fuel Factor Revenues	106,346	104,170	2%
Renewables Revenues	4,890	4,073	20%
Total Operating Expenses	173,777	166,192	5%
Finance Charges	6,772	7,677	-12%
Net Earnings for the Year	29,100	26,770	9%
Total Assets	600,417	562,754	7%
Total Shareholders' Equity	237,942	230,382	3%
Cash Flow Related to Operating Activities	62,114	64,239	-3%
<u>The following items are fully stated, not in thousands:</u>			
Earnings per Class A Ordinary Share	0.84	0.78	8%
Dividends per Class A Ordinary Share (paid and declared)	0.700	0.695	1%
Book Value per Class A Ordinary Share	7.10	6.92	3%
Class A Ordinary Shares			
Market Price: High	17.60	14.01	26%
Low	12.25	11.75	4%
Year-end	16.38	12.25	34%

Performance

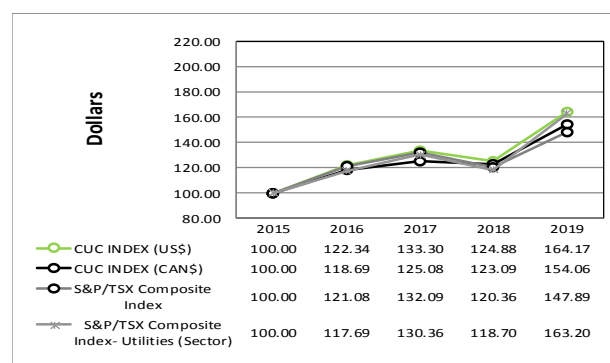
Net earnings for the year ended December 31, 2019 were \$29.1 million, a \$2.3 million increase from net earnings of \$26.8 million for the year ended December 31, 2018. This increase is primarily attributable to higher operating income, lower finance charges and higher other income. Dividends paid and declared on Class A Ordinary Shares were \$0.70 per share. The Class A Ordinary Shares (CUP.U) traded on the Toronto Stock Exchange at a high of \$17.60 per share in 2019.

Rate of Exchange

The closing rate of exchange on December 31, 2019 as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was Cdn\$1.2988 per US\$1.00. The official exchange rate for the conversion of Cayman Islands dollars into United States dollars as determined by the Cayman Islands Monetary Authority is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of December 31, 2019 for conversion of Cayman Islands dollars into Canadian dollars was Cdn\$1.5586 per CI\$1.00 (December 31, 2018: Cdn\$1.6370).

Share Performance

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



Information reflected in this Highlights section should be read in conjunction with the disclosure contained in the Management's Discussion and Analysis section and its associated cautions beginning on page 10. All dollar amounts in this Annual Report are stated in United States dollars unless otherwise indicated.

Letter to Fellow Shareholders

It is our pleasure to report on the financial performance and operational progress of Caribbean Utilities Company, Ltd. (“CUC” or the “Company”) for the year ended December 31, 2019 (“Fiscal 2019”). Some of the highlights of the year include year over year improvements in safety and reliability performance, a 7.7% increase in earnings per Class A ordinary shares to \$0.84, a 6.2% increase in kWh sales, setting a record peak demand of 113.5 MW and facilitating a 16.5% increase in the use of renewable energy on CUC’s grid.

Financial Performance

Operating income for Fiscal 2019 totalled \$29.5 million, a \$1.1 million increase from operating income of \$28.4 million for the year ended December 31, 2018 (“Fiscal 2018”). This increase is attributable to higher electricity sales revenues primarily driven by a 6.2% increase in kWh sales, and 1.8% and 0.9% base rate increases effective June 1, 2018 and June 1, 2019, respectively. These items were partially offset by higher depreciation and transmission and distribution costs in Fiscal 2019.

Net earnings for the year ended December 31, 2019 were \$29.1 million, a \$2.3 million increase from net earnings of \$26.8 million for the year ended December 31, 2018. This increase is primarily attributable to higher operating income, lower finance charges and higher other income.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Fiscal 2019 were \$28.1 million, or \$0.84 per Class A Ordinary Share, as compared to \$25.8 million, or \$0.78 per Class A Ordinary Share, for Fiscal 2018. The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average number of Class A Ordinary Shares outstanding were 33,322,444 and 33,078,944 for the years ended December 31, 2019 and December 31, 2018, respectively.

Health, Safety and the Environment

The health and safety of all of our employees, contractors, and members of the public, is one of the Company’s core values and first priority. During 2019, improvements continued on work methods and practices, hazard identification, equipment and tool selection, and training to ensure that jobs were being performed safely. The year started with employees taking part in a 20-hour Safety Leadership training course and an external assessment of the Company’s safety culture. The Company’s occupational health and safety management system remains aligned with Occupational Health and Safety Assessment Series 18001 standard and we will be moving towards the new standard of International Organization for Standardization (“ISO”) 45001 in 2020. After celebrating a year without a lost time injury (“LTI”), in October 2019, we were



J.F. Richard Hew, President & Chief Executive Officer, and David E. Ritch, Chairman of the Board of Directors.

disappointed that the Company experienced two minor LTI's in the last months of the year. The all injury frequency rate for 2019 was 2.9, which is an improvement over the prior year's rate of 4.3. We remain proactive and vigilant in pursuing the highest safety standards but when incidents do occur we investigate and ensure that the risk of similar incidents happening in the future is mitigated. We continue to share lessons learned with staff and industry partners to ensure that everyone returns safely home to their families at the end of the day.

The Company's Environmental Management System ("EMS") successfully passed an external audit in 2019, with no minor or major non-conformances identified. The EMS is registered to the ISO environmental standard (ISO 14001:2015) which requires that an external audit of the system be conducted on an annual basis.

Throughout the year, the Company has continued to invest in technology that increases the efficiency of electricity production and reduces emissions to the environment. The year saw the Company's recycling efforts increase as well, with the introduction of paper recycling to add to the oil, metals, glass and plastics recycling already in place. We also continued to partner with other members of the community, such as the National Trust, Chamber of Commerce and Plastic Free Cayman, to promote environmental awareness and other educational initiatives.

Capital Projects

During 2019, there was a significant amount of work carried out at the Company's substations. Upgrades to the Bodden Town, South Sound, North Sound Road, and Rum Point substations were completed, increasing the capacity and reliability of service to our customers in those areas. The Company broke ground for the construction of the new Seven Mile Beach substation and work started on a new Prospect substation. Both substations are indoor type, designed to withstand major hurricanes and featuring all gas insulated switchgear manufactured by Siemens. The projects are scheduled for completion in the first and second quarter of 2020 respectively. The Frank Sound substation is scheduled for expansion and upgrade in 2021.

The Cayman Islands Utility Regulation and Competition Office (the "OfReg") approved the Company's request for a 20-megawatt Utility-Scale Battery for its Instantaneous Reserves project. The primary function of the utility-scale battery is to provide instantaneous or 'spinning' reserve in the event of a sudden loss in power generation. The utility-scale battery will instantly bridge the shortfall in energy until other generators can be brought online. By replacing the spinning reserve normally provided by CUC's online generators, fewer generators will need to be online, significantly reducing the amount of fuel consumed for electricity production. As a direct result of this project, the Company expects that the initial magnitude of savings to the customers will be around \$1 million per annum.

There are also significant environmental benefits of deploying the battery as it reduces diesel consumption and the related CO2 emissions, and it provides grid stability and ability to host significantly greater quantities of intermittent renewable energy, further reducing diesel fuel consumption.

The project to replace our Supervisory Control and Data Acquisition ("SCADA") system which controls both CUC's generation and transmission and distribution ("T&D") systems and to expand and upgrade the control room building is well advanced. The existing SCADA system was installed in 1999 and does not support the new data protocols that have emerged and that have become the new electrical utility industry standards. The new system will support current protocols and standards for continued reliable operations. It will improve integration, monitoring and automation of generation and T&D electrical devices. It will also support the anticipated growth in distributed renewable generation. The new control room and SCADA system is scheduled to be in operation by mid-2020.



An extension to the Company's Central Control Room will be completed in 2020.

The year 2019 was the second of the planned five-year project to replace the over 7,000 high pressure sodium ("HPS") streetlights with light emitting diode ("LED") technology. At the end of the year, over 4,200 lights had been replaced putting the Company ahead of schedule. The LED lights use significantly less energy than the older HPS technology providing environmental and financial benefits. When completely replaced the project will save 3.8 million kWh's of energy annually, the equivalent of 195,000 gallons of diesel fuel.

During the last year, our customer base increased overall by 2% from 29,822 as at December 31, 2018 to 30,537 as at December 31, 2019. We remain focused on staying ahead of the demands of our customer base and providing safe, reliable and sustainable electricity service.

Renewable Energy

In early 2019, OfReg accepted CUC's Integrated Resource Plan. The Company continues to facilitate the connection of renewable energy sources to the grid. Renewable energy on the CUC grid for 2019 totalled 18.8 million kWh which amounts to 2.6% of the total energy supplied. The Company aims to have 25% of renewable energy on the grid by 2025 and to meet the objectives and targets of the National Energy Policy over the longer term.

The Customer Owned Renewable Energy ("CORE") programme, which as at the end of 2019 was fully subscribed, allows residential and commercial customers to connect their solar panels or wind turbines to the CUC grid. At December 31, 2019, there were 432 CORE customers connected with total installed capacity of 5,611.2 kilowatts.

The Distributed Energy Resource ("DER") programme was introduced in January 2018. This programme allows customers to consume electricity generated by their own renewable energy system without paying CUC for this energy under a type of net-metering arrangement. At December 31, 2019, there were 4 DER customers connected with total installed capacity of 494 kilowatts.

In 2015, the Company entered into a Power Purchase Agreement (“PPA”) with Entropy Cayman Solar Limited which will provide a minimum generated energy of 8.8 GWh per year for a 25-year term. In December 2018, Entropy Cayman Solar Limited was acquired by BMR Energy Limited (“BMR Energy”). For the year ended December 31, 2019, the total energy purchased from BMR Energy was 10.4 GWh, compared to 9.4 GWh for the year ended December 31, 2018.

During the year, OfReg issued a consultation to the public on a proposed Renewable Energy Auction Scheme, an indication of movement towards more utility scale solar on the grid in the near future.

Reliability & Customer Service

A record peak demand of 113.5 MW set on August 28, 2019, was an increase of 7.5% over the previous peak set in 2017. From a generation standpoint the Company met customer demand through the summer peak season and served customers reliably with System Average Interruption Duration Index (“SAIDI”) of 3.5 hours for the year. This essentially means that the average customer served by CUC experienced 3.5 hours of interruption for the year, down from 6.3 hours in 2018. For 2019, 48% of all customers experienced reliability levels at 2.0 hours or better. The upgrades to the Bodden Town substation that required that substation to be out of service for an extended period did contribute to a lower level of reliability to customers in the Prospect to Bodden Town areas than we would normally expect. The programme of new substation installations and other transmission and distribution upgrades is aimed at reducing annual customer interruption time to 2.0 hours over the next few years.

Other customer service initiatives included the launching of the outage map on CUC’s website, which provides real time location of outages and restoration information. During the year, CUC also improved its on-line payment and energy consumption information services for customers and for those that continue to prefer to make payments in person we expanded the number of remote payment agents (“RPAs”) island-wide. The RPAs offer the convenience of multiple locations and extended hours for customers to pay their bills.

Human Resources and Training

As of December 31, 2019 CUC employed 241 full-time employees, up almost 7% from 2018. The Company maintains a stable workforce with approximately 84% Caymanians. The remaining 16% represent over 20 other countries from across the globe. In 2019, CUC expanded its commitment to a respectful and inclusive workplace by signing the local Gender Equality Cayman Pledge and adopting the FORTIS Diversity and Inclusion initiative. The Company also proudly earned a 2019 finalist position in the Cayman Islands Society for Human Resources Professionals Top Employer Best Places to Work awards.

CUC remains dedicated to employee retention and wellness. CUC saw a 1% increase in employee engagement results (80% in 2019 vs. 79% in 2018) supported by a 2% increase in the participation rate (77% in 2019 vs. 75% in 2018).

Leadership development also remained a top initiative of CUC in 2019. Following a nomination process, 42 employees across the Company were registered into one of three offered levels of the Institute of Leadership and Management (“ILM”) Certificate Programme. According to the assigned level, participants of the programme are provided with a range of leadership and management skills, focusing on effective techniques for motivating and engaging their team members. It is expected that employees either currently holding or aspiring to obtain foreman, supervisor or manager positions will complete the programme. The Executive Team also commenced a tailored ILM programme. Additionally, the Company introduced a 360-degree Feedback programme for the senior management team. All supervisors are scheduled to partake in the 360-degree evaluations in 2020.

Over the last four years, CUC's Top Talent Programme has evolved as part of CUC's commitment to succession planning and employee development. The Top Talent Programme is reserved for twenty employees annually, whom the Company believes can ascend to leadership roles across the organization within a two to five-year timeframe. These employees are provided with increased training and mentorship opportunities over the course of the programme. In the 2019 cohort, seven of the twenty employees had retained their placement in the programme for four consecutive years. Overall, there were twenty-nine internal promotions Company-wide in 2019, of which seven individuals are members of the Top Talent Programme.

The Company continues to value its employees and provide training and development opportunities. In 2019, employees devoted 12,300 hours to training to enhance performance and skill development.

Also during 2019, as a part of an ongoing initiative to maintain a skilled workforce, CUC continued its involvement in training programmes such as the Fortis Alberta Powerline Technician Apprenticeship Programme, as well as the National Centre for Construction Education and Research ("NCCER") curricula offered at CUC. Four apprentices, two first-year and two second-year, successfully completed their five-week tenure at the Fortis Employee Development Centre receiving specialised training and undergoing rigorous testing, whilst gaining valuable practical experience from experts in the field. In addition, CUC provided five NCCER training programmes with over thirty employees completing classroom modules which, together with a practical evaluation, will provide globally recognised credentials in the craft industry. Two additional CUC employees became NCCER Master Trainers. As an NCCER Accredited Training Sponsor, CUC signed on to support the Inspire Cayman Training Centre. Inspire Cayman can now provide training to the general public under the registration of CUC, which is expected to expand opportunities to build a skilled workforce in the community.

During the summer of 2019, CUC offered a summer internship placement to 16 students across the various departments in the Company as well as approximately 10 other work experience opportunities to students throughout the year. Additionally, four young Caymanians were awarded CUC academic scholarships: Gabrielle Ramoutar and Natalia McCoy to complete A level studies; Briony Gallegos, a CUC employee in the Customer Service department and 2016 Employee of the Year recipient, and Sebastian Martinez to pursue university level studies. Two additional students, Simon Tatum and Giselle Ebanks, were awarded the Thomson Family Leadership & Innovation Scholarship. This scholarship, sponsored by the family of a founding member of CUC, is granted to students regardless of their chosen course of study who demonstrate the need and academic potential to obtain post-secondary education.

In May 2019, the Company celebrated twenty-five employees who received long service awards for having careers spanning 10 to 35 years. Together they have given the Company 525 years of service. Rewards and recognition efforts continued throughout the year, with sixty employees receiving peer nominations, amongst other company-wide recognition efforts. A new training newsletter was developed and introduced in order to recognise the involvement in, and achievements of, employee training. The year concluded with its annual awards which recognised various employees, including new awards named in honour of two late "Veterans of Power" – retired CUC employees who made significant contributions to the Company. Seven employees received outstanding awards ranging from Excellence in Safety, to Wellness, to Employee of the Year.

The following individuals were nominated in the various categories by their colleagues and the winners were voted on by management: James Sherieff (Employee of the Year), Joy Oremule (Supervisor of the Year), Jason Burke (Excellence in Safety), Antwan Seymour (Jeffrey Broderick Bright Spark Award), Richard Wallace (Otis Jackson Golden Wrench Award) and David Bodden (Golden Bucket Award). Karan Andrew was the Wellness Champion for 2019.

We are grateful to our employees who worked hard to bring these positive results in 2019. CUC thrives from their significant efforts, innovation, and dedication to the Company.

Community Involvement

The Community Involvement Programme continues to provide the opportunity for a wide cross section of the employees of the Company to give of their time and talent to the Cayman community through volunteerism.

In 2019, employees volunteered 2,589 hours, participating in a number of the Company's community involvement projects. These included Meals on Wheels and CUC's Primary Football League. The Company continues to sponsor a Mangrove Environmental Education Programme, which exposes primary school children to Grand Cayman's marine environment. The Company provides support to the Lighthouse School and the Sunrise Adult Training Centre, two facilities that cater to adults and children with special needs, and CUC continues to support local sports. CUC remains committed to the ongoing development of the community in which we live and work.

Summary

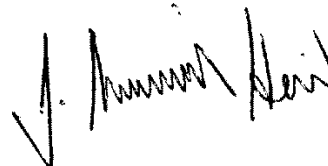
The year 2019 was one of the best years for overall performance of the Company in the past decade. With the overarching imperative of safety, the Company continues to focus on its four strategic objectives: Reliability, New Business and Technology, Human Capital and Brand. The Company is well-positioned for future success. We will remain focused on driving Reliability to 2.0 hours, and, under Brand, aiming to exceed customer expectations under a mantra of being famous for service. For Human Capital we are preparing our future leaders, increasing technical skills, engaging and aligning our employees and developing a strong culture of safety and excellence with a more diverse and inclusive workforce.

We also recognise that our industry is going through a potentially disruptive period. Under New Business and Technology, we have participated in National Energy Policy planning and created a roadmap to the future of renewable energy with our Integrated Resource Plan that we are now pursuing. We see a very positive future where we will provide greater value to electricity consumers while substantially reducing our carbon footprint.

What we have achieved in Fiscal 2019 would not be possible without the hard work, commitment and dedication of our employees and we are grateful to them for their loyalty to the Company. The Board of Directors also continue to provide guidance and support and we thank them for their ongoing contributions as we pursue our vision of "Empowering Cayman to be a Global Leader."



David E. Ritch, OBE, JP
Chairman of the Board of Directors
February 13, 2020



J.F. Richard Hew
President & Chief Executive Officer

Management's Discussion and Analysis



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

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or the "Company") consolidated financial statements for the year ended December 31, 2019 (the "2019 Financial Statements"). The material has been prepared in accordance with Canadian Securities Administrators National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to the MD&A.

The accounting practices, which are disclosed in the notes to the 2019 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 the costs of providing services, including a fair return on rate base assets, from customers through appropriate billing rates would not be subject to regulatory approval.

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

estimates. Some of the important risks and uncertainties that could affect forward-looking statements are described in the MD&A in the sections labelled “Business Risks”, “Capital Resources” and “Corporate and Regulatory Overview” and include but are not limited to operational, general economic, market and business conditions, regulatory developments and weather. CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties materialise, 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 2019 Financial Statements and MD&A in this Annual Report were approved by the Audit Committee and the Board of Directors.

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

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

February 13, 2020

Financial and Operational Highlights

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

	Year Ended December 31, 2019	Year Ended December 31, 2018	Change	% Change
Electricity Sales Revenues	92,010	86,335	5,675	7%
Fuel Factor Revenues	106,346	104,170	2,176	2%
Renewables Revenues	4,890	4,073	817	20%
Total Operating Revenues	203,246	194,578	8,668	4%
Fuel & Lube Costs	106,346	104,170	2,176	2%
Renewables Costs	4,890	4,073	817	20%
Other Operating Expenses	62,541	57,949	4,592	8%
Total Operating Expenses	173,777	166,192	7,585	5%
Net Earnings for the Year	29,100	26,770	2,330	9%
Cash Flow related to Operating Activities	62,114	64,239	(2,125)	-3%
<i>Per Class A Ordinary Share:</i>				
Basic Earnings	0.84	0.78	0.06	8%
Dividends Paid	0.700	0.695	0.005	1%
Total Customers	30,537	29,822	715	2%
Total Employees*	241	226	15	7%
Customer per Employee (#)	127	132	(5)	-4%
System Availability (%)	99.96	99.93	0.03	0%
Peak Load Gross (MW)	113.5	103.6	9.9	10%
<i>Millions of kWh:</i>				
Net Generation	678.8	641.8	37.0	6%
Total Energy Supplied	692.9	653.7	39.2	6%
Kilowatt-Hour Sales	667.7	628.8	38.9	6%
Sales per Employee	2.77	2.78	(0.01)	0%

* Total full time CUC employees

Corporate and Regulatory Overview

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

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

The Licences provide for a rate cap and adjustment mechanism ("RCAM") to CUC's return on rate base ("RORB") based on published consumer price indices. CUC's RORB for 2018 was 7.1%. CUC's RORB for 2019 was targeted in the 7.5% to 9.5% range.

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel, lube and renewables cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2019, following review and approval by the OfReg, the Company

increased its base rates by 0.9%. This increase was a result of the 2018 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 2018. 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 0.9% 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 1.12%. All fuel, lubricating oil and renewables costs are passed through to customers without mark-up as a per kWh charge. Rate base is the value of capital upon which the Company is permitted an opportunity to earn a return. The value of this capital is the average of the beginning and ending values for the applicable financial year of: fixed assets less accumulated depreciation, plus the allowance for working capital, plus regulatory assets less regulatory liabilities.

During the fourth quarter of 2019, the Company submitted its 2020-2024 capital investment plan (“CIP”) in the amount of \$263 million to the OfReg for approval. The Company has also submitted an additional \$88 million in proposed projects for battery storage and grid enhancement for review by the OfReg. The 2019-2023 CIP in the amount of \$273 million was approved by the OfReg in the third quarter of 2019.

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

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

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

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

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

Consolidation Accounting Policy

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

Earnings

Operating income for the year ended December 31, 2019 (“Fiscal 2019”) totalled \$29.5 million, a \$1.1 million increase from operating income of \$28.4 million for the year ended December 31, 2018 (“Fiscal 2018”). This increase is attributable to higher electricity sales revenues primarily driven by a 6.2% increase in kWh sales, and 1.8% and 0.9% base rate increases effective June 1, 2018 and June 1, 2019, respectively. These items were partially offset by higher depreciation and transmission and distribution costs in Fiscal 2019.

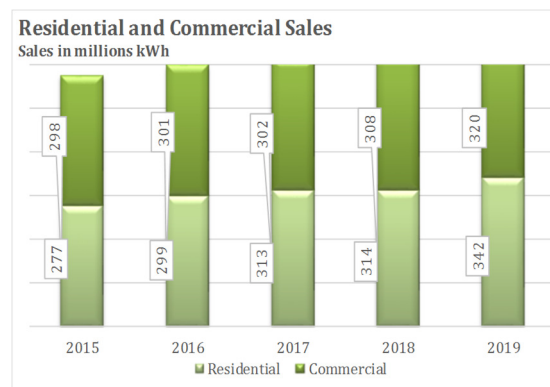
Net earnings for Fiscal 2019 were \$29.1 million, a \$2.3 million increase from net earnings of \$26.8 million for Fiscal 2018. This increase is primarily attributable to higher operating income, lower finance charges and higher other income.

Finance charges for Fiscal 2019 totalled \$6.8 million, a \$0.9 million decrease from \$7.7 million for Fiscal 2018. This decrease is a result of higher Allowance for Funds Used during Construction (“AFUDC”) driven by higher average work in progress for capital projects during Fiscal 2019, which was partially offset by higher interest on long-term debt and short-term debt.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Fiscal 2019 were \$28.1 million, or \$0.84 per Class A Ordinary Share, as compared to \$25.8 million, or \$0.78 per Class A Ordinary Share, for Fiscal 2018. The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average number of Class A Ordinary Shares outstanding were 33,322,444 and 33,078,944 for the years ended December 31, 2019 and December 31, 2018, respectively.

Sales

Sales for Fiscal 2019 were 667.7 million kWh, an increase of 38.9 million kWh or 6.2% when compared to 628.8 million kWh for Fiscal 2018. Sales for Fiscal 2019 were positively impacted by warmer and drier weather conditions. The average monthly temperature for Fiscal 2019 was 86.7 degrees Fahrenheit as compared to an average monthly temperature of 85.9 degrees for Fiscal 2018. Warmer temperatures increase air conditioning load which can positively impact the Company’s sales. Sales were also positively impacted by an increase in average commercial consumption and a 2% growth in overall customer numbers.



Total customers as at December 31, 2019 were 30,537, an increase of 715 compared to 29,822 customers as at December 31, 2018.

Operating Revenues

Operating revenues for Fiscal 2019 totalled \$203.2 million, an increase of \$8.6 million from \$194.6 million for Fiscal 2018. This increase in operating revenues was due to higher electricity sales, fuel factor and renewables revenue.

Electricity sales revenue increased \$5.7 million for Fiscal 2019 to \$92.0 million when compared to electricity sales revenues of \$86.3 million for Fiscal 2018. This increase is attributable to higher electricity sales revenues primarily driven by a 6.2% increase in kWh sales, and 1.8% and 0.9% base rate increases effective June 1, 2018 and June 1, 2019, respectively.

Fuel factor revenues for Fiscal 2019 totalled \$106.3 million, a \$2.1 million increase from the \$104.2 million in fuel factor revenues for Fiscal 2018. The average Fuel Cost Charge rate charged to consumers for Fiscal 2019 was \$0.17 per kWh, compared to the Fuel Cost Charge rate of \$0.17 per kWh for Fiscal 2018. Fuel factor revenues for Fiscal 2019 increased when compared to Fiscal 2018 due to fuel and lube consumption.

The renewables revenues are a combination of charges from the Customer Owned Renewable Energy (“CORE”) programme and Entropy Cayman Solar Limited, which are passed-through to consumers on a two-month lag basis with no mark-up. The Company has a Power Purchase Agreement (“PPA”) with Entropy Cayman Solar Limited for a 25-year term. In December 2018, BMR Energy Limited (“BMR Energy”) acquired Entropy Cayman Solar Limited.

Operating Expenses

Total operating expenses for Fiscal 2019 increased \$7.6 million to \$173.8 million from \$166.2 million for Fiscal 2018. The main contributing factors to the increase in operating expenses were higher fuel costs, depreciation and transmission and distribution expenses.

Sales and Customer Highlights			
	Year Ended December 31, 2019	Year Ended December 31, 2018	Change %
Customers (fully stated, not in thousands)			
Residential	26,023	25,409	2%
General Commercial	4,407	4,303	2%
Large Commercial	107	110	-3%
Total Customers	30,537	29,822	2%
Sales (in thousands kWh)			
Residential	342,094	313,957	9%
General Commercial	144,587	136,081	6%
Large Commercial	175,522	172,318	2%
Other	5,545	6,466	-14%
Total Sales	667,748	628,822	6%
Average Monthly Consumption Per Customer (kWh)			
Residential	1,117	1,042	7%
General Commercial	2,766	2,675	3%
Large Commercial	136,963	127,924	7%
Revenues (in thousands of \$)			
Residential	46,154	41,938	10%
General Commercial	22,773	21,143	8%
Large Commercial	22,234	22,506	-1%
Other (street lights etc.)	849	748	14%
Fuel Factor	106,346	104,170	2%
Renewables	4,890	4,073	20%
Total Operating Revenues*	203,246	194,578	4%
*Total CUC customers and revenue only			

Operating expenses were as follows:

Operating Expenses				
(\$ thousands)				
	Year Ended December 31, 2019	Year Ended December 31, 2018	Change	% Change
Power Generation	115,898	112,090	3,808	3%
General and Administration	7,952	7,592	360	5%
Consumer Services	3,491	3,267	224	7%
Transmission and Distribution	4,492	3,959	533	13%
Depreciation	35,541	33,260	2,281	7%
Maintenance	5,634	5,381	253	5%
Amortisation of Intangible Assets	769	643	126	20%
Total Operating Expenses	173,777	166,192	7,585	5%

Power Generation

Power generation costs for Fiscal 2019 totalled \$115.9 million, a \$3.8 million or 3% increase, when compared to \$112.1 million for Fiscal 2018. This increase was a result of higher fuel, renewables and generation costs.

Power generation expenses were as follows:

Power Generation				
(\$ thousands) <i>Fuel, Lubricating Oil and Renewables costs stated net of deferred charges</i>				
	Year Ended December 31, 2019	Year Ended December 31, 2018	Change	% Change
Fuel Costs (net of deferred fuel costs)	104,863	102,755	2,108	2%
Lubricating Oil Costs (net of deferred lubricating oil costs)	1,483	1,415	68	5%
Renewables Costs (net of deferred renewables costs)	4,890	4,073	817	20%
Other Generation Expenses	4,662	3,847	815	21%
Total Power Generation expenses	115,898	112,090	3,808	3%

The Company's average price per imperial gallon ("IG") of fuel for Fiscal 2019 decreased to \$2.83 from \$3.10 for Fiscal 2018. The Company's average price per IG of lubricating oil for Fiscal 2019 decreased to \$9.46 from \$9.75 for Fiscal 2018. The average prices of fuel and lubricating oil decreased in Fiscal 2019 due to decreases in global oil prices.

Total energy supplied to the grid for Fiscal 2019 was 692.9 million kWh, a 6.0% increase when compared to 653.7 million kWh for Fiscal 2018. Total energy supplied is the net amount of energy available to be transmitted and distributed for consumer use, including energy provided by renewable resources such as the CORE programme and the BMR Energy Solar Farm.

Net fuel efficiency for Fiscal 2019 of 18.88 kWh per IG increased when compared to net fuel efficiency for Fiscal 2018 of 18.84 kWh per IG. The definition of net fuel efficiency was revised as of January 1, 2018 to more accurately reflect the generating efficiency of the power generation facilities. The comparative values listed are both expressed using the most recent definitions.

The fuel, lubricating oil and renewables costs are deferred for a period of two months. The deferrals are recorded in the Fuel Tracker Account (*see Note 7 of the Notes to the Annual Consolidated Financial Statements for further details*) and will be recovered from consumers.

In March 2011, the OfReg approved the Fuel Price Volatility Management Programme. The objective of the programme is to reduce the impact of volatility in the Fuel Cost Charge rate paid by the Company's customers for the fuel that the Company must purchase in order to provide electricity. The options contract initiated in 2018 expired on November 30, 2019. The Company utilises call options and call spreads to promote transparency in pricing. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

Renewables costs for Fiscal 2019 totalled \$4.9 million, an increase of \$0.8 million when compared to renewables costs of \$4.1 million for Fiscal 2018. The renewables costs are a combination of charges from the CORE programme and the BMR Energy solar farm.

Other generation expenses for Fiscal 2019 totalled \$4.7 million, an increase of \$0.9 million when compared to \$3.8 million for Fiscal 2018. This increase is due to higher personnel costs due to additional staff members during Fiscal 2019.

General and Administration ("G&A")

G&A expenses for Fiscal 2019 totalled \$8.0 million, an increase of \$0.4 million when compared to \$7.6 million for Fiscal 2018. This increase was due mainly to higher performance share unit expenses, personnel costs and property insurance premiums in 2019 when compared to 2018. These items were partially offset by an increase in General Expenses Capitalised ("GEC").

The Company capitalises certain overhead costs not directly attributable to specific capital assets but which relate to the overall capital expenditure programme. GEC totalled \$6.0 million for Fiscal 2019, \$0.6 million higher than the \$5.4 million for Fiscal 2018.

Consumer Services ("CS")

CS expenses for Fiscal 2019 totalled \$3.5 million, an increase of \$0.2 million when compared to \$3.3 million for Fiscal 2018. The increase is mainly due to higher provision for bad debt expense and lower capitalised labour costs in 2019 when compared to 2018.

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 December 31, 2019	As at December 31, 2018
Current	7,532	10,168
Past due 31-60 days	555	353
Past due 61-90 days	396	457
Past due over 90 days	1,973	2,738
Total Accounts Receivable	10,456	13,716
Less: Allowance for Doubtful Accounts	(1,335)	(1,117)
Less: Consumer Deposits	(10,520)	(9,315)
Trade Receivables less Allowance for Doubtful Accounts and Consumer Deposits	(1,399)	3,284

Trade receivables, less allowances for doubtful accounts, and consumer deposits as at December 31, 2019 were (\$1.4) million, a decrease of \$4.7 million, or 143%, when compared to \$3.3 million as at December 31, 2018. This decrease was primarily related to a decrease in current customer receivables, an increase in the allowance for doubtful accounts and an increase in consumer deposits. Customer receivables decreased by \$3.3 million mainly due to the \$2.6 million decrease in the current category. Customer deposits as at December 31, 2019 totalled \$10.5, an increase of \$1.2 million when compared to customer deposits of \$9.3 million as at December 31, 2018. The increase in deposits were due to larger deposits in 2019 for large commercial customers.

Transmission and Distribution (“T&D”)

T&D expenses for Fiscal 2019 totalled \$4.5 million, an increase of \$0.5 million when compared to T&D expenses of \$4.0 million for Fiscal 2018. The increase was mainly due to higher T&D maintenance activity.

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

Depreciation expense for Fiscal 2019 totalled \$35.6 million, an increase of \$2.3 million, or 7%, from \$33.3 million for Fiscal 2018. This increase in depreciation was due to capital projects completed in prior periods.

Maintenance

Maintenance expenses for Fiscal 2019 totalled \$5.6 million, an increase of \$0.2 million from \$5.4 million for Fiscal 2018. The increase is due to an increase in generator maintenance and computer maintenance costs.

Amortisation

Amortisation of intangible assets for Fiscal 2019 totalled \$0.7 million, an increase of \$0.1 million when compared to \$0.6 million for Fiscal 2018.

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

Other Income and Expenses

Net other expenses for Fiscal 2019 totalled \$0.4 million, a decrease of \$1.2 million from \$1.6 million for Fiscal 2018.

Other Income & Expenses				
(\$ thousands)				
	Year Ended December 31, 2019	Year Ended December 31, 2018	Change	% Change
Total Interest Costs	(14,001)	(13,197)	(804)	6%
AFUDC	7,229	5,520	1,709	31%
Total Finance Charges	(6,772)	(7,677)	905	-12%
Foreign Exchange Gain	1,690	1,962	(272)	-14%
Other Income	4,713	4,099	614	15%
Total Net Other Expenses	(369)	(1,616)	1,247	-77%

Finance charges for Fiscal 2019 totalled \$6.8 million, a decrease of \$0.9 million from \$7.7 million for Fiscal 2018. This decrease was a result of higher AFUDC partially offset by higher interest on long-term debt and short-term debt for Fiscal 2019.

Under the T&D Licence there is a provision for an AFUDC. As part of the rate base, this capitalisation of the financing cost is calculated by multiplying the Company's cost of capital rate by the average work in progress for each month. The Company's cost of capital rate is reviewed annually and for 2019 was 8.5% (2018: 8.00%) as agreed with the OfReg in accordance with the T&D Licence.

The AFUDC amount for Fiscal 2019 totalled \$7.2 million, a \$1.7 million increase when compared to \$5.5 million for Fiscal 2018. This increase was attributable to higher average work in progress during Fiscal 2019.

Foreign exchange gains and losses are the result of monetary assets and liabilities denominated in foreign currencies that are translated into United States dollars at the exchange rate prevailing on the date of the balance sheet. Revenue and expense items denominated in foreign currencies are translated into United States dollars at the exchange rate prevailing on the transaction date. Foreign exchange gains totalled \$1.7 million for Fiscal 2019, a \$0.3 million decrease when compared to \$2.0 million for Fiscal 2018. Foreign exchange gains decreased due to lower foreign currencies purchases.

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

Other income totalled \$4.7 million for Fiscal 2019, an increase of \$0.6 million when compared to \$4.1 million for Fiscal 2018. This increase was mainly due to the reversal of previously recognised bad debt expenses by DataLink in the amount of \$1.1 million, which was partially offset by a reduction in the late fees charged to a telecommunications customer. The bad debt expenses were formerly recorded by the Company over the years from the onset of the OfReg's Determination case in July 2017 to February 2019.

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

As a result, of a legal review and assessment of the Directives contained in ICT 2017 -1, DataLink sought a stay of the determination and permission to apply for Judicial Review from the Cayman Islands Grand Court. Both the stay and permission to apply for Judicial Review were granted on August 11, 2017. A Grand Court hearing was held over five days beginning on June 4, 2018.

On July 25, 2019, the Company was notified of the Court's decision in the Company's favour, to quash OfReg's determination. In the Third Quarter of 2019, DataLink reversed previously recognised liability in the amount of \$1.1 million.

Revenues from DataLink for Fiscal 2019 are recorded in other income in the amount of \$2.3 million, an increase of \$0.7 million from \$1.6 million for Fiscal 2018.

The Economy

The Cayman Islands Economics and Statistics Office (“ESO”) released the Consumer Price Index (“CPI”) report for the Second Quarter of 2019 in December 2019. According to the report, the CPI for the Second Quarter of 2019 increased by 3.4% compared to the Second Quarter of 2018. This increase was a result of increases in the prices for recreation and culture, housing and utilities, communication, clothing and footwear, household equipment, alcoholic beverages and tobacco, restaurant and hotels, education, food and non-alcoholic beverages, and health. Prices for transport and miscellaneous goods and services declined. The ESO is forecasting 2020 annual inflation of 2.9%.

The ESO also issued the First Quarter 2019 Economic Report in December 2019. The report indicated that the Gross Domestic Product (“GDP”) expanded by an estimated 3% in the first three months of 2019. All sectors of the economy contributed to growth in the first three months of 2019. The sectors with the highest estimated growth were hotels and restaurants, other services, wholesale & retail trade, repairs and installation of machinery and construction.

The ESO forecasted annual GDP growth in 2019 of 2.6% with the increases in tourism, construction and auxiliary services expected to continue for the remainder of the year.

In 2019, the Cayman Islands financial services sector experienced mixed results. Overall, there were fewer bank licences, mutual fund administrators, mutual funds, and captive insurance companies when compared to the prior year. However, there was increased growth in the number of registered companies, when compared to the prior year. The Cayman Islands continue to be one of the world’s largest banking sectors in terms of assets and one of the top jurisdictions for captive insurance companies in terms of the number of captive insurance companies and total assets under management.

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

Indicators for the Financial Services Industry					
<i>(for the years ended December 31)</i>					
	2019	2018	2017	2016	2015
Bank Licences	125	133	148	159	184
Mutual Funds	10,857	10,992	10,559	10,586	10,940
Mutual Fund Administrators	81	88	97	106	108
Registered Companies	109,556	107,309	99,327	96,248	98,838
Captive Insurance Companies	672	730	724	740	739

The tourism sector is the second main pillar of the Cayman Islands economy. The Cayman Islands tourism demographic is largely comprised of visitors from the US. In 2019, 83.3% of air arrivals to the country were citizens of the US. As such, the US economy has a large impact on the Cayman Islands’ economy.

In Fiscal 2019, air arrivals increased by 8.6%, and cruise arrivals decreased by 4.7%, when compared to Fiscal 2018. Air arrivals have a direct impact on the Company’s sales growth, as such visitors are stay-over visitors who occupy hotels. Cruise arrivals have an indirect impact on the Company’s sales growth, as such visitors affect the opening hours of the establishments operating for that market.

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

Tourist Arrivals to the Cayman Islands					
<i>(for the years ended December 31)</i>					
	2019	2018	2017	2016	2015
By Air	502,739	463,001	418,403	385,451	385,379
By Sea	<u>1,831,011</u>	<u>1,921,057</u>	<u>1,728,444</u>	<u>1,711,849</u>	<u>1,716,812</u>
Total	2,333,750	2,384,058	2,146,847	2,097,300	2,102,191

The tourism industry is expected to be positively impacted by new construction projects such as the Curio Collection by Hilton Hotel and the Grand Hyatt Grand Cayman Hotel. The Curio Collection by Hilton Hotel will have 80 rooms and is expected to open in George Town in 2021. The tourism sector is also 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 2021. It is expected to have 25,000 square feet of indoor meeting and event space, making it the largest function space in the Cayman Islands. Both projects are expected to create additional employment opportunities and increase stay-over tourism.

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



The 80-room Curio Collection by Hilton in George Town is expected to be completed in 2021.

Liquidity and Capital Resources

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

The following table outlines the summary of cash flow for Fiscal 2019 compared to Fiscal 2018:

Cash Flows				
(\$ thousands)				
	Year Ended December 31, 2019	Year Ended December 31, 2018	Change	% Change
Beginning Cash	8,686	7,258	1,428	20%
Cash Provided By/(Used In):				
Operating Activities	62,114	64,239	(2,125)	-3%
Investing Activities	(61,598)	(57,165)	(4,433)	8%
Financing Activities	14,460	(5,646)	20,106	-356%
Ending Cash	23,662	8,686	14,976	172%

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for Fiscal 2019, was \$62.1 million, a decrease of \$2.1 million from \$64.2 million for Fiscal 2018. This decrease was primarily due to the movement in accounts payable and accrued expenses. At the end of 2018, accounts payable included amounts to be paid for work completed on the substations in the amount of \$7.5 million. The movement in accounts payable and accrued expenses was partially offset by higher earnings and the movement in regulatory deferrals and accounts receivable. The movement in regulatory deferrals was due to decreases in deferred fuel costs due to lower average fuel prices and decreases in the demand rate regulatory asset.

Investing Activities:

Cash used in investing activities for Fiscal 2019 totalled \$61.6 million, an increase of \$4.4 million from \$57.2 million for Fiscal 2018. This increase was due to higher capital expenditures and lower contribution in aid of construction.

Financing Activities:

Cash provided by financing activities totalled \$14.5 million for Fiscal 2019, an increase in cash of \$20.1 million when compared to \$5.6 million of cash used in financing activities for Fiscal 2018. This increase is attributable to proceeds of long-term debt of \$80.0 million issued during 2019, lower debt repayments, and higher proceeds received from share issues in Fiscal 2019. These items were partially offset by the repayment of short-term debt in 2019.

Cash Flow Requirements:

The Company expects that operating expenses and interest costs will generally be paid from the Company's operating cash flows, with residual cash flows available for capital expenditures and dividend payments. Borrowings under credit facilities may be required from time to time to support seasonal working capital requirements. Cash flows required to complete planned capital expenditures are expected to be financed through a combination of proceeds from operating cash, debt and equity transactions. The Company expects

to be able to source the cash required to fund its 2020 capital expenditure programme (see the “Business Risks” section of this MD&A for details regarding the Company’s liquidity risk.)

Credit Facilities

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

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

As at December 31, 2019, \$49.0 million was available under the Company’s credit facilities.

Transactions with Related Parties

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

The related-party transactions for 2019 and 2018 are summarised in the following table.

Related Party Transactions	As at December 31, 2019	As at December 31, 2018
<i>(\$ thousands)</i>		
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	-	6
Receivables from FortisTCI (a subsidiary of Fortis Inc.)	5	-
Total Related Party Receivables	5	6
Payables to Fortis Inc. (the Company’s majority shareholder)	-	5
Total Related Party Payables	-	5

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

Contractual Obligations

As at December 31, 2019, the contractual obligations of the Company over the next five years and periods thereafter are outlined in the following table:

Contractual Obligations					
(\$ thousands)					
	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total Debt	323,572	14,857	29,688	39,416	239,611
Long-Term Debt Interest	157,640	10,828	18,767	15,141	112,904
Total	481,212	25,685	48,455	54,557	352,515

Power Purchase Obligation

In 2015, the Company entered into a PPA with Entropy Cayman Solar Limited, which will provide a minimum generated energy of 8.8 gigawatt hours (“GWh”) per year for a 25-year term. 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. In June 2018, the Company executed new fuel supply contracts with RUBiS and Sol, each with a term of 24 months, with the option to renew for two additional terms of 18 months. The approximate remaining quantities under the fuel supply contract with RUBiS on an annual basis is 8.6 million IGs for the year ended December 31, 2020. The approximate remaining quantities under the fuel supply contract with Sol on an annual basis is 5.7 million IGs for the year ended December 31, 2020. Both contracts qualify for the Normal Purchase Normal Sale exemption under ASC 815 and do not qualify as derivatives.

Financial Position

The following table is a summary of significant changes to the Company's balance sheet, when comparing Fiscal 2019 to Fiscal 2018.

Significant Changes in Balance Sheet		
<i>(for the year ended December 31, 2019)</i>		
Balance Sheet Account	Increase/ (Decrease) (\$ thousands)	Explanation
Cash and Cash Equivalents	14,976	Increase due to cash provided by operating activities of \$62.9 million and cash provided by financing activities of \$14.5 million, partially offset by cash used in investing activities of \$62.5 million.
Accounts Receivable	(3,478)	Decrease due to increase in collections of accounts receivables.
Regulatory Assets	(3,289)	Decrease due to deferred fuel costs and regulatory asset for the demand rate billing.
Property, Plant and Equipment	26,855	Net increase is comprised of (1) capital expenditures of \$60.6 million; (2) depreciation expense of \$35.5 million; (3) \$3.0 million in accrued capital expenditure; and (4) \$0.1 million in funds received in aid of construction.
Accounts Payable and Accrued Expenses	(8,396)	Decrease attributable to decreases in payables and fuel costs payable, which were partially offset by increases in capital expenditure accruals and accrued interest.
Short Term Debt	(30,000)	Decrease due to repayments of Scotia demand loan facility in May and June 2019.
Current Portion of Long Term Debt	2,143	Increase due to higher long-term debt repayments during the year ended December 31, 2020.
Consumers' Deposits and Advances for Construction	1,084	Increase due to additional customer deposits.
Long-Term Debt	64,894	Increase due to proceeds of long-term debt issuance of \$80 million partially offset by principal payments made on the Company's Senior Unsecured Notes in Fiscal 2019.
Share Premium	3,446	The Company issued 243,937 Class A Ordinary Shares through its share purchase plans.
Retained Earnings	4,797	Increase due to net earnings for the year of \$29.1 million, offset by dividend payments on the Class A Ordinary Shares of \$23.3 million, and dividend payments on the Class B Preference Shares of \$1 million.

Capital Resources

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

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

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 60% of the Company's consolidated capital structure, as defined by short-term and long-term debt agreements. As at December 31, 2019, the Company was in compliance with all debt covenants.

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

Capital Structure				
	December 31, 2019 (\$ thousands)	%	December 31, 2018 (\$ thousands)	%
Total Debt	322,050	57	285,013	55
Shareholder's Equity	238,668	43	230,382	45
Total	560,718	100	515,395	100

The change in the Company's capital structure between December 31, 2019 and December 31, 2018 was driven by an increase in total debt and equity. The increase in total debt is a result of the net proceeds from long-term debt financing partially offset by the repayment of long-term and short-term debt.

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

S&P BBB+/ Stable
DBRS A (low)

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

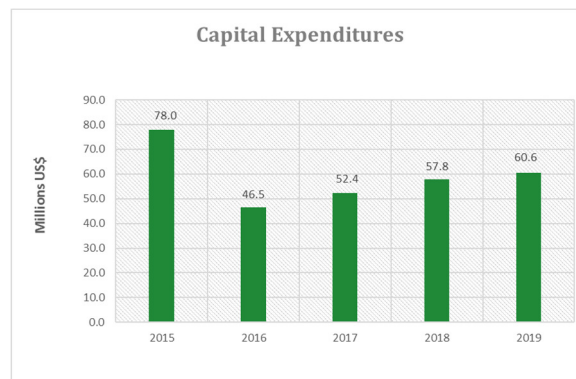
In October 2019, S&P downgraded the Company's rating from "A-" with a negative outlook to "BBB+" with a stable outlook. The rating was downgraded based on the expectation of increased frequency and pace of hurricanes and severe storms due to climate change. The Company was viewed as relatively more exposed than peers, considering its small size and geographic isolation. The report also lists CUC's business risk as excellent, taking into account the Company's lower-risk regulated electric utility operations and effective management of regulatory risk under a generally supportive, stable, and transparent regulatory regime.

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

Capital Expenditures

Capital expenditures net of contribution in aid of construction for Fiscal 2019 were \$60.6 million, a \$2.6 million, or 5% increase from \$58.0 million in capital expenditures for Fiscal 2018. The capital expenditures for Fiscal 2019 primarily related to:

- Distribution System Extension and Upgrades - \$17.9 million.
- Generation Replacement Cost - \$11.9 million.
- Seven Mile Beach 69/13 kilovolt (“kV”) substation - \$6.8 million.
- Prospect 69/13 kV substation - \$4.4 million.
- Scada upgrade- \$2.9 million.
- Replace Bodden Town 69/13 kV substation - \$2.7 million.
- Facility and Auxiliary Asset Replacement Cost – \$2.5 million.
- LED Lighting Replacement - \$1.5 million.
- Engine Room upgrades - \$1.2 million.
- AFUDC of \$7.3 million was capitalised in Fiscal 2019.
- Contribution in Aid of Construction was \$0.1 million.



Capital Expenditures

(\$ thousands)

	Year Ended December 31, 2019	Year Ended December 31, 2018	Change	% Change	Forecast 2020
Transmission	18,462	17,943	519	3%	11,853
Distribution	16,719	19,298	(2,579)	-13%	28,235
Generation	21,081	17,832	3,249	18%	45,360
Other	4,330	2,919	1,411	48%	2,280
Total	60,592	57,992	2,600	5%	87,728

Off Balance-Sheet Arrangements

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

Business Risks

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

Operational Risks

Operational risks are those risks normally inherent in the operation of generation, transmission and distribution facilities. The Company’s facilities are subject to the risk of equipment failure due to deterioration of the asset from use or age, latent defects and design or operator error, among other things. These risks could lead to longer-than-forecasted equipment downtimes for maintenance and repair, disruptions of power generation, customer service interruptions, or could result in injury to employees and the public. Accordingly, to ensure the continued performance of the physical assets, the Company

determines expenditures that must be made to maintain and replace the assets. Electricity systems require ongoing maintenance, improvement and replacement. Service disruption, other effects and liability caused by the failure to properly implement or complete approved maintenance and capital expenditures, or the occurrence of significant unforeseen equipment failures, despite maintenance programmes could have a material adverse effect.

The operation of transmission and distribution assets is subject to risks, including the potential to cause fires, mainly as a result of equipment failure, falling trees and lightning strikes to lines or equipment.

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

Economic Conditions

As with most utility companies, the general economic condition of CUC’s service area, Grand Cayman, influences electricity sales. Changes in consumer demographic, income, employment and housing are all factors in the amount of sales generated. As the Company supplies electricity to all hotels and large properties, its sales are therefore partially based on tourism and related industry fluctuations. World economic conditions, particularly those in North America, directly impact Grand Cayman’s tourism industry, as 83.3% of the island’s stay-over visitors arrive from the US annually.

Regulation

The Company operates within a regulated environment and the operations of the Company are subject to the normal uncertainties faced by regulated companies. Such uncertainties include approval by the OfReg of adjustments to billing rates that allow a reasonable opportunity to recover, on a timely basis, the estimated costs of providing services, including a fair return on rate base assets and the assessment of penalties against the Company for not meeting regulatory performance standards. The Company’s capital expenditure plan requires regulatory approval. There is no assurance that capital projects perceived as required by management of the Company will be approved by the OfReg. In addition, while in the event of a large uninsurable loss the Company would apply to the OfReg for recovery of these costs through higher rates, there is no assurance that the OfReg would approve such application.

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 EMS to ensure that the Company was meeting requirements put in place by the Government as well as self-imposed requirements. Under the ISO 14001 standard companies are required to establish, document, implement, maintain and continually improve their environmental performance with an aim of prevention of pollution. In order to maintain the Company’s registration to this Standard an external surveillance audit is conducted

annually, and an external audit is conducted every three years for re-certification. Internal audits of the system must also be conducted on an annual basis. CUC has most recently conducted, and successfully passed its re-certification audit in 2019.

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, however, 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.

Weather and Natural Disasters

CUC’s facilities are subject to the effects of severe weather conditions, principally during the hurricane season months of June through November. In addition, the Cayman Islands lie close to the boundary zone of the Caribbean and North American tectonic plates. This transform boundary, where the plates slide past each other, is known to generate earthquakes from time to time. Despite preparations for disasters such as hurricanes and earthquakes, adverse conditions will always remain a risk. This risk is partially mitigated by the Company’s comprehensive insurance, which management of the Company believes is appropriate and consistent with insurance policies obtained by similar companies.

During severe weather or other natural disaster, generation equipment, facilities and T&D assets are subject to risks. These risks include equipment breakdown and flood damage, which may result in interruption of fuel supply, lower-than-expected operational efficiency or performance, and service disruption. There is no assurance that generation equipment, facilities and T&D assets will continuously operate in accordance with expectations in these situations.

Climate Change and Physical Risks

Climate change is predicted to lead to more frequent and intense weather events, changing air temperatures, and regulatory responses, each of which could have a material adverse effect. Increased frequency of extreme weather events could increase the cost of providing service. Extreme weather conditions in general require system backup and can contribute to increased system stress, including service interruptions. Longer-term climate change impacts, such as sustained higher temperatures, higher sea levels and larger storm surges, could result in service disruption, repair and replacement costs, and costs associated with strengthened design standards and systems, each of which could have a material adverse effect if not resolved in a timely and effective manner.

Electricity systems are designed to service customers under various contingencies in accordance with good utility practice. The Company is responsible for operating and maintaining their assets in a safe manner, including the development and application of appropriate standards, system processes and/or procedures to ensure the safety of employees, contractors and the general public. The impacts of climate change may

disrupt the ability of the Company to safely provide service, which could cause reputational harm and other impacts with a material adverse effect.

Insurance - Terms and Coverage

The Company renewed its insurance policy as at July 1, 2019 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 accounting principles generally accepted in the United States of America ("US 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). Other insurance coverage includes, but is not limited to; 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. There are currently two participants in the pension plan. The assumed long-term rate of return on pension plan assets for the purposes of estimating pension expense for 2019 is 5%. This compares to assumed long-term rates of return of 5% used during 2018. 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 2019 was 6% (2018: loss of 3%).

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 amortisation 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 2019 is 4.2% compared to the discount rate assumed during 2018 of 3.7%.

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

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

Financial Instruments

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

Credit Risk

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

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

Liquidity Risk

The Company’s financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by the terms of the Licences, which allows for 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 2020.

Interest Rate Risk

Long-term debt is issued at fixed interest rates, thereby minimizing cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings is \$nil (December 31, 2018: \$30.0 million).

Changes in Accounting Policies

The 2019 Annual Consolidated Financial Statements have been prepared following the same accounting policies and methods as those used to prepare the Company’s 2018 annual audited consolidated financial statements, except as described below.

Leases

Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-02, *Leases*, that requires lessees to recognise a right-of-use asset and lease liability for all leases with a lease term greater than 12 months, along with additional disclosures (Note 4).

At lease inception, the right-of-use asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance. Future lease payments include both lease components (e.g., rent and insurance costs) and non-lease components (e.g., common area maintenance costs), which CUC accounts for as a single lease component. The present value is calculated using the rate implicit in the lease or a lease-specific secured interest rate based on the remaining lease term. Renewal options are included in the lease term when it is reasonably certain that the option will be exercised.

Leases with a term of 12 months or less are not recorded on the balance sheet. Instead, they are recognised as lease expense on a straight-line basis over the lease term.

CUC applied the transition provisions of the new standard as of the adoption date and did not retrospectively adjust prior periods in accordance with the modified retrospective approach. CUC elected a package of implementation options, referred to as practical expedients, which allowed it to not reassess: (i) whether existing contracts, including land easements, are or contain a lease; (ii) the classification of existing leases; or (iii) the initial direct costs for existing leases. CUC also utilised the hindsight practical expedient to determine the lease term. Upon adoption, CUC did not identify or record an adjustment to the opening balance of retained earnings, and there was no material impact on net earnings or cash flows.

Hedging

Effective January 1, 2019, the Company adopted ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which better aligns risk management activities and financial reporting for hedging relationships through changes to designation, measurement, presentation and disclosure guidance. The adoption of this ASU did not have a material impact on CUC's consolidated financial statements and related disclosures.

Fair Value Measurement Disclosures

Effective January 1, 2019, the Company adopted elements of ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, that are allowed to be early adopted. This ASU improves the effectiveness of financial statement note disclosures by clarifying what is required and important to users of the financial statements relating to fair value measurements. The partial adoption of this ASU removed the following disclosures: (i) the amount of, and reasons for, transfers between level 2 and level 3 of the fair value hierarchy; (ii) the policy for timing of transfers between levels; and (iii) the valuation processes for level 3 fair value measurements.

Future Accounting Policies

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

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, issued in June 2016, is effective for CUC as of January 1, 2020 and is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. CUC is assessing the impact of adoption of this ASU on CUC's consolidated financial statements and related disclosures.

Changes to the Disclosure Requirements for Defined Benefit Plans

ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, issued in August 2018, is effective for CUC as of January 1, 2021 and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined pension or other post-retirement plans and clarifies disclosure requirements. In particular, it removes the following disclosures: (i) the amounts in accumulated other comprehensive income expected to be recognised as components of net period benefit costs over the next fiscal period; (ii) the amount and timing of plan assets expected to be returned to the employer; and (iii) the effects of a one-percentage-point change on the assumed health care costs and the change in rates on service cost, interest cost and the benefit obligation for post-retirement health care benefits. CUC early adopted this update in the 2019 annual consolidated financial statements.

ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, issued in August 2018, is effective for CUC as of January 1, 2020 and is to be applied on a retrospective basis or on a prospective basis. It aligns the requirements for capitalising implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalising implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software licence). CUC is assessing the impact of adoption this ASU on CUC's consolidated financial statements and related disclosures.

Critical Accounting Estimates

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

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 utilised by management of the Company in determining pension expense and obligations were the discount rate for the accrued benefit obligation, inflation and the expected rate of return on plan assets. As at December 31, 2019, the Company has a long-term liability of \$1.8 million (December 31, 2018: \$1.1 million).

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

Depreciation is an estimate based primarily on the estimated useful life of the asset. Estimated useful life is based on current facts and historical information and takes into consideration the anticipated physical life of the assets. As at December 31, 2019, the net book value of the PP&E was \$538.0 million, compared to \$511.1 million as at December 31, 2018, increasing as a result of the Company’s generation and T&D capital expenditures. Depreciation expense for Fiscal 2019 was \$35.6 million (\$33.3 million for Fiscal 2018). Due to the value of the Company’s PP&E, changes in depreciation rates can have a significant impact on the Company’s depreciation expense.

Selected Annual Financial Information

The following table sets out the annual financial information of the Company for the financial years ended December 31, 2019, 2018 and 2017.

Selected Annual Financial Information			
(\$ thousands, except Earnings per Class A Ordinary Share, Dividends declared per Class A Ordinary Share and where otherwise indicated)			
	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
Total Operating Revenues	203,246	194,578	170,941
Net Earnings for the Year	29,100	26,770	23,775
Earnings on Class A Ordinary Shares	28,130	25,805	22,825
Total Assets	600,417	562,754	530,895
Long-Term Debt	307,193	242,299	254,882
Preference Shares	250	250	250
Total Shareholders’ Equity	237,942	230,382	224,423
Earnings per Class A Ordinary Share	0.84	0.78	0.70
Diluted Earnings per Class A Ordinary Share	0.84	0.78	0.70
Dividends Declared per Class A Ordinary Share	0.70	0.695	0.680
Dividends Declared per Class B Preference Share	3.88	3.86	3.80

Comparative results 2019/2018

Operating revenues for Fiscal 2019 totalled \$203.2 million, an increase of \$8.6 million from \$194.6 million for Fiscal 2018.

Net earnings for Fiscal 2019 were \$29.1 million, a \$2.3 million increase from net earnings of \$26.8 million for Fiscal 2018. This increase is attributable to higher electricity sales revenues primarily driven by a 6.2% increase in kWh sales, lower finance charges and higher other income. These items were partially offset by higher depreciation, power generation and transmission and distribution costs in 2019. For a discussion of the reasons for the changes in Operating Revenues, Earnings on Class A Ordinary Shares and Earnings per Class A Ordinary Share, refer to the “Operating Revenues” and “Earnings” sections of this MD&A.

The growth in total assets was mainly due to the distribution system extension and upgrades and generation replacement costs. The decrease in long-term debt was due to debt repayments of \$12.7 million in Fiscal 2019.

2019 Fourth Quarter Results

Net earnings for the three months ended December 31, 2019 (“Fourth Quarter 2019”) were \$6.2 million, a \$1.7 million decrease when compared to \$7.9 million for the three months ended December 31, 2018 (“Fourth Quarter 2018”). This decrease was due primarily to higher transmission and distribution costs of \$1.4 million (Fourth Quarter 2018: \$0.8 million), higher depreciation costs of \$9.1 million (Fourth Quarter 2018: \$8.6 million), higher maintenance costs of \$1.5 million (Fourth Quarter 2018: \$1.1 million) and lower other income of \$0.9 million for Fourth Quarter 2019 (Fourth Quarter 2018: \$1.1 million). These items were partially offset by higher kWh sales in the Fourth Quarter 2019 when compared to kWh sales in the Fourth Quarter 2018.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2019 were \$5.6 million, or \$0.17 per Class A Ordinary Share, as compared to \$7.3 million, or \$0.22 per Class A Ordinary Share for the Fourth Quarter 2018.

kWh sales for the Fourth Quarter 2019 were 163.9 million, an increase of 6.0 million when compared to 157.9 million for the Fourth Quarter 2018. Sales were positively impacted by an increase in the number of customers.

Total operating expenses for the Fourth Quarter 2019 increased 2% or \$1.0 million to \$45.0 million from \$44.0 million for the Fourth Quarter 2018. The main contributing factors to this increase were higher transmission and distribution, depreciation and maintenance expenses. These factors were partially offset by lower power generation and consumer services costs.

Cash flow provided by operations, after working capital adjustments, for the Fourth Quarter 2019, was \$14.5 million, a decrease of \$8.8 million when compared to \$23.3 million for the Fourth Quarter 2018. This decrease was primarily due to changes in non-cash working capital balances. Cash used in investing activities totalled \$19.5 million for the Fourth Quarter 2019, a decrease of \$3.4 million from \$22.9 million for the Fourth Quarter 2018. This decrease was due to lower capital expenditures partially offset by a decrease in contributions in aid of construction. Cash used in financing activities totalled \$8.2 million for the Fourth Quarter 2019, a decrease of \$10.9 million from \$2.7 million provided in financing activities for the Fourth Quarter 2018. The decrease relates to the decrease in proceeds from short-term debt.

Capital expenditures for the Fourth Quarter 2019 were \$19.3 million, a 4.2 million, or 18%, decrease from \$23.5 million for the Fourth Quarter 2018.

Quarterly Results

The following table summarises unaudited quarterly information for each of the eight quarters ended March 31, 2018 through December 31, 2019. This information has been obtained from CUC's unaudited interim financial statements, which management of the Company believe to be in accordance with US GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarterly Results						
<i>(\$ thousands, except Earnings per Class A Ordinary Share and Diluted Earnings per Class A Ordinary Share)</i>						
	Operating Revenue	Net Earnings	Earnings on Class A Ordinary Shares	Earnings per Class A Ordinary Share	Diluted Earnings per Class A Ordinary Share	
December 31, 2019	51,528	6,213	5,580	0.17	0.17	
September 30, 2019	56,337	10,404	10,291	0.31	0.31	
June 30, 2019	48,037	7,943	7,830	0.24	0.24	
March 31, 2019	47,345	4,542	4,429	0.13	0.13	
December 30, 2018	51,986	7,882	7,254	0.22	0.22	
September 30, 2018	53,355	9,181	9,068	0.27	0.27	
June 30, 2018	47,763	7,042	6,929	0.21	0.21	
March 31, 2018	41,474	2,665	2,552	0.08	0.08	

December 2019/December 2018

Net earnings for Fourth Quarter 2019 were \$6.2 million, a \$1.7 million decrease when compared to \$7.9 million for Fourth Quarter 2018. This decrease was due to higher transmission and distribution costs of \$1.4 million (Fourth Quarter 2018: \$0.8 million), higher depreciation costs of \$9.1 million (Fourth Quarter 2018: \$8.6 million), higher maintenance costs of \$1.5 million (Fourth Quarter 2018: \$1.1 million) and lower other income of \$0.9 million for Fourth Quarter 2019 (Fourth Quarter 2018: \$1.1 million).

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2019 were \$5.6 million, or \$0.17 per Class A Ordinary Share, as compared to \$7.3 million, or \$0.22 per Class A Ordinary Share for the Fourth Quarter 2018.

September 2019/September 2018

Net earnings for the three months ended September 30, 2019 ("Third Quarter 2019") totaled \$10.4 million, an increase of \$1.2 million when compared to net earnings of \$9.2 million for the three months ended September 30, 2018 ("Third Quarter 2018"). The increase is primarily attributable to higher electricity sales revenues which were partially offset by higher depreciation and maintenance expenses. Net earnings were also positively impacted by higher other net income and lower finance charges driven by higher AFUDC. Other income was positively impacted by a one-off write back of previously recognised bad debt expenses of \$1.1 million by DataLink. These items were partially offset by higher interest on long-term debt and lower foreign exchange gains.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2019 were \$10.3 million, or \$0.31 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$9.1 million or \$0.27 per Class A Ordinary Share for the Third Quarter 2018.

June 2019/June 2018

Operating income for the three months ended June 30, 2019 (“Second Quarter 2019”) totalled \$13.2 million, an increase of \$2.3 million when compared to operating income of \$10.9 million for the three months ended June 30, 2018 (“Second Quarter 2018”). The increase is primarily attributable to higher electricity sales revenues which was partially offset by higher depreciation expenses

Net earnings for Second Quarter 2019 totalled \$7.9 million, an increase of \$0.9 million from \$7.0 million in Second Quarter 2018. In addition to the items impacting operating income, net earnings were also positively impacted by lower finance charges driven by higher AFUDC.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Second Quarter 2019 were \$7.8 million, or \$0.9 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$6.9 million, or \$0.21 per Class A Ordinary Share for Second Quarter 2018.

March 2019/March 2018

Operating income for the three months ended March 31, 2019 (“First Quarter 2019”) totalled \$5.0 million, an increase of \$1.8 million when compared to operating income of \$3.2 million for three months ended March 31, 2018 (“First Quarter 2018”). The increase was due to a 4% increase in kWh sales and lower transmission and distribution costs in First Quarter 2019. In addition, operating income was impacted by the demand rate implementation revenue shortfall in First Quarter 2018. The total amount of the billing shortfall, under the demand rate billing for large commercial customers was \$0.6 million.

Net earnings increased \$1.8 million from \$2.7 million in First Quarter 2018 to \$4.5 million in First Quarter 2019 primarily due to the factors impacting operating income and lower finance charges in First Quarter 2019.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2019 were \$4.4 million, or \$0.13 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$2.6 million, or \$0.08 per Class A Ordinary Share, for the First Quarter 2018.

Disclosure Controls and Procedures

The President and Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), together with management of the Company, have established and maintained the Company’s disclosure controls and procedures (“DC&P”), to provide reasonable assurance that material information relating to the Company is made known to them by others, including during the year ending December 31, 2019; 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, summarised and reported within the time periods specified in securities legislation. Based on the evaluation performed of DC&P, it was concluded that the DC&P of CUC is adequately designed and operating effectively as of December 31, 2019.

Internal Controls over Financial Reporting (“ICFR”)

The CEO and CFO of the Company, together with management of the Company, have established and maintained the Company’s ICFR, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect

misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the 2013 Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, it was concluded that CUC's internal controls over financial reporting are adequately designed and operating effectively as of December 31, 2019.

There have been no changes in the Company's ICFR that occurred during the year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

During the third quarter of 2019, the OfReg approved the Company's 2019-2023 CIP in the amount of \$273 million. The OfReg also approved the Company's proposed battery storage project which will benefit consumers. The primary function of the battery is to provide "instantaneous or spinning reserve" in the event of the sudden loss of power generation whereby the battery will instantly bridge the shortfall in energy until other generators can be brought online. By replacing the spinning reserve normally provided by CUC's diesel powered generators fuel consumption and related emissions and costs to consumers will be reduced while reliability of service will be increased.

During the fourth quarter of 2019, the Company submitted its 2020-2024 CIP in the amount of \$263 million to the OfReg for approval. The Company also submitted an additional \$88 million in proposed efficiency and grid enhancement projects for review by the OfReg. These projects are expected to be financed by direct recovery mechanism outside of the Company's rate cap and adjustment mechanism and have the potential to provide significant financial or service benefits to consumers.

In January 2019, the OfReg confirmed its acceptance of the Integrated Resource Plan ("IRP") as an energy roadmap to inform future utility developments. The IRP calls for new technologies to be introduced including significant amounts of solar and wind power, procurement of natural gas and conversion of existing generating units to operate as dual fuel engines, deployment of appropriate amounts of energy storage and integration of municipal solid waste to energy plant. The IRP analyzed various resource portfolios against cost, price stability, reliability, and environmental performance, among other goals. The Company's goal in undertaking the IRP was to ensure that all energy options were explored, taking into account their safety, reliability and efficiency, before recommendations were proposed with respect to additions to the energy grid.

The IRP dovetails with the National Energy Policy ("NEP") and will give shape to the energy generation plans for Grand Cayman over the next 30 years. Both the IRP and NEP call for a significant increase in renewable energy projects over the next 10 years.

Subsequent Events: Outstanding Share Data

As at February 13, 2020 the Company had issued and outstanding 33,476,279 Class A Ordinary Shares and 250,000 9% Cumulative Participating Class B Preference Shares.

The number of Class A Ordinary Shares that would be issued if all outstanding stock options were exercised as at February 13, 2020 is as follows.

Exercise of Options into Class A Ordinary Shares As at February 13, 2020	Number of Class A Ordinary Shares
Stock Options	1,000

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

Management's Responsibility for Financial Reporting

The accompanying Annual Consolidated Financial Statements of Caribbean Utilities Company, Ltd. and all information in the 2019 Annual Report have been prepared by management, who are responsible for the integrity of the information presented, including the amounts that must of necessity be based on estimates and informed judgements. These Annual Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States. Financial information contained elsewhere in the 2019 Annual Report is consistent with that in the Annual Consolidated Financial Statements.

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

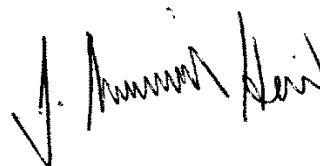
The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee that is composed entirely of outside directors. The Audit Committee meets with the external auditors, with and without management present, to discuss the results of the audit, the adequacy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

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

The Annual Consolidated Financial Statements and Management's Discussion and Analysis contained in the 2019 Annual Report were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of the Company. Deloitte LLP, independent auditors appointed by the shareholders of the Company upon recommendation of the Audit Committee, have performed an audit of the Annual Consolidated Financial Statements and their report follows.



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



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

Independent Auditor's Report

To the Shareholders of
Caribbean Utilities Company, Ltd.

Opinion

We have audited the consolidated financial statements of Caribbean Utilities Company, Ltd. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

/s/ Deloitte LLP

Chartered Professional Accountants
St. John's, Canada
February 13, 2020

Consolidated Balance Sheets

(expressed in thousands of United States Dollars)

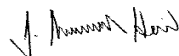
	Note	As at December 31, 2019	As at December 31, 2018
Assets			
<i>Current Assets</i>			
Cash		23,662	8,686
Accounts Receivable	6	9,121	12,599
Related Party Receivables	21	5	6
Regulatory Assets	7	18,144	21,434
Inventories	8	4,530	3,451
Prepayments		2,980	2,331
Total Current Assets		58,442	48,507
Property, Plant and Equipment, net	9	537,986	511,130
Intangible Assets, net	10	3,598	3,106
Other Assets	4	391	11
Total Assets		600,417	562,754
Liabilities and Shareholders' Equity			
<i>Current Liabilities</i>			
Bank Overdraft		-	1,993
Accounts Payable and Accrued Expenses	11	25,377	33,773
Related Party Payables	21	-	5
Regulatory Liabilities	7	1,298	345
Short-Term Debt	17	-	30,000
Current Portion of Long-Term Debt		14,857	12,714
Consumers' Deposits and Advances for Construction		10,520	9,436
Current Portion Lease Liability	4	76	-
Total Current Liabilities		52,128	88,266
Defined Benefit Pension Liability	19	1,827	1,122
Long-Term Debt	12	307,193	242,299
Other Long-Term Liabilities	4,14	1,327	685
Total Liabilities		362,475	332,372
Commitments and Contingency	22,23		
Shareholders' Equity			
Share Capital ¹		2,243	2,228
Share Premium		129,816	126,370
Additional Paid-in Capital	13	467	467
Retained Earnings		107,281	102,484
Accumulated Other Comprehensive Loss		(1,865)	(1,167)
Total Shareholders' Equity		237,942	230,382
Total Liabilities and Shareholders' Equity		600,417	562,754

See accompanying Notes to Annual Consolidated Financial Statements

Agreed on behalf of the Board of Directors by:



David E. Ritch, OBE, JP
Director



J.F. Richard Hew
Director

¹ Consists of Class A Ordinary Shares of 33,476,279 and 33,232,342 issued and outstanding as at December 31, 2019 and 2018 and Class B Preference Shares of 250,000 and 250,000 issued and outstanding as at December 31, 2019 and 2018, respectively.

Consolidated Statements of Earnings

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

	Note	Year Ended December 31, 2019	Year Ended December 31, 2018
Operating Revenues			
Electricity Sales		92,010	86,335
Fuel Factor		106,346	104,170
Renewables		4,890	4,073
<i>Total Operating Revenues</i>		203,246	194,578
Operating Expenses			
Power Generation		115,898	112,090
General and Administration		7,952	7,592
Consumer Services		3,491	3,267
Transmission and Distribution		4,492	3,959
Depreciation		35,541	33,260
Maintenance		5,634	5,381
Amortisation of Intangible Assets		769	643
<i>Total Operating Expenses</i>		173,777	166,192
Operating Income		29,469	28,386
Other (Expenses)/Income:			
Finance Charges	18	(6,772)	(7,677)
Foreign Exchange Gain	20	1,690	1,962
Other Income		4,713	4,099
<i>Total Net Other (Expenses)/Income</i>		(369)	(1,616)
Net Earnings for the Year		29,100	26,770
Preference Dividends Paid- Class B		(970)	(965)
Earnings on Class A Ordinary Shares		28,130	25,805
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)	15	33,322	33,079
Earnings per Class A Ordinary Share	15	0.84	0.78
Diluted Earnings per Class A Ordinary Share	15	0.84	0.78
Dividends Declared per Class A Ordinary Share		0.700	0.695

See accompanying Notes to Annual Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

(expressed in thousands of United States Dollars)

	Year Ended December 31, 2019	Year Ended December 31, 2018
Net Earnings for the Year	29,100	26,770
Other Comprehensive Income:		
Net Actuarial Gain / (Loss)	(725)	106
Amortisation of Net Actuarial Loss	27	29
Total Other Comprehensive (Loss) / Income	(698)	135
Comprehensive Income	28,402	26,905

See accompanying Notes to Annual Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

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

	Class A Ordinary Shares (in thousands)	Class A Ordinary Shares Value (\$)	Preference Shares (\$)	Share Premium (\$)	Additional Paid-in Capital (\$)	Accumulated Other Comprehensive Loss (\$)	Retained Earnings (\$)	Total Equity (\$)
As at December 31, 2018	33,232	1,978	250	126,370	467	(1,167)	102,484	230,382
Net earnings	-	-	-	-	-	-	29,100	29,100
Common share issuance and stock options plans	244	15	-	3,446	-	-	-	3,461
Defined benefit plans	-	-	-	-	-	(698)	-	(698)
Dividends on common shares	-	-	-	-	-	-	(23,333)	(23,333)
Dividends on preference shares	-	-	-	-	-	-	(970)	(970)
As at December 31, 2019	33,476	1,993	250	129,816	467	(1,865)	107,281	237,942
As at December 31, 2017	32,995	1,964	250	123,376	467	(1,302)	99,668	224,423
Net earnings	-	-	-	-	-	-	26,770	26,770
Common share issuance and stock options plans	237	14	-	2,994	-	-	-	3,008
Defined benefit plans	-	-	-	-	-	135	-	135
Dividends on common shares	-	-	-	-	-	-	(22,989)	(22,989)
Dividends on preference shares	-	-	-	-	-	-	(965)	(965)
As at December 31, 2018	33,232	1,978	250	126,370	467	(1,167)	102,484	230,382

See accompanying Notes to Annual Consolidated Financial Statements

Consolidated Statements of Cash Flows

(expressed in thousands of United States Dollars)

	Note	Year Ended December 31, 2019	Year Ended December 31, 2018
<i>Operating Activities</i>			
Net Earnings for the year		29,100	26,770
Items not affecting cash:			
Depreciation		35,541	33,260
Amortisation of Intangible Assets		769	643
Amortisation of Deferred Financing Costs		125	132
Change in Non-Cash DataLink Adjustment	23	1,085	-
		66,620	60,805
Net changes in working capital balances related to operations:			
Accounts Receivable		3,478	(3,080)
Inventory		(1,079)	(838)
Prepaid Expenses		(649)	(707)
Accounts Payable		(9,481)	9,667
Net Change in Regulatory Deferrals		4,243	(2,858)
Other		(1,018)	1,250
<i>Cash flow related to operating activities</i>		62,114	64,239
<i>Investing Activities</i>			
Purchase of Property, Plant and Equipment		(60,507)	(59,508)
Proceeds from Sale of Property, Plant and Equipment		42	45
Costs related to Intangible Assets		(1,261)	(547)
Contributions in Aid of Construction		128	2,845
<i>Cash flow related to investing activities</i>		(61,598)	(57,165)
<i>Financing Activities</i>			
Proceeds from Long-Term Debt Financing		80,000	-
(Repayment of) / Proceeds from Short-Term Debt		(30,000)	30,000
Repayment of Long-Term Debt		(12,714)	(16,714)
(Decrease in) / Increase in Bank Overdraft		(1,993)	1,993
Dividends Paid		(24,294)	(23,933)
Net Proceeds from Share Issuance		3,461	3,008
<i>Cash flow related to financing activities</i>		14,460	(5,646)
Increase in net cash		14,976	1,428
Cash - Beginning of year		8,686	7,258
Cash - End of year		23,662	8,686
Supplemental disclosure of cash flow information:			
Interest paid during the year		13,233	13,171

See accompanying Notes to Annual Consolidated Financial Statements

Notes to Annual Consolidated Financial Statements

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

1. Nature of Operations and Consolidated Financial Statement Presentation

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

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

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

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

All intercompany balances and transactions have been eliminated on consolidation.

Rate Regulated Operations

CUC’s base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour (“kWh”) electricity charges and fixed facilities charges. Fuel cost charges, renewables costs and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the Rate Cap and Adjustment Mechanism. In June 2019, following review and approval by the OfReg, the Company increased its base rates by 0.9% (June 2018: 1.8%). This increase was a result of the 2018 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 2018. 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 0.9% 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 1.12%. All fuel, lubricating oil and renewables costs are passed through to customers without mark-up as a per kWh charge.

For regulatory purposes, fixed assets comprise completed Property, Plant and Equipment (“PP&E”) and computer software acquired or constructed by the Company as reported in the Company’s consolidated financial statements. The original book value of these fixed assets include an Allowance for Funds Used During Construction (“AFUDC”)(Note 9) and an allowance for General Expenses Capitalised (“GEC”)(Note 9). GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's significant accounting policies relate to:

Revenue Recognition

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

The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the OfReg. Electricity is metered upon delivery to customers and recognised as revenue using OfReg approved rates when consumed. Meters are read each month and bills are issued to customers based on these readings. As a result, revenues/kWhs recorded as at December 31, 2019 are based upon actual bills for the period.

Revenue or expense arising from the amortisation of certain regulatory assets and liabilities are recognised in the manner prescribed by the OfReg.

Other revenue is recognised when the service is rendered.

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

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

Consolidation Policy

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

Kilowatt-Hour ("kWh") Sales

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

Cash

Cash is comprised of cash on hand, bank demand deposits and bank fixed deposits with original maturities of three months or less. At December 31, 2019 and 2018, cash consisted of cash on hand.

Accounts Receivable

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

Allowance for Doubtful Accounts

The Company maintains an accumulated provision for uncollectible customer accounts receivable that is estimated based on known accounts, historical experience and other currently available information, including the economic environment. Accounts receivable is written-off in the period in which the receivable is deemed uncollectible and only inactive customers qualify for write-off. Inactive customers are customers who no longer have electricity service. Customers with past-due accounts are eligible for a short-term payment programme in order to ensure that electricity service is not made inactive due to non-payment of past due amounts.

Inventories

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

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

PP&E are stated at cost less accumulated depreciation.

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

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

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

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

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

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

Depreciation, by its very nature is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets.

Leases

Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-02, Leases, that requires lessees to recognise a right-of-use asset and lease liability for all leases with a lease term greater than 12 months, along with additional disclosures (Note 4).

At lease inception, the right-of-use asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance. Future lease payments include both lease components (e.g., rent and insurance costs) and non-lease components (e.g., common area maintenance costs), which CUC accounts for as a single lease component. The present value is calculated using the rate implicit in the lease or a lease-specific secured interest rate based on the remaining lease term. Renewal options are included in the lease term when it is reasonably certain that the option will be exercised.

Leases with a term of 12 months or less are not recorded on the balance sheet. Instead, they are recognised as lease expense on a straight-line basis over the lease term.

CUC applied the transition provisions of the new standard as of the adoption date and did not retrospectively adjust prior periods in accordance with the modified retrospective approach. CUC elected a package of implementation options, referred to as practical expedients, which allowed it to not reassess: (i) whether existing contracts, including land easements, are or contain a lease; (ii) the classification of existing leases; or (iii) the initial direct costs for existing leases. CUC also utilised the hindsight practical expedient to determine the lease term. Upon adoption, CUC did not identify or record an adjustment to the opening balance of retained earnings, and there was no material impact on net earnings or cash flows.

Intangible Assets

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

Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars at the exchange rate prevailing on the Balance Sheet date. Revenue and expense items denominated in foreign currencies are translated into United States Dollars at the exchange rate prevailing on the transaction date. Gains and losses on translation are included in the Consolidated Statements of Earnings.

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

Other Income

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

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

Segment Information

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

Fair Values

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

Capital Stock

Dividend Reinvestment Plan (the "Plan")

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

Customer Share Purchase Plan ("CSPP")

The CSPP provides an opportunity for customers resident in Grand Cayman to invest in CUC. Customers may make cash payments of not less than \$30 per purchase and up to a total of \$14,000 per year for the purchase of Class A Ordinary Shares of CUC. They may also retain the Class A Ordinary Shares in the CSPP and have the cash dividends on such shares reinvested in additional Class A Ordinary Shares. In both instances, the Class A Ordinary Shares are acquired from CUC at not more than 100% of the average market price which is calculated using the daily closing prices of CUC Class A Ordinary Shares on the Toronto Stock Exchange ("TSX") over a specified period.

Employee Share Purchase Plan (ESPP")

The Company provides interest-free advances to employees to purchase Class A Ordinary Shares, with such advances recovered through payroll deductions over the next year. The maximum semi-annual participation is 1,000 Class A Ordinary Shares per employee. The ESPP is non-compensatory as shares purchased by the employee are obtained at the prevailing market value at the time of purchase. The amount owing to the Company from employees is included as an offset to Share Capital and Share Premium on the Balance Sheet (2019: \$0.40 million, 2018: \$0.26 million).

Share Based Compensation Plans

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

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

Employee Benefit Plans

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

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

Financial Instruments

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

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

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

Derivatives

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

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

Taxation

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

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

3. Future Accounting Policies

Measurement of Credit Losses on Financial Instruments

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

Changes to the Disclosure Requirements for Defined Benefit Plans

ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, issued in August 2018, is effective for CUC as of January 1, 2021 and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined pension or other post-retirement plans and clarifies disclosure requirements. In particular, it removes the following disclosures: (a) the amounts in accumulated other comprehensive income expected to be recognised as components of net period benefit costs over the next fiscal period; (b) the amount and timing of plan assets expected to be returned to the employer; and (c) the effects of a one-percentage-point change on the assumed health care costs and the change in rates on service cost, interest cost and the benefit obligation for post-retirement health care benefits. CUC early adopted this update in the 2019 annual consolidated financial statements.

ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, issued in August 2018, is effective for CUC as of January 1, 2020 and is to be applied on a retrospective basis or on a prospective basis. It aligns the requirements for capitalising implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalising implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software licence). CUC is assessing the impact of adoption.

4. Leases

When a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a right-of-use asset and lease liability are recognised. The Company measures the right-of-use asset and lease liability at the present value of future lease payments excluding variable payments based on usage or performance. The Company calculates the present value using a lease-specific secured interest rate based on the remaining lease term. CUC has a lease agreement with lease components (e.g. rent and insurance costs) and non-lease components (e.g. common area maintenance costs), which are accounted for as a single lease component. CUC includes options to extend a lease in the lease term when it is reasonably certain that the option will be exercised. Leases with an initial term of twelve months or less are not recorded on the balance sheet but are recognised as lease expense on a straight-line basis over the lease term.

CUC leases office space under a lease agreement that expired on June 30, 2019 and has been renewed for an additional 5 years. The lease agreement includes rental payments adjusted periodically for inflation and require the Company to pay insurance, maintenance, and other operating expenses associated with the lease premises.

The following table details supplemental balance sheet information related to CUC's operating lease:

Operating Leases		
(\$ thousands)	Classification	As at December 31, 2019
Operating Lease Assets	Other Assets	380
Current Portion Lease Liability	Current Portion of Lease Liability	76
Noncurrent Operating Lease Liability	Other Long-Term Liabilities	309

The following table presents the components of CUC's lease cost recorded in the Condensed Consolidated Interim Statement of Earnings.

Lease Cost			
(\$ thousands)	Classification	Three Months Ended December 31, 2019	Twelve Months Ended December 31, 2019
Operating Lease Costs	Operating Expenses – Consumer Services	22	90
Variable Lease Costs	Operating Expenses – Consumer Services	1	3
Total Lease Costs		23	93

Operating lease cost as of December 31, 2019 approximated \$0.09 million.

As of December 31, 2019, the Company had the following future minimum lease payments:

Future Minimum Lease Payments	
(\$ thousands)	Operating Lease
2020	94
2021	94
2022	97
2023	97
2024	50
Thereafter	-
Total	432
Less: Imputed Interest	(47)
Present Value of Lease Liability	384

Note: Minimum lease payments exclude payments to lessor for variable insurance and common area maintenance.

5. Operating Revenues

Operating Revenues			
(\$ thousands)	Year Ended December 31, 2019	Year Ended December 31, 2018	Change %
Electricity Sales Revenues			
Residential	46,154	41,938	10%
Commercial	45,007	43,649	3%
Other (street lighting etc.)	849	748	14%
Total Electricity Sales Revenues	92,010	86,335	7%
Fuel Factor	106,346	104,170	2%
Renewables	4,890	4,073	20%
Total Operating Revenues	203,246	194,578	4%

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 recognised as revenue using OfReg approved rates when consumed. Meters are read on the last day of each month, and bills are subsequently issued to customers based on these readings. As a result, the revenue accruals for each period are based on actual bills-rendered for the reporting period.

Fuel Factor

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

Renewables

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

6. Accounts Receivable

Accounts Receivable		
(\$ thousands)	As at December 31, 2019	As at December 31, 2018
Billings to Consumers*	10,241	12,637
Other Receivables	215	1,079
Allowance for Doubtful Accounts	(1,335)	(1,117)
Total Accounts Receivable	9,121	12,599

*Includes billings to DataLink customers

Other Receivables

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

7. Regulatory Assets and Liabilities

Regulatory Assets and Liabilities			
(\$ thousands)			
Asset/Liability	Description	As at December 31, 2019	As at December 31, 2018
Regulatory Assets	Fuel Tracker Account (a)	17,497	20,135
Regulatory Assets	Miscellaneous Regulatory Assets (c)	164	191
Regulatory Assets	Government & Regulatory Tracker Account (d)	-	349
Regulatory Assets	Demand Rate Recoveries(e)	483	759
Total Regulatory Assets		18,144	21,434
Regulatory Liabilities	Derivative Contract (b)	-	(345)
Regulatory Liabilities	Government & Regulatory Tracker Account (d)	(1,298)	-
Total Regulatory Liabilities		(1,298)	(345)

- a) Fuel Tracker Account – The T&D Licence established a fuel tracker mechanism to ensure the Company and the consumers neither gain nor lose from the pass-through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel and renewables costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel and renewables costs to be recovered from or reimbursed to the consumers on a two-month lag. The receivable or payable value represents a regulatory asset or liability. The net position of the fuel tracker accounts fluctuates monthly and is affected by fuel prices and electricity consumption.
- b) Derivative Contract – The Company uses derivatives to reduce the impact of volatility in the Fuel Cost Charge paid by the Company’s customers in the face of price volatility for the fuel that the Company must purchase in order to provide electric service. This account represents the fair value adjustments for the call options.
- c) Miscellaneous Regulatory Assets – Represent costs incurred by the Company, other than fuel and the specifically itemised licence and regulatory fees, to be recovered through the Company’s base rates on terms as agreed with the OfReg.
- d) Government and Regulatory Tracker Account – The balance in this account represents the difference between the fixed amounts to be collected and actual amounts collected from customers.
- e) Demand Rate Recoveries – The introduction of demand rates for the large commercial customers, to be phased in over a three-year period beginning on January 1, 2018, was intended to be revenue neutral. For the First Quarter 2018, the electricity sales revenues for large commercial customers under the newly introduced demand rate were less than what would have been billed under the previous energy only rate. The Company applied to the OfReg to request a recovery of the shortfall and an adjustment in the rate going forward. In June 2018, the OfReg approved an increase of the large commercial demand rate going forward. The Company was also granted approval to record the 2018 revenue shortfall as a Regulatory Asset. The revenue shortfall will be recovered over years two and three of the demand rate implementation in order to smoothen the effects of the adjustment to the large commercial customers. As at December 31, 2019, the revenue shortfall totalled \$0.5 million.

8. Inventories

The composition of inventories is shown in the table below:

Inventories		
(\$ thousands)	As at December 31, 2019	As at December 31, 2018
Fuel	3,937	2,736
Lubricating Oil	214	375
Line Spares	168	129
Network & Fiber Equipment	211	211
Inventories	4,530	3,451

9. Property, Plant and Equipment

Property, Plant and Equipment			
(\$ thousands)	Cost	Accumulated Depreciation	Net Book Value December 31, 2019
Transmission & Distribution (T&D)	430,646	156,864	273,782
Generation	466,364	228,514	237,850
Other:			
Land	5,304	-	5,304
Buildings	22,562	13,085	9,477
Equipment, Motor Vehicles and Computers	32,235	21,059	11,176
<i>Total of T&D, Generation and Other</i>	957,111	419,522	537,589
Telecommunications Assets	551	154	397
Property, Plant and Equipment	957,662	419,676	537,986

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

Included in PP&E are a number of capital projects in progress with a total cost to date of \$66.7 million (December 31, 2018: \$60.3 million). Of the total cost of capital projects in progress is an amount of \$0.06 million that relates to fibre optic assets for DataLink.

Also included in Generation and T&D is freehold land with a cost of \$5.0 million (December 31, 2018: \$5.0 million). In addition, line inventory with a cost of \$4.1 million (December 31, 2018: \$4.6 million) is included in T&D. Engine spares with a net book value of \$13.9 million (December 31, 2018: \$12.9 million) are included in Generation.

The capitalisation of 'Financing Costs' is calculated by multiplying the Company's Cost of Capital rate by the average work-in-progress for each month. The cost of capital rate for fiscal 2019 is 8.5% (2018: 8.0%) and will be adjusted annually. As a result, during Fiscal 2019, the Company recognised \$7.2 million in AFUDC (2018: \$5.5 million). GEC of \$6.0 million was recognised for the year ended December 31, 2019 (2018: \$5.4 million).

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

10. Intangible Assets

Intangible Assets			
(\$ thousands)	Cost	Accumulated Amortisation	Net Book Value December 31, 2019
Deferred Licence Renewal Costs	1,890	1,103	787
DataLink, Ltd. Deferred Licence Renewal Costs	200	103	97
Computer Software	9,097	6,572	2,525
Other Intangible Assets in Progress	127	13	114
Trademark Costs	75	-	75
Intangible Assets	11,389	7,791	3,598

Intangible Assets			
	Cost	Accumulated Amortisation	Net Book Value December 31, 2018
Deferred Licence Renewal Costs	1,890	1,008	882
DataLink, Ltd. Deferred Licence Renewal Costs	200	90	110
Computer Software	7,836	5,916	1,920
Other Intangible Assets in Progress	119	-	119
Trademark Costs	75	-	75
Intangible Assets	10,120	7,014	3,106

Deferred licence renewal costs relate to negotiations with the Government for licences for the Company. Amortisation of deferred licence renewal costs commenced upon conclusion of licence negotiations in April 2008 and extends over the life of the licences. Amortisation of DataLink deferred licence renewal costs commenced upon conclusion of licence negotiations in March 2012 and extends over the life of the DataLink licence.

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

Amortisation of Intangible Assets					
(\$ thousands)	2020	2021	2022	2023	2024
Computer Software	371	462	517	502	547
Licence Renewal Costs	113	113	113	113	113
Amortisation of Intangible Assets	484	575	630	615	660

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

	As at December 31, 2019	As at December 31, 2018
Computer Software	3.0 years	3.14 years
Deferred Licence Renewal costs	8.32 years	9.29 years
Datalink Deferred Licence Renewal Costs	7.25 years	8.25 years
Total weighted-average amortisation period	4.04 years	4.02 years

11. Accounts Payable and Accrued Expenses

Accounts Payable and Accrued Expenses		
(\$ thousands)	As at December 31, 2019	As at December 31, 2018
Fuel Cost Payable	16,567	18,323
Trade Accounts Payable & Accrued Expenses	5,500	12,855
Accrued Interest	1,696	1,053
Dividends Payable	637	628
Other Accounts Payable	977	914
Total Accounts Payable and Accrued Expenses	25,377	33,773

12. Long-Term Debt

Long-Term Debt		
(\$ thousands)	As At December 31, 2019	As At December 31, 2018
5.96% Senior Unsecured Loan Notes due 2020	3,000	6,000
5.65% Senior Unsecured Loan Notes due 2022	12,000	16,000
7.50% Senior Unsecured Loan Notes due 2024	28,571	34,286
4.85% Senior Unsecured Loan Notes due 2026	15,000	15,000
3.34% Senior Unsecured Loan Notes due 2028	10,000	10,000
3.65% Senior Unsecured Loan Notes due 2029	30,000	30,000
5.10% Senior Unsecured Loan Notes due 2031	25,000	25,000
3.90% Senior Unsecured Loan Notes due 2031	40,000	40,000
3.54% Senior Unsecured Loan Notes due 2033	40,000	40,000
3.85% Senior Unsecured Loan Notes due 2034	5,000	5,000
3.83% Senior Unsecured Loan Notes due 2039	20,000	-
4.53% Senior Unsecured Loan Notes due 2046	15,000	15,000
4.64% Senior Unsecured Loan Notes due 2048	20,000	20,000
4.14% Senior Unsecured Loan Notes due 2049	40,000	-
4.14% Senior Unsecured Loan Notes due 2049	20,000	-
	323,571	256,286
Less: Current portion of Long-Term Debt	(14,857)	(12,714)
Less: Deferred Debt Issue Costs	(1,521)	(1,273)
	307,193	242,299

In May and August 2019, the Company issued US\$80.0 million of unsecured notes in tranches of 20-year US\$20.0 million at 3.83%, 30-year US\$40million at 4.14% and 30-year US\$20million at 4.14%. The net proceeds from the issuances were used to finance capital expenditures and repay short-term borrowings.

The current portion of long-term debt includes annual principal payments of \$3 million for the 5.96% Note, \$4 million for the 5.65% Note, \$5.7 million for the 7.50% Note and \$2.1 million for the 4.85% Note.

Interest is payable semi-annually for all outstanding Notes.

Covenants

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

Repayment of Long-Term Debt

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

Year	\$
2020	14,857
2021	14,130
2022	15,559
2023	19,481
2024	19,935
2025 and later	<u>239,609</u>
Total	323,571

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

13. Capital Stock

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

Capital Stock	As at December 31, 2019	As at December 31, 2018
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	33,476,279	33,232,342
Class B Preference Shares	250,000	250,000
Issued and Outstanding (\$ Amount):		
Class A Ordinary Shares	1,992,636	1,978,116
Class B Preference Shares	250,000	250,000
Total Class A Ordinary & Class B Preference Shares	2,242,636	2,228,116

14. Share Based Compensation Plans

Share Options

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

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

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

Share Options				
	Year Ended December 31, 2019	Year Ended December 31, 2019	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ thousands)
	Number of Options	Weighted Average Exercise Price per Share		
Outstanding at Beginning of Year	45,000	9.66	3.23	-
Granted	-	-	-	-
Exercised	(44,000)	9.66	-	291
Forfeited/Cancelled	-	-	-	-
Expired	=	-	-	-
Outstanding, End of Year	1,000	9.66	2.22	-
Vested, End of the Year	1,000	9.66	2.22	-

Share Options				
	Year Ended December 31, 2018	Year Ended December 31, 2018	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ thousands)
	Number of Options	Weighted Average Exercise Price per Share		
Outstanding at Beginning of Year	45,000	9.66	4.25	-
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited/Cancelled	-	-	-	-
Expired	=	-	-	-
Outstanding, End of Year	45,000	9.66	3.23	-
Vested, End of the Year	45,000	9.66	3.23	-

The following table summarises additional information related to the stock options during 2019 and 2018:

Share Options		
(\$ thousands)	Year Ended December 31, 2019	Year Ended December 31, 2018
Stock Options expense recognised	-	-
Stock options exercised:		
Cash received for exercise of options	425	-
Intrinsic value realised by employees	291	-

Performance Share Unit (“PSU”) Plan

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

PSUs outstanding as at December 31, 2019 relate to grants in March 2017 in the amount of 28,235, March 2018 in the amount of 29,151 and March 2019 in the amount of 38,692. The vesting period of the grant is three years, at which time a cash payment may be made to plan participants after evaluation by the Board of Directors of the achievement of certain payment criteria.

For the year ended December 31, 2019, an expense of \$0.7 million (December 31, 2018: \$0.3 million) was recognised in earnings with respect to the PSU plan.

As at December 31, 2019, the total liability related to outstanding PSUs is \$1.0 million (December 31, 2018: \$0.7 million) and is included in Other Long Term Liabilities.

15. Earnings per Share

The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average Class A Ordinary Shares outstanding were 33,322,444 and 33,078,944 for the years ended December 31, 2019 and December 31, 2018 respectively.

The weighted average number of Class A Ordinary Shares used for determining diluted earnings were 33,322,829 and 33,090,622 for the years ended December 31, 2019 and December 31, 2018, respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

16. Fair Value Measurement

Fair value of long-term debt and fuel options are determined in accordance with level 2 of the fair value hierarchy. Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists that prioritises the inputs used to measure fair value. The Company is required to determine the fair value of all derivative instruments in accordance with the following hierarchy:

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

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

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

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

Financial Instruments				
(\$ thousands)	As at December 31, 2019		As at December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt, including Current Portion	322,050	323,034	255,014	261,989
Fuel Option Contracts	-	-	345	345

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

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

The fair value of the fuel option contract reflects only the value of the heating oil derivative and not the offsetting change in the value of the underlying future purchases of heating oil. The derivatives' fair value shown in the table above reflects the estimated amount the Company would pay to terminate the contract at the stated date. The fair value has been determined using published market prices for heating oil commodities. The Company's option contracts expired in November 2019.

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

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

17. Short-Term Debt

The Company has the following amount of unsecured credit financing facilities with the Scotiabank & Trust (Cayman) Limited (“Scotia”) and Royal Bank of Canada (“RBC”); the total available amount was \$49.0 million at December 31, 2019 (\$17.0 million at December 31, 2018).

Short-Term Financing			
(\$ thousands)			
Credit Facilities	Total Credit Financing Facilities December 31, 2019	Total Utilised December 31, 2019	Total Available December 31, 2019
Provided by Scotia:			
Letter of Guarantee	1,000	500	500
Operating, Revolving Line of Credit	10,000	-	10,000
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	31,000	-	31,000
Total	49,500	500	49,000
Provided by RBC:			
Corporate Credit Card Line*	500	500	-
Short - Term Financing	50,000	1,000	49,000

*. Included in accounts payable and accrued expenses

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

*. Included in Accounts payable and accrued expenses

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

18. Finance Charges

The composition of finance charges were as follows:

Finance Charges		
(\$ thousands)	Year Ended December 31, 2019	Year Ended December 31, 2018
Interest Costs - Long-Term Debt	13,185	12,540
Other Interest Costs	816	657
AFUDC *	(7,229)	(5,520)
Finance Charges	6,772	7,677

*Refer to PP&E with regards to AFUDC (Note 9) methodology.

19. Employee Future Benefits

All employees of the Company are members of a defined contribution pension plan established for the exclusive benefit of employees of the Company and which complies with the provisions of the National Pensions Law. As a term of employment, the Company contributes 7.5% of wages or salary in respect of employees who have completed 15 years of continuous service and have attained the age of 55 years and 5% of wages or salary for all other employees. All contributions, income and expenses of the plan are accrued to, and deducted from, the members' accounts. The total expense recorded in respect of employer contributions to the plan for Fiscal 2019 amounted to \$1.1 million (Fiscal 2018: \$1.1 million). The pension plan is administered by an independent Trustee.

During 2003, the Company established a defined benefit pension plan for a director of the Company. In May 2005, the Company's Board of Directors approved the establishment of a defined benefit pension plan for the retired President and Chief Executive Officer. The pension cost of the defined benefit plan is actuarially determined using the projected benefits method. In April 2007, the Company established an independent trust and the defined benefit plans were amalgamated at that time. An independent actuary performs a valuation of the obligations under the defined benefit pension plans at least every three years. The latest actuarial valuation of the pension plans for funding purposes is as at December 31, 2019.

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

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

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

Plan Assets by Allocation (%)		
(\$ thousands)	As at December 31, 2019	As at December 31, 2018
Equity Assets	52%	47%
Fixed Income Investments	25%	27%
Money Market Funds	10%	17%
Cash and Cash Equivalents	13%	9%
Plan Assets by Allocation	100%	100%

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

Asset Allocation				
(\$ thousands)				
As at December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
Equity Assets	3,407	-	-	3,407
Fixed Income Investments	-	1,640	-	1,640
Money Market Funds	-	704	-	704
Cash and Cash Equivalents	840	-	-	840
Asset Allocation	4,247	2,344	-	6,591

Asset Allocation				
(\$ thousands)				
As at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
Equity Assets	2,903	-	-	2,903
Fixed Income Investments	-	1,695	-	1,695
Money Market Funds	-	1,022	-	1,022
Cash and Cash Equivalents	583	-	-	583
Asset Allocation	3,486	2,717	-	6,203

Pension Plan		
(\$ thousands)	As at December 31, 2019	As at December 31, 2018
Project Benefit Obligation		
Balance beginning of year	7,325	8,022
Interest Cost	301	291
Actuarial losses / (gains)	1,129	(658)
Benefit payments	(337)	(330)
Balance end of year	8,418	7,325
Plan Assets		
Fair value, beginning of year	6,203	6,703
Actual return on plan assets	706	(223)
Employer contributions to plan	19	53
Benefit payments	(337)	(330)
	6,591	6,203
Funded Status - deficit	(1,827)	(1,122)
During the year ended December 31, 2019 \$0.01 million (December 31, 2018: \$0.01 million) was recorded as compensation expense, which comprises the following:		
Interest cost	301	291
Expected return on plan assets	(302)	(329)
Amortisation of past service costs	-	-
Amortisation of actuarial losses	28	29
	27	(9)
Significant assumptions used:		
Discount rate during year (%)	4.20	3.70
Discount rate at year end (%)	3.20	4.20
Rate of compensation increase (%)	3.00	3.00
Expected long-term rate of return on plan assets (%)	5.00	5.00

The accumulated benefit obligation as at December 31, 2019 was \$8.4 million (December 31, 2018: \$7.3 million).

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

Employee Future Benefit Assets and Liabilities		
(\$ thousands)	As at December 31, 2019	As at December 31, 2018
Liabilities:		
Defined Benefit Pension Liabilities	1,827	1,122

The following tables provide the components of other comprehensive loss for the years ended December 31, 2019 and 2018:

Other Comprehensive Income/(Loss)		
(\$ thousands)	As at December 31, 2019	As at December 31, 2018
Net actuarial (loss) / gain arising during the year	(725)	106
Amortisation or curtailment recognition of past service cost		
Amortisation or settlement recognition of net actuarial gain	27	29
Total changes recognised in other comprehensive income/ (loss)	(698)	135

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

(\$ thousands)	As at December 31, 2019	As at December 31, 2018
Net actuarial (loss)	(1,865)	(1,167)
Cumulative employer contributions in excess of net periodic benefit cost	38	45
Net liability amount recognised in statement of financial position	(1,827)	(1,122)

Net actuarial losses of \$0.009 million and past service costs of nil are expected to be amortised from accumulated other comprehensive loss into net benefit costs in 2020.

During 2020, the Company is expected to make contributions of \$0.01 million to the defined benefit pension plan.

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

(\$ thousands)	Total
2020	343
2021	352
2022	360
2023	369
2024	377
2025-2029	2,008

20. **Foreign Exchange**

The closing rate of exchange on December 31, 2019 as reported by the Bank of Canada for the conversion of US dollars into Canadian dollars was Cdn\$1.2988 per US\$1.00. The official exchange rate for the conversion of Cayman Islands dollars into US dollars as determined by the Cayman Islands Monetary Authority is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of December 31, 2019 for conversion of Cayman Islands dollars into Canadian dollars was Cdn\$1.5586 per CI\$1.00 (December 29, 2018: Cdn\$1.6370).

21. Related Party Transactions

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

The related-party transactions for 2019 and 2018 are summarised in the following table.

Related Party Transactions		
<i>(\$ thousands)</i>	As at December 31, 2019	As at December 31, 2018
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	-	6
Receivables from FortisTCI (a subsidiary of Fortis Inc.)	5	-
Total Related Party Receivables	5	6
Payables to Fortis Inc. (the Company's majority shareholder)	-	5
Total Related Party Payables	-	5

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

22. Commitments

As at December 31, 2019, the Company's consolidated commitments in each of the next five years and for periods thereafter are as follows:

Commitments					
<i>(\$thousands)</i>	Total	2020	2021-2022	2023-2024	2025 Onward
Letter of Guarantee	500	500	-	-	-
Lease Liability	432	94	191	147	-
Commitments	932	594	191	147	-

During 2015, the Company entered into a Power Purchase Agreement ("PPA") with Entropy Cayman Solar Limited, which will provide a minimum generated energy of 8.8 gigawatt hours ("GWh") per year for a 25-year term. The PPA qualifies for the Normal Purchase Normal Sale exemption under Accounting Standards Codification ("ASC") 815 and does not qualify as a derivative.

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

The Company has a primary fuel supply contract with RUBiS Cayman Islands Limited ("RUBiS"). Under the agreement, the Company is committed to purchase approximately 60% of its diesel fuel requirements for its generating plant from RUBiS. The Company also has a secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") and is committed to purchase approximately 40% of the Company's fuel requirements for its generating plant from Sol. In June 2018, the Company executed new fuel supply contracts with RUBiS and Sol, each with a term of 24 months, with the option to renew for two additional terms of 18 months. The approximate remaining quantities under the fuel supply contract with RUBiS on an annual basis is 8.6 million IGs for the year ended December 31, 2020. The approximate remaining quantities under the fuel contract with Sol on an annual basis is 5.7 million IGs for the year ended December 31, 2020. Both contracts qualify for the Normal Purchase Normal Sale exemption under ASC 815 and do not qualify as derivatives.

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

As a result of the Company's bulk fuel inventory, the value of CUC's closing stock of fuel at December 31, 2019 was \$3.9 million (December 31, 2018: \$2.7 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.

23. Subsequent Events

DataLink Determination Matter

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

As a result of a legal review and assessment of the Directives contained in ICT 2017 - 1, DataLink sought a stay of the decision and permission to apply for Judicial Review from the Cayman Islands Grand Court. Both the stay and permission to apply for Judicial Review were granted on August 11, 2017. A Grand Court hearing was held over five days beginning on June 4, 2018. On July 24, 2019 a final judgement was delivered stating that the decision of the regulator issued in ICT 1-2017 was ultra vires. In the Third Quarter of 2019, DataLink reversed a liability in the amount of \$1.1 million.

In December 2019, OfReg issued a new Consultation (ICT 2019 - 2) on the subject of Reservation Fees, including the draft determination from the ICT 2017 - 1, to interested parties and ICT licencees. Responses to the Consultation papers are due in the first quarter of 2020.

Credit Facility Amendment

On January 10, 2020, the Company renewed its unsecured credit financing facilities with Scotia. The total credit facilities have increased by \$20 million from \$50 million to \$70.0 million. The Demand Loan Facility (interim funding of capital expenditure) increased to \$51.0 million, an increase of \$20.0 million from the original amount of \$31.0 million. The debt to capitalisation ratio was also revised to not exceed 65%.

Ten-Year Summary (Unaudited, supplementary)

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

	2019	2018
Operating Revenues	203,246	194,578
Other Revenues and Adjustments	6,403	6,061
Total Revenues	209,649	200,639
Operating Expenses	173,777	166,192
Income before Interest	35,872	34,447
Finance Charges	6,772	7,677
Net Earnings for the Year	29,100	26,770
Capitalisation:		
Class A Ordinary Shares (nominal value)	1,993	1,978
9% Cumulative Participating Class B Preference Shares (nominal value)	250	250
Share Premium	129,816	126,370
Long-Term Loans	322,050	255,013
Total Capitalisation	454,109	383,611
Capital Expenditures	60,592	57,992
Earnings per Class A Ordinary Share (\$/Share)	0.84	0.78
Dividends per Class A Ordinary Share (\$/Share)	0.700	0.695
Book value per Class A Ordinary (\$/Share)	7.10	6.92
Statistical Record:		
Net kWh Generation (millions of kWh)	678.8	641.8
Net kWh Sales (millions of kWh)	667.7	628.8
Peak Load (MW) Gross	113.5	103.6
Plant Capacity (MW)	160.95	160.95
Total Customers (actual number)	30,537	29,822

Ten-Year Summary

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

2017	2016	2015	2014	2013	2012	2011	2010
170,941	161,702	188,880	231,705	226,220	223,549	218,099	180,096
4,934	5,079	4,876	4,602	4,300	4,199	4,032	3,108
175,875	166,781	193,756	236,307	230,520	227,748	222,131	183,204
143,561	134,802	163,613	206,377	201,080	200,932	193,082	154,182
32,314	31,979	30,143	29,930	29,440	26,816	29,049	29,022
8,539	6,768	7,301	9,115	9,018	9,125	8,659	9,143
23,775	25,211	22,842	20,815	20,422	17,691	20,390	19,879
1,964	1,943	1,927	1,742	1,730	1,715	1,704	1,694
250	250	250	250	250	250	250	250
123,376	119,096	116,201	83,044	81,023	78,524	76,806	75,355
271,596	222,746	236,594	252,000	219,000	188,500	204,000	178,290
397,186	344,035	354,972	337,036	302,003	268,989	282,760	255,589
52,408	47,207	77,947	39,472	29,323	30,788	39,624	21,433
0.70	0.75	0.71	0.68	0.68	0.58	0.68	0.67
0.680	0.675	0.66	0.66	0.66	0.66	0.66	0.66
6.78	6.74	6.62	6.14	6.13	6.03	6.04	6.07
654.3	650.3	623.7	604.7	595.6	587.1	594.0	593.5
621.8	606.7	582.0	564.2	555.7	547.8	554.0	553.8
105.6	103.4	100.7	99.7	97.4	95.9	99.0	102.1
160.95	160.95	131.65	131.65	149.54	149.54	151.2	151.2
29,160	28,678	28,204	27,784	27,364	27,035	26,636	26,151

Board of Directors



Standing:

Robert Scott Hawkes

*President & CEO
FortisOntario Inc.
Ontario
Canada*

Eddinton M. Powell, JP *

*President and Chief Operating Officer
FortisTCI
Providenciales
Turks & Caicos Islands*

Peter A. Thomson

*Retired Executive
Caribbean Utilities Company, Ltd.
Grand Cayman*

Gary Smith ^

*Executive Vice President of Eastern
Canadian and Caribbean Operations
Fortis Inc.
St. Johns
Canada*

Lynn R. Young

*President and Chief Executive Officer
Belize Electric Company Ltd.
Belize*

J. Bryan Bothwell, MBE *

*Retired Banking Executive
Grand Cayman*

Woodrow Foster ^

*Managing Director
Foster's Food Fair Ltd.
Grand Cayman*

Mark Macfee *

*Retired President
Yello Media Group
Grand Cayman*

Seated:

Sophia Harris

*Managing Partner
Bedell Cristin
Grand Cayman*

David E. Ritch, OBE, JP *^

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

Jennifer Dilbert, MBE, JP*

Retired Civil Servant

J.F. Richard Hew

*President and Chief Executive Officer
Caribbean Utilities Company, Ltd.
Grand Cayman*

Sheree L. Ebanks ^

*Chief Executive Officer
Cayman Islands Institute of
Professional Accountants
Grand Cayman*

* Member Audit Committee (Chairman: J. Bryan Bothwell)

^ Member Nominating and Corporate Governance Committee (Chairman: David E. Ritch)

Officers



Letitia T. Lawrence

Vice President Finance, Corporate Services & Chief Financial Officer

J.F. Richard Hew

President & Chief Executive Officer

Sacha N. Tibbetts

Vice President Customer Services & Technology

David C. Watler

Vice President Operations

Shareholder and Corporate Information

Shareholders

Registered shareholders as of December 31, 2019 were as follows:

<i>Class of Shares</i>	<i>Shareholders</i>	<i>Shares Held</i>
Class A Ordinary Shares	2,041	33,476,279
9% Class B Preference Shares	122	250,000

Fortis Energy (Bermuda) Ltd., a wholly-owned subsidiary company of Fortis Inc., held 19,460,326 Class A Ordinary Shares, or 58% of the outstanding shares as of December 31, 2019. Approximately 16% of the outstanding registered shares are held by residents of the Cayman Islands. Holders of Class B Preference Shares are primarily resident in the Cayman Islands.

Annual General Meeting

Shareholders are invited to attend the Annual General Meeting of the Company to be held on May 14, 2020 at noon at the Westin Grand Cayman Seven Mile Beach Resort & Spa on West Bay Road, Grand Cayman. If you are unable to attend, please complete and return the form of proxy in accordance with the instructions set out in the accompanying meeting material.

Dividends

Class A Ordinary Shares:

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

Class B Preference Shares:

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

Dividend Reinvestment Plan

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

Customer Share Purchase Plan

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

Solicitors

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

Auditors

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

Principal Bankers

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

Duplicate Annual Reports

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

Registrar and Transfer Agents

AST Trust Company (Canada)

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

Caribbean Utilities Company, Ltd.

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

Toronto Stock Exchange Listing

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

Registered Office

Caribbean Utilities Company, Ltd.
457 North Sound Road
P.O. Box 38, Grand Cayman KY1-1101, CAYMAN ISLANDS
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North Sound Road Site
ISO 14001
QMI-SAI Global

