



Employees at work during the 'height' of the COVID-19 pandemic

Caribbean Utilities Company, Ltd.

2020 Second Quarter Report

June 30, 2020



General Data

About the Company

Caribbean Utilities Company, Ltd., (“CUC” or “the Company”), commenced operations as the only electric utility provider in Grand Cayman on May 10, 1966. The Company 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. The Company has been through many challenging and exciting periods, but has kept pace with Grand Cayman’s development for over the past 50 years.

About the Cayman Islands

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 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.

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

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

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Interim Management's Discussion and Analysis

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

Additional information in this MD&A has been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, which are disclosed in the notes to the Company's 2019 annual financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation, the amount and timing of recovery or refund by the Company of costs of providing services, including a fair return on rate base assets, from customers through appropriate billing rates would not be subject to regulatory approval.

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements concerning anticipated future events, results, circumstances, performance, or expectations with respect to the Company and its operations, including its strategy and financial performance and condition. Forward looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "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 "Global Pandemic", "Business Risks", "Capital Resources", and "Corporate and Regulatory Overview" and include but are not limited to operational, general economic, market and business conditions, regulatory developments, and weather. CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

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

July 31, 2020

Financial and Operational Highlights

Financial and Operational Highlights

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

	Three Months Ending June 30, 2020	Three Months Ending June 30, 2019	Six Months Ending June 30, 2020	Six Months Ending June 30, 2019	Change	% Change
Electricity Sales Revenues	22,858	23,671	44,045	43,950	95	0%
Fuel Factor Revenues	20,808	22,994	44,622	49,092	(4,470)	-9%
Renewables Revenues	1,376	1,372	2,463	2,340	123	5%
Total Operating Revenues	45,042	48,037	91,130	95,382	(4,252)	-4%
Fuel & Lube Costs	20,808	22,994	44,622	49,092	(4,470)	-9%
Renewables Costs	1,376	1,372	2,463	2,340	123	5%
Other Operating Expenses	17,233	15,454	33,681	30,724	2,957	10%
Total Operating Expenses	39,417	39,820	80,766	82,156	(1,390)	-2%
Net Earnings for the Period	4,504	7,943	8,330	12,485	(4,155)	-33%
Cash Flow related to Operating Activities	12,947	13,080	28,289	23,728	4,561	19%
<i>Per Class A Ordinary Share:</i>						
Basic Earnings	0.13	0.24	0.24	0.37	(0.13)	-35%
Dividends Paid	0.175	0.175	0.350	0.350	-	0%
Total Customers	30,704	30,100	30,704	30,100	604	2%
Total Employees*	235	237	235	237	(2)	-0.8%
Customers per Employee (#)	131	127	131	127	4	3%
System Availability (%)	99.96	99.95	99.97	99.95	0.02	0%
Peak Load Gross (MW)	106.4	113.3	106.4	113.3	(6.9)	-6%
<i>Millions of kWh:</i>						
Net Generation	165.9	176.1	320.2	325.2	(5.0)	-2%
Total Energy Supplied	170.3	180.4	328.7	332.7	(4.0)	-1%
Kilowatt-Hour Sales	165.5	173.0	317.9	319.4	(1.5)	0%
Sales per employee	0.70	0.73	1.35	1.35	-	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 Transmission & Distribution (“T&D”) Licence and a 25-year non-exclusive Generation Licence (the “Licences”) granted by the Cayman Islands Government (the “Government”), which expire in April 2028 and November 2039, respectively.

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

The Licences contain the provision for a rate cap and adjustment mechanism (“RCAM”) based on published consumer price indices. CUC’s return on rate base (“RORB”) for 2019 was 7.2% (2018: 7.1%). CUC’s RORB for 2020 is targeted in the 6.75% to 8.75% range (2019: 7.50% to 9.50%).

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel, 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 April 2020, the Company submitted its annual rate adjustment to OfReg for review and approval. The required rate increase as confirmed by OfReg, was 6.6%, with an effective date of June 1, 2020. This required increase was a result of the 2019 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 2019. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 100% based on the range of the RORB values. The required rate adjustment of 6.6% can be calculated by applying 100% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 6.6%.

As part of its COVID-19 Customer Relief Programme, the Company has proposed to OfReg to defer the required rate increase until January 1, 2021. For the period June 1, 2020 to December 31, 2020 the Company will track the difference between billed revenues and revenues that would have been billed from the required rate increase as an amount due from customers. The amount that would have been recorded for June 2020 was \$0.5 million.

The Company has also applied for recovery of various COVID-19 related expenses, including potential bad debts resulting from suspension of disconnections during the pandemic.

If approved by OfReg, these amounts would be recorded as Regulatory Assets and recovered through future rates. OfReg's response to the proposed Customer Relief Programme is expected during the Third Quarter 2020.

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 and regulatory assets less regulatory liabilities.

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

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.

A licence fee of \$2.9 million and a regulatory fee of \$1.4 million are payable to the Government. Both fees apply only to customer billings with consumption over 1,000 kWh per month as a pass-through charge rate of \$0.0149 per kWh.

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

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

Global Pandemic

The Coronavirus Disease ("Covid-19") is a highly infectious disease caused by a newly discovered coronavirus, which was first identified in Wuhan, China in 2019.

In March 2020, the World Health Organization declared COVID-19 a pandemic. The recent outbreak of COVID-19 initially resulted in the closure of businesses, schools, hotels, restaurants, the seaport and airport, as well as travel restrictions, disruptions to supply chains, and workplaces. In June 2020, the Cayman Islands Government has eased certain restrictions and allowed some businesses to reopen. The easing of restrictions is being completed in a systematic approach and requires the public to maintain social distancing. Hotels and condominiums have offered local residents staycation packages. The airport and seaports are closed until September 1, 2020.

At this point, the extent to which COVID-19 may impact CUC's financial condition or results of operations remains uncertain and will depend on certain developments, including the duration and spread of the outbreak, curfew restrictions, impact on customers, employees, and vendors all of which cannot be predicted. CUC continues to monitor the rapidly evolving situation and guidance from the Cayman Islands Government and local public health authorities. The Company may take additional actions based on their recommendations (see the "Forward Looking Statements" section of this MD&A for more details on this item).

Sales

Sales for the three months ended June 30, 2020 ("Second Quarter 2020" or "Q2 2020") totalled 165.5 million kWh, a decrease of 7.5 million kWh in comparison to 173.0 million kWh for the three months ended June 30, 2019 ("Second Quarter 2019" or "Q2 2019"). Sales for the six months ended June 30, 2020 totalled 317.9 million kWh, a decrease of 1.5 million kWh in comparison to 319.4 million kWh for the six months ended June 30, 2019. The decrease in sales for Q2 2020 and the six months ended June 30, 2020 is primarily due to a decrease in the average consumption of large and general commercial customers due to the Covid-19 pandemic. The decrease was partially offset by an increase in the average consumption of residential customers as persons were mandated to shelter in place at home in Q2 2020.

The average monthly temperature for Q2 2020 was 85 degrees Fahrenheit as compared to an average monthly temperature of 84 degrees for Q2 2019. Warmer temperatures increased air conditioning load which positively impacted the Company's sales.

Total customers as at June 30, 2020 were 30,704, an increase of 604 customers, or 2%, compared to 30,100 customers as at June 30, 2019.

Operating Income

Operating income for Q2 2020 totalled \$5.6 million, a decrease of \$2.6 million when compared to operating income of \$8.2 million for Q2 2019. The decrease is primarily attributable to lower electricity sales revenues and higher depreciation, maintenance and consumer services expenses.

Operating income for the six months ended June 30, 2020 totalled \$10.4 million, a decrease of \$2.8 million when compared to operating income of \$13.2 million for the six months ended June 30, 2019. The decrease is primarily attributable to higher depreciation, maintenance and transmission and distribution expenses.

Earnings

Net earnings for Q2 2020 totalled \$4.5 million, a decrease of \$3.4 million from \$7.9 million in Q2 2019. In addition to the items impacting operating income, net earnings were also negatively impacted by higher finance charges driven by higher long-term debt and lower Allowance for Funds Used During Construction ("AFUDC").

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Q2 2020 were \$4.4 million, or \$0.13 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$7.8 million, or \$0.24 per Class A Ordinary Share for Q2 2019.

Net earnings for the six months ended June 30, 2020 totalled \$8.3 million, a decrease of \$4.2 million when compared to net earnings of \$12.5 million for the six months ended June 30, 2019. In addition to the items impacting operating income, net earnings were also negatively impacted by higher finance charges driven by higher long-term debt.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the six months ended June 30, 2020 were \$8.1 million, or \$0.24 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$12.3 million, or \$0.37 per Class A Ordinary Share, for the six months ended June 30, 2019.

Operating Revenues

Operating revenues for Q2 2020 were \$45.0 million, a decrease of \$3.0 million from \$48.0 million for Q2 2019. The decrease in operating revenues for Q2 2020 was due primarily to lower fuel factor and electricity sales revenues.

Operating revenues for the six months ended June 30, 2020 were \$91.1 million, a decrease of \$4.3 million from \$95.4 million for the six months ended June 30, 2019. The decrease in operating revenues for the six months ended June 30, 2020 was due primarily to lower fuel factor revenues.

Other revenues (street lighting, etc.) for Q2 2020 totalled \$0.2 million, comparable to \$0.2 million for the Q2 2019. Other revenues for the six months ended June 30, 2020 totalled \$0.4 million, comparable to \$0.4 million for the six months ended June 30, 2019.

Electricity sales revenues were \$22.9 million for Q2 2020, a decrease of \$0.8 million from \$23.7 million for Q2 2019. Electricity sales revenues for Q2 2020 decreased due to a 4.3% decrease in kWh sales in comparison to Q2 2019.

Electricity sales revenues were \$44.0 million for the six months ended June 30, 2020, comparable to \$44.0 million for the six months ended June 30, 2019 due to flat kWh sales.

Fuel factor revenues for Q2 2020 totalled \$20.8 million, a decrease of \$2.2 million, compared to fuel factor revenues of \$23.0 million for Q2 2019. The average Fuel Cost Charge rate billed to consumers for Q2 2020 was \$0.14 per kWh, compared to the average Fuel Cost Charge rate of \$0.16 per kWh for Q2 2019. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

Fuel factor revenues for the six months ended June 30, 2020 totalled \$44.6 million, a decrease of \$4.5 million compared to fuel factor revenues of \$49.1 million for the six months ended June 30, 2019. Fuel factor revenues for the six months ended June 30, 2020 decreased when compared to the six months ended June 30, 2019 due to lower fuel prices.

Renewables revenues for Q2 2020 totalled \$1.4 million, comparable to renewables revenues of \$1.4 million for Q2 2019. The 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.

Renewables revenues for the six months ended June 30, 2020 totalled \$2.5million, an increase of \$0.2 million compared to renewables revenues of \$2.3 million for the six months ended June 30, 2019.

Operating Expenses

Operating expenses for Q2 2020 totalled \$39.4 million, a \$0.4 million decrease from \$39.8 million for Q2 2019. This decrease was due primarily to lower power generation costs partially offset by higher depreciation, maintenance and consumer services costs for Q2 2020 when compared to Q2 2019.

Operating expenses for the six months ended June 30, 2020 totalled \$80.8 million, a \$1.4 million decrease from \$82.2 million for the six months ended June 30, 2019. This decrease was due primarily to lower power generation costs and general and administration expenses partially offset by higher depreciation, maintenance and transmission and distribution costs.

Power Generation

Power generation costs for the Q2 2020 decreased \$2.1 million to \$23.4 million when compared to \$25.5 million for Q2 2019. The decrease for Q2 2020 is a result of lower fuel costs.

Power generation costs for the six months ended June 30, 2020 decreased \$4.2 million to \$49.5 million when compared to \$53.7 million for the six months ended June 30, 2019. This decrease for the six months ended June 30, 2020 is a result of lower fuel costs.

The Company's average price per imperial gallon ("IG") of fuel for the Q2 2020 decreased 40% to \$1.77 compared to \$2.95 for the Q2 2019. The Company's average price per IG of fuel for the six months ended June 30, 2020 decreased 21% to \$2.26, compared to \$2.85 for the six months ended June 30, 2019.

The Company's average price per IG of lubricating oil for the Q2 2020 increased 4% to \$9.83 when compared to \$9.47 for the Q2 2019. The Company's average price per IG of lubricating oil for the six months ended June 30, 2020 increased 2% to \$9.75 when compared to \$9.58 for the six months ended June 30, 2019.

Net generation was 165.9 million kWh for Q2 2020, a 5.8% decrease when compared to 176.1 million kWh for Q2 2019. Net fuel efficiency for Q2 2020 of 18.51 kWh per IG decreased when compared to net fuel efficiency for Q2 2019 of 18.70 kWh per IG.

Net generation of 320.2 million kWh for the six months ended June 30, 2020 decreased when compared to 325.2 million kWh for the six months ended June 30, 2019. Net fuel efficiency for the six months ended June 30, 2020 of 18.69 kWh per IG decreased when compared to net fuel efficiency for the six months ended June 30, 2019 of 18.80 kWh per IG. This decrease in net fuel efficiency for the three and six months ended June 30, 2020 is due primarily to maintenance performed during the period which resulted in the use of less efficient generating units.

The Fuel Tracker Account (see Note 7 of the condensed consolidated interim financial statements) is comprised of total diesel fuel, lubricating oil, and renewables costs to be recovered from consumers.

In March 2011, the OfReg approved the Fuel Price Volatility Management Program. The objective of the programme is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers for the fuel that the Company must purchase in order to provide electric service. 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. During Q2 2020, there were no outstanding call options or call spreads.

Renewables costs for Q2 2020 totalled \$1.4 million, comparable to renewables costs of \$1.4 million for Q2 2019. Renewables costs are a combination of charges from the CORE programme and Entropy.

Other generation expenses for Q2 2020 totalled \$1.2 million, comparable to other generation expenses of \$1.2 million for Q2 2019. Other generation expenses for the six months ended June 30, 2020 totalled \$2.4 million, an increase of \$0.1million compared to other generation expenses of \$2.3 million for the six months ended June 30, 2019.

General and Administration (“G&A”)

G&A expenses for the Q2 2020 totalled \$1.9 million, a decrease of \$0.2 million when compared to \$2.1 million for Q2 2019.

General Expenses Capitalised (“GEC”) totalled \$1.4 million for Q2 2020, a decrease of \$0.2 million when compared to \$1.6 million for Q2 2019.

G&A expenses for the six months ended June 30, 2020 totalled \$3.6 million, a decrease of \$0.5 million when compared to G&A expenses of \$4.1 million for the six months ended June 30, 2019. This decrease was mainly due to lower legal fees, performance share unit expenses, and staff welfare costs. These items were partially offset by lower GEC and increases in insurance premiums, audit fees and short term incentive bonus payments.

GEC totalled \$2.9 million for the six months ended June 30, 2020, a decrease of \$0.2 million when compared to GEC of \$3.1 million for the six months ended June 30, 2019.

Consumer Services (“CS”)

CS expenses for Q2 2020 totalled \$1.2 million, an increase of \$0.4 million when compared to \$0.8 million for Q2 2019. CS expenses for the six months ended June 30, 2020 totalled \$1.9 million, a \$0.4 million increase compared to \$1.5 million for the six months ended June 30, 2019. The increase in CS expenses for Q2 2020 and the six months ended June 30, 2020 is due to higher provision for bad debt expense in 2020 when compared to 2019.

Transmission and Distribution (“T&D”)

T&D expenses for Q2 2020 totalled \$1.3 million, an increase of \$0.1 million when compared to T&D expenses for Q2 2019 of \$1.2 million.

T&D expenses for the six months ended June 30, 2020 totalled \$2.7 million, an increase of \$0.6 million compared to T&D expenses for the six months ended June 30, 2019 of \$2.1 million. T&D expenses for the six months ended June 30, 2020 were impacted by lower capitalised labour and vehicle recharges, higher line maintenance costs and payroll related expenses. These items were partially offset by lower training and environmental monitoring costs.

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

Depreciation expenses for Q2 2020 totalled \$9.5 million, an increase of \$0.7 million, from \$8.8 million for Q2 2019. Depreciation expenses for the six months ended June 30, 2020 totalled \$19.2 million, an increase of \$1.5 million, from \$17.7 million for the six months ended June 30, 2019. The increase in depreciation expenses for the three and six months ended June 30, 2020 is due to capital projects completed in 2019.

Maintenance

Maintenance expenses for Q2 2020 totalled \$1.9 million, an increase of \$0.6 million when compared to \$1.3 million for the Q2 2019. Maintenance expenses for the six months ended June 30, 2020 totalled \$3.4 million, an increase of \$0.7 million when compared to \$2.7 million for maintenance expenses for the six months ended June 30, 2019. The increase in maintenance for the three and six months ended June 30, 2020 is due primarily to lower

capitalised labour, higher generator maintenance and payroll costs. These items were partially offset by lower computer maintenance costs.

Amortization

Amortization of intangible assets for Q2 2020 totalled \$0.2 million, comparable to \$0.2 million for Q2 2019.

Amortization of intangible assets for the six months ended June 30, 2020 totalled \$0.4 million, comparable to \$0.4 million for the six months ended June 30, 2019.

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

Other Income and Expenses

Net Other Expenses for Q2 2020 totalled \$1.1 million, an increase of \$0.8 million from \$0.3 million for Q2 2019. Net Other Expenses for the six months ended June 30, 2020 totalled \$2.0 million, an increase of \$1.3 million compared to Net Other Expenses of \$0.7 million for the six months ended June 30, 2019. This increase in Net Other Expenses for the three and six months ended June 30, 2020 is due primarily to the increase in finance charges and lower other income.

Finance charges for Q2 2020 totalled \$1.9 million, a \$0.3 million increase from \$1.6 million for the Q2 2019. This increase is as a result of higher long-term debt and lower AFUDC in Q2 2020.

Finance charges for the six months ended June 30, 2020 totalled \$4.0 million, a \$0.5 million increase from \$3.5 million for the six months ended June 30, 2019. This increase is as a result of higher long-term debt partially offset by lower interest on short-term debt for the six months ended June 30, 2020.

Under the T&D Licence there is a provision for an AFUDC. This capitalisation of the Financing Cost is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for 2020 is 7.75% (2019: 8.5%) as agreed with the OfReg in accordance with the T&D Licence, and is reviewed annually.

The AFUDC amount for Q2 2020 totalled \$1.7 million, a decrease of \$0.1 million from \$1.8 million for Q2 2019. The AFUDC amount for the six months ended June 30, 2020 totalled \$3.3 million, a decrease of \$0.1 million from \$3.4 million for the six months ended June 30, 2019. This decrease was attributable to lower cost of capital rate for the three and six months ended June 30, 2020.

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

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in foreign currencies are translated into United States dollars at the exchange rate prevailing on the transaction date. Foreign exchange gains for Q2 2020 totalled \$0.2 million, a \$0.2 decrease when compared to \$0.4 million in Q2 2019. Foreign exchange gains for the six months ended June 30, 2020 totalled \$0.6 million, a \$0.3 million decrease when compared to \$0.9 million for the six months ended June 30, 2019.

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

Other income totalled \$0.6 million for Q2 2020, a \$0.3 decrease when compared to other income of \$0.9 million for Q2 2019. Other income totalled \$1.4 million for the six months ended June 30, 2020, a \$0.4 million decrease when compared to other income of \$1.8 million for the six months ended June 30, 2019. This decrease is mainly due to a decrease in the miscellaneous revenue recorded by the Company in Q2 2020. As a result of the Covid-19 pandemic the Company has suspended non-payment disconnect and late fees.

Revenues from DataLink for the Q2 2020 are recorded in Other Income in the amount of \$0.3 million, comparable \$0.3 million for Q2 2019.

Revenues from DataLink for the six months ended June 30, 2020 are recorded in Other Income in the amount of \$0.5 million, a decrease of \$0.1 million when compared to \$0.6 million for the six months ended June 30, 2019.

Liquidity

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

Cash Flows						
(\$ thousands)						
	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	Change	% Change
Beginning cash	19,237	4,775	23,662	8,686	14,976	172%
Cash provided by/(used in):						
Operating activities	12,947	13,080	28,289	23,728	4,561	19%
Investing activities	(15,212)	(12,034)	(29,417)	(23,954)	(5,463)	23%
Financing activities	7,955	(725)	2,393	(3,364)	5,757	-171%
Ending cash	24,927	5,096	24,927	5,096	19,831	389%

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for Q2 2020, was \$12.9 million, a \$0.2 million decrease when compared to \$13.1 million for Q2 2019. This decrease is primarily attributable to lower earnings and the decrease in accounts payable and accrued expenses and regulatory deferrals balances in Q2 2020 when compared to the same period last year.

Cash flow provided by operations, after working capital adjustments, for the six months ended June 30, 2020, was \$28.3 million, a \$4.6 million increase when compared to \$23.7 million for the six months ended June 30, 2019. This increase is primarily attributable to the movement in regulatory deferrals and other assets partially offset by lower earnings and for the six months ended June 30, 2020 when compared to the same period last year.

Investing Activities:

Cash used in investing activities for Q2 2020 totalled \$15.2 million, an increase of \$3.2 million from \$12.0 million for Q2 2019. This increase is due mainly to higher capital expenditure in Q2 2020 when compared to the Q2 2019.

Cash used in investing activities for the six months ended June 30, 2020 totalled \$29.4 million, an increase of \$5.4 million from \$24.0 million for the six months ended June 30, 2019. This increase is due mainly to higher capital expenditure.

Financing Activities:

Cash provided by financing activities for Q2 2020 totalled \$8.0 million, an increase of \$8.7 million compared to cash used in financing activities of \$0.7 million for Q2 2019. Cash provided by financing activities for the six months ended June 30, 2020 totalled \$2.4 million, an increase of \$5.8 million compared to cash used in financing activities of \$3.4 million for the six months ended June 30, 2019. This increase in cash for the three and six months ended June 30, 2020 is attributable to proceeds of short-term debt partially offset by higher repayments of long-term debt and the proceeds from long-term debt of \$40.0 million and bank overdraft facilities 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 from a combination of proceeds from operating cash, debt and equity transactions. The Company expects to be able to source the cash required to fund its 2020 capital expenditure program.

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.

Caribbean Utilities Company, Ltd.

The related-party transactions for 2020 and 2019 are summarized in the following table.

Related Party Transactions		
	As at June 30, 2020	As at December 31, 2019
<i>(in thousands)</i>		
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	6	5
Total Related Party Receivables	6	5
Payables to Fortis Inc. (the company's majority shareholder)	23	-
Total Related Party Payables	23	-

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

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at June 30, 2020, are outlined in the following table:

Contractual Obligations					
<i>(\$ thousands)</i>					
	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	311,715	17,130	30,753	33,701	230,131
Long-term debt interest	149,582	13,609	24,369	20,650	90,954
Total	461,297	30,739	55,122	54,351	321,085

Financial Position

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2019 to June 30, 2020:

Significant changes in Balance Sheet		
<i>(from December 31, 2019 to June 30, 2020)</i>		
Balance Sheet Account	Increase/ (Decrease) (\$ thousands)	Explanation
Cash and Cash Equivalents	1,265	Increase due to cash provided by operating activities of \$28.3 million and cash provided by financing activities of \$2.4 million partially offset by cash used in investing activities of \$29.4 million.
Accounts Receivable	3,560	An increase in CUC's receivables due to recent Covid-19 pandemic.
Regulatory Assets	(4,414)	Decrease due to decrease in fuel prices.
Inventories	(2,161)	Decrease due to lower fuel prices and lower fuel inventory volumes.
Prepayments	(1,657)	Decrease due to the timing of expense recognition.
Property, Plant and Equipment	7,652	Net increase is comprised of (1) capital expenditures of \$26.8 million (2) depreciation expense of \$19.2 million and (3) \$0.9 million in accrued capital expenditure and (4) \$0.8 million from proceeds on disposed assets.
Accounts Payable and Accrued Expenses	(7,405)	Decrease attributable to decreases in fuel costs payable, capital expenditure accruals and dividends payables.
Short Term Debt	25,000	Increase due to drawdown of Scotiabank capital expenditure facility in May 2020.
Share Premium	1,713	The Company issued 117,345 shares through its share purchase plans.
Retained Earnings	(3,621)	Decrease due to net earnings for the period of \$8.3 million offset by Class A dividends of \$11.7 million and Class B dividends of \$0.2 million.

Capital Resources

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

To help ensure access to capital, the Company targets a long-term capital structure comprising of approximately 45% equity, including preference shares, and 55% debt. The Company's objective is to maintain investment-grade credit ratings. The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the Class A Ordinary Share rights offering that occurred in 2015 and the Company's Share Purchase Plans.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 60% of the Company's

Caribbean Utilities Company, Ltd.

consolidated capital structure, as defined by short-term and long-term debt agreements. As at June 30, 2020, the Company was in compliance with all debt covenants.

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

Capital Structure				
	June 30, 2020 (\$ thousands)	%	December 31, 2019 (\$ thousands)	%
Total debt	335,239	59	322,050	58
Shareholder's equity	<u>236,073</u>	<u>41</u>	<u>237,942</u>	<u>42</u>
Total	571,312	100	559,992	100

The change in the Company's capital structure between December 31, 2019 and June 30, 2020 was driven by an increase in total debt. The increase in total debt is primarily a result of the increase in short-term debt offset by the payment of long-term and short-term debt.

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

S&P	BBB+/ Negative
DBRS Morningstar	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 March 2020, S&P revised the Company's rating from "BBB+ with a stable outlook" to "BBB+" with a negative outlook. The rating was downgraded based on risks that the current Covid-19 pandemic could have a severe impact to the Cayman Island's tourism industry. This in turn could affect CUC's financial measures.

In February 2020, DBRS Morningstar 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 and to generate predictable cash flow, limited competition, and no exposure to commodity price risk and only modest regulatory lag associated with the recovery of fuel, nonfuel costs, and capital spending. The ratings also incorporate factors such as CUC's exposure to hurricane risks and the relatively small size of the Company's customer base.

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.

Defined Benefit Pension Plan

The Company maintains a defined benefit pension plan, which provides a specified monthly benefit on retirement irrespective of individual investment returns. The assumed long-term rate of return on pension plan assets for the purposes of estimating pension expense for 2020 is 5%. This compares to assumed long-term rates of return of 5% used during 2019. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The loss on pension plan assets as of June 2020 was 7% (2019: gain of 6%).

Market driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the assumed return on the assets, causing material changes in consolidated pension expense and funding requirements. Net pension expense is impacted by, among other things, the amortization of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other pension assumptions, including the assumed discount rate, may also result in future consolidated contributions to pension plans that differ significantly from current estimates as well as causing material changes in consolidated pension expense. The discount rate assumed for 2020 is 3.2% compared to the discount rate assumed during 2019 of 4.2%.

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

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

Changes in Accounting Policies

The Consolidated Interim Financial Statements have been prepared following the same accounting policies and methods as those used to prepare the Company’s 2019 annual audited consolidated financial statements, except as described in Note 3 of the Condensed Consolidated Interim Financial Statements.

Forward Looking Statements

COVID-19 Pandemic

The COVID-19 Pandemic has, and continues to, evolve rapidly. The Company continues to operate critical infrastructure and will monitor developments and take measures it believes are warranted to protect the health and safety of employees, customers and communities, including actions based on guidance from the Cayman Islands Government and the health authorities. As necessary, the Company will prioritize capital expenditures to mitigate supply chain risk and other potential impacts of the pandemic to ensure the delivery of safe, reliable service while supporting public health.

The uncertainty surrounding the evolution of the pandemic makes it difficult to predict the ultimate operational and financial impacts on CUC. Depending on the severity and length of the pandemic, such impacts could have material adverse effects and affect the Company’s ability to execute business strategies and initiatives in the expected time frames. CUC has experienced an increase in accounts receivable during the period. As a result, of the increased accounts receivable balances, the Company has increased the provision for doubtful accounts.

The potential key impact areas could include revenue, capital expenditures, liquidity, and regulatory matters. The Company's current assessment of these areas is summarized below.

Revenue

The recent outbreak of COVID-19 initially resulted in the closure of businesses, schools, hotels, restaurants, the seaport (closed to cruise ships and private yachts), and the airport. As businesses scaled back or closed and residential customers are spending more time at home, the COVID-19 Pandemic has impacted electricity demand. Commercial demand has decreased but was partially offset by increased residential demand as people were required to work from home.

In June 2020, the Cayman Islands Government has eased certain restrictions and allowed some businesses to reopen. The easing of restrictions is being completed in a systematic approach and requires the public to maintain social distancing. Hotels and condominiums have offered local residents staycation packages. The airport and seaports are closed until September 1, 2020.

The estimated annual impact on EPS of a 1% change in demand in these segments is summarized below.

Sensitivity Analysis	
	1% change in demand
Absolute annual EPS impact	\$0.02

Capital Expenditures

Currently, the Company does not expect any material change in the 2020 capital plan; however, the impact of the COVID-19 Pandemic on forecast capital expenditures will continue to be evaluated. Any changes in the 2020 capital expenditures are expected to be shifted to subsequent years with no overall change to the five-year capital plan anticipated.

Liquidity

CUC is well positioned with strong liquidity due to additional credit facilities of approximately \$20 million which were renegotiated in January 2020 with Scotiabank & Trust (Cayman) Limited. The total credit facilities now available to the Company amounts to \$70.0 million with \$44.0 million unutilized, or \$68.9 million including current cash holdings.

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

The ongoing economic impact of the pandemic may affect customers' ability to pay their energy bills. CUC has instituted various customer relief initiatives, including the suspension of non-payment disconnects and late fees, and payment deferral programs to help ease the financial burden on customers. Disconnections and late fees on unpaid bills resumed in July 2020. Given the uncertainty, it is too early to assess the full impact of potential credit losses associated with the pandemic. As at June 30, 2020, the Company's allowance for credit losses has been adjusted to account for the increased accounts receivable. See Note 6 in the Condensed Consolidated Interim Financial Statements.

Regulatory Matters

Regulator and other stakeholder work schedule disruptions may cause delays or postponements for various regulatory proceedings.

Pension Valuations

Pension expense and funding of the Company's defined pension benefit plan is based on asset valuations as of December 31. Therefore, the impact on future pension expense and funding, as a result of any decline on pension asset values, is uncertain at this time.

Quarterly Results

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended September 30, 2018 through June 30, 2020. This information has been obtained from CUC's unaudited interim Financial Statements which, in the opinion of Management, have been prepared in accordance with US GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarterly results					
<i>(\$ thousands, except basic and diluted earnings per 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
June 30, 2020	45,042	4,504	4,391	0.13	0.13
March 31, 2020	46,088	3,826	3,713	0.11	0.11
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 31, 2018	51,986	7,882	7,254	0.22	0.22
September 30, 2018	53,355	9,181	9,068	0.27	0.27

Disclosure Controls and Procedures

The President and Chief Executive Officer ("CEO") and the Vice President Finance and Chief Financial Officer ("CFO"), together with Management, have established and maintained the Company's disclosure controls and procedures ("DC&P"), to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the year ending December 31, 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, summarized and reported within the time periods specified in securities legislation. Based on the evaluation performed over disclosure controls and procedures, it was concluded that the DC&P of CUC is adequately designed and operating effectively as of June 30, 2020.

Internal Controls over Financial Reporting (“ICFR”)

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

The design of CUC’s internal controls over financial reporting has been established and evaluated using the criteria set forth in the 2013 Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on the assessment, it was concluded that CUC’s ICFR are adequately designed and operating effectively as of June 30, 2020.

Outlook

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 additional 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. The proposed 2020-2024 Capital Investment Plan was approved in May 2020 in the amount of \$263 million. The Company and OfReg continue to review the proposed grid enhancement projects.

The Company is currently assessing the impact of COVID-19 on its operational and financial performance. As part of its COVID-19 Customer Relief Programme, the Company has proposed to defer the required base rate increase until January 1, 2021. The amount that would have been recorded for June 2020 was \$0.5 million. The Company has also applied for recovery of various COVID-19 related expenses, including potential bad debts resulting from suspension of disconnections during the pandemic. If approved, these amounts would be recorded as Regulatory Assets and recovered through future rates. OfReg’s response to the proposed Customer Relief Programme is expected during the Third Quarter 2020.

Outstanding Share Data

At July 31, 2020, the Company had issued and outstanding 33,593,624 Ordinary Shares and 250,000 9% cumulative Participating Class B Preference Shares.

The number of common shares of the Company that would be issued if all outstanding stock options were converted as at July 31, 2020 is as follows.

Conversion of Securities into Common Shares	Number of Common Shares
As at July 31, 2020	
(Unaudited)	
Stock Options	1,000

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

Condensed Consolidated Interim Balance Sheets

(expressed in thousands of United States Dollars)

Unaudited	Note	As at June 30, 2020	As at December 31, 2019
Assets			
<i>Current Assets</i>			
Cash		24,927	23,662
Accounts Receivable (Net of Allowance for Credit Losses of \$1,555 and \$1,335)	6	12,681	9,121
Related Party Receivables	12	6	5
Regulatory Assets	7	13,730	18,144
Inventories		2,369	4,530
Prepayments		1,323	2,980
Total Current Assets		55,036	58,442
Property, Plant and Equipment, net		545,638	537,986
Intangible Assets, net		3,630	3,598
Other Assets		410	391
Total Assets		604,714	600,417
Liabilities and Shareholders' Equity			
<i>Current Liabilities</i>			
Accounts Payable and Accrued Expenses		17,972	25,377
Related Party Payables	12	23	-
Regulatory Liabilities	7	1,816	1,298
Short-Term Debt		25,000	-
Current Portion of Long-Term Debt	9	14,857	14,857
Current Portion of Lease Liability		78	76
Consumers' Deposits and Advances for Construction		10,681	10,520
Total Current Liabilities		70,427	52,128
Defined Benefit Pension Liability		1,798	1,827
Long-Term Debt	9	295,382	307,193
Other Long-Term Liabilities		1,034	1,327
Total Liabilities		368,641	362,475
Commitments and Contingency	13, 14		
Shareholders' Equity			
Share Capital ¹		2,250	2,243
Share Premium		131,996	130,283
Retained Earnings		103,660	107,281
Accumulated Other Comprehensive Loss		(1,833)	(1,865)
Total Shareholders' Equity		236,073	237,942
Total Liabilities and Shareholders' Equity		604,714	600,417

See accompanying Notes to Condensed Consolidated Interim Financial Statements

¹ Consists of Class A Ordinary Shares of 33,593,624 and 33,476,279 issued and outstanding as at June 30, 2020 and December 31, 2019 and Class B Preference Shares of 250,000 and 250,000 issued and outstanding as at June 30, 2020 and December 31, 2019, respectively.

Condensed Consolidated Interim Statements of Earnings

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

Unaudited	Note	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Operating Revenues					
Electricity Sales	5	22,858	23,671	44,045	43,950
Fuel Factor	5	20,808	22,994	44,622	49,092
Renewables	5	1,376	1,372	2,463	2,340
<i>Total Operating Revenues</i>		45,042	48,037	91,130	95,382
Operating Expenses					
Power Generation		23,412	25,538	49,518	53,741
General and Administration		1,898	2,060	3,600	4,115
Consumer Services		1,209	764	1,940	1,506
Transmission and Distribution		1,310	1,167	2,680	2,067
Depreciation		9,489	8,817	19,202	17,705
Maintenance		1,893	1,295	3,416	2,661
Amortization of Intangible Assets		206	179	410	361
<i>Total Operating Expenses</i>		39,417	39,820	80,766	82,156
Operating Income					
		5,625	8,217	10,364	13,226
Other (Expenses)/Income					
Finance Charges	10	(1,929)	(1,579)	(4,028)	(3,457)
Foreign Exchange Gain	11	230	410	591	881
Other Income		578	895	1,403	1,835
<i>Total Net Other (Expenses)/Income</i>		(1,121)	(274)	(2,034)	(741)
Net Earnings for the Period					
		4,504	7,943	8,330	12,485
Preference Dividends Paid- Class B					
		(113)	(113)	(226)	(226)
Earnings on Class A Ordinary Shares					
		4,391	7,830	8,104	12,259
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)					
		33,525	33,282	33,547	33,308
Earnings per Class A Ordinary Share					
Diluted Earnings per Class A Ordinary Share		0.13	0.24	0.24	0.37
Dividends Declared per Class A Ordinary Share		0.13	0.24	0.24	0.37
Dividends Declared per Class A Ordinary Share		0.175	0.175	0.350	0.350

See accompanying Notes to Condensed Consolidated Interim Financial Statements

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

Unaudited	Three Months Ended June 30, 2020	Three months Ended June 30, 2019	Six Months Ended June 30, 2020	Six months Ended June 30, 2019
Net Earnings for the Period	4,504	7,943	8,330	12,485
Other Comprehensive Income:				
Amortization of Net Actuarial Loss	15	7	32	14
Total Other Comprehensive Income	15	7	32	14
Comprehensive Income	4,519	7,950	8,362	12,499

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Caribbean Utilities Company, Ltd.

Condensed Consolidated Interim Statements of Shareholders' Equity
(expressed in thousands of United States Dollars except Common Shares)

Unaudited	Class A Ordinary Shares (in thousands)	Class A Ordinary Shares Value (\$)	Preference Shares (\$)	Share Premium (\$)	Accumulated Other Comprehensive Loss (\$)	Retained Earnings (\$)	Total Equity (\$)
As at December 31, 2019	33,476	1,993	250	130,283	(1,865)	107,281	237,942
Net earnings	-	-	-	-	-	8,330	8,330
Common share issuance and stock options plans	118	7	-	1,713	-	-	1,720
Defined benefit plans	-	-	-	-	32	-	32
Dividends on common shares	-	-	-	-	-	(11,725)	(11,725)
Dividends on preference shares	-	-	-	-	-	(226)	(226)
As at June 30, 2020	33,594	2,000	250	131,996	(1,833)	103,660	236,073
As at December 31, 2018	33,232	1,978	250	126,837	(1,167)	102,484	230,382
Net earnings	-	-	-	-	-	12,485	4,542
Common share issuance and stock options plans	126	8	-	1,725	-	-	1,733
Defined benefit plans	-	-	-	-	14	-	14
Dividends on common shares	-	-	-	-	-	(11,640)	(11,640)
Dividends on preference shares	-	-	-	-	-	(226)	(226)
As at June 30, 2019	33,358	1,986	250	128,562	(1,153)	103,103	232,748

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Condensed Consolidated Interim Statements of Cash Flows
(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
<i>Operating Activities</i>				
Net Earnings for the period	4,504	7,943	8,330	12,485
Items not affecting cash:				
Depreciation	9,489	8,817	19,202	17,705
Amortization of Intangible Assets	206	179	410	361
Amortization of Deferred Financing Costs	34	30	68	60
	14,233	16,969	28,010	30,611
Net Changes in Working Capital Balances Related to Operations:	(6,731)	(1,635)	(4,653)	(6,676)
Net Change in Regulatory Deferrals	5,445	(2,254)	4,932	(207)
<i>Cash flow related to operating activities</i>	12,947	13,080	28,289	23,728
<i>Investing Activities</i>				
Purchase of Property, Plant and Equipment	(14,985)	(11,970)	(29,803)	(23,772)
Proceeds from Sale of Property, Plant and Equipment	-	18	-	18
Costs Related to Intangible Assets	(227)	(210)	(441)	(328)
Proceeds on Disposed Assets	-	-	827	-
Contributions in Aid of Construction	-	128	-	128
<i>Cash flow related to investing activities</i>	(15,212)	(12,034)	(29,417)	(23,954)
<i>Financing Activities</i>				
Proceeds from Long-Term Debt	-	40,000	-	40,000
Proceeds from Short-Term Debt	25,000	-	25,000	-
Repayment of Short-Term Debt	-	(30,000)	-	(30,000)
Repayment of Long-Term Debt	(11,857)	(9,714)	(11,857)	(9,714)
Increase in Bank Overdraft	-	4,002	-	6,997
Dividends Paid	(5,979)	(5,937)	(12,470)	(12,380)
Net Proceeds from Share Issues	791	924	1,720	1,733
<i>Cash flow related to financing activities</i>	7,955	(725)	2,393	(3,364)
Increase / (Decrease) in net cash	5,690	321	1,265	(3,590)
Cash - Beginning of the period	19,237	4,775	23,662	8,686
Cash - End of the period	24,927	5,096	24,927	5,096
Supplemental disclosure of cash flow information:				
Interest paid during the period	6,488	6,294	7,307	6,638

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Unaudited – June 30, 2020 (expressed in thousands of United States dollars unless otherwise stated)

1. Nature of Operations and Condensed Consolidated Interim Financial Statement Presentation

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

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

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

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

All intercompany balances and transactions have been eliminated on consolidation.

Rate Regulated Operations

CUC’s base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour (“kWh”) electricity charges and fixed facilities charges. Fuel cost charges, renewables costs and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the Rate Cap and Adjustment Mechanism (“RCAM”).

In April 2020, the Company submitted its annual rate adjustment to OfReg for review and approval. The required rate increase as confirmed by OfReg, was 6.6%, with an effective date of June 1, 2020. This required increase was a result of the 2019 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 2019. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 100% based on the range of the RORB values. The required rate adjustment of 6.6% can be calculated by applying 100% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 6.6%. As part of its COVID-19 Customer Relief Programme, the Company has proposed to defer the required rate increase until January 1, 2021. For the period June 1, 2020 to December 31, 2020 the Company will track the difference between billed revenues and revenues that would have been billed

from the required rate increase as an amount due from customers. The amount that would have been recorded for June 2020 was \$0.5 million.

The Company has also applied for recovery of various COVID-19 related expenses, including potential bad debts resulting from suspension of disconnections during the pandemic.

If approved, these amounts would be recorded as Regulatory Assets and recovered through future rates. OfReg's response to the proposed Customer Relief Programme is expected during the Third Quarter 2020.

All fuel, lubricating oil and renewable costs are passed through to customers without mark-up as a per kWh charge.

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

Seasonality

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

Taxation

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

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

2. Summary of Significant Accounting Policies

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, they do not include all information and notes required by US GAAP for annual financial statements and should be read in conjunction with the Consolidated Financial Statements and Notes for the year ended December 31, 2019.

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

3. Changes in Accounting Policies

Measurement of Credit Losses on Financial Instruments

Effective January 1, 2020, the Company adopted Accounting Standards Update ("ASU") No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which requires the use of reasonable and supportable forecasts in the estimate of credit losses and the recognition of expected losses upon initial recognition of a financial instrument, in addition to using past events and current conditions. The new guidance also requires quantitative and qualitative disclosures regarding the activity in the allowance for credit losses for financial assets within the scope of the guidance. Upon adoption, the Company did not identify or record an adjustment to the opening balance of retained earnings, and there was no impact on net earnings or cash flows.

The Company records an allowance for credit losses to reduce accounts receivable for amounts estimated to be uncollectible. The allowance is estimated based on historical collection patterns, sales, and current and forecasted economic and other conditions. Accounts receivable are written off in the period in which they are deemed uncollectible.

4. Future Accounting Policies

Changes to the Disclosure Requirements for Defined Benefit Plans

ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, issued in August 2018, is effective for the Company January 1, 2021 and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined pension or other post-retirement plans and clarifies disclosure requirements. In addition, the amendments remove (a) the amounts in accumulated other comprehensive income expected to be recognized 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 does not expect the adoption of this ASU to have a material impact on the related disclosure.

5. Operating Revenues

Operating Revenues				
	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
(\$ thousands)				
Electricity Sales Revenues				
Residential	13,288	12,099	23,833	21,693
Commercial	9,359	11,349	19,780	21,813
Other (street lighting etc.)	211	223	432	444
Total Electricity Sales Revenues	22,858	23,671	44,045	43,950
Fuel Factor	20,808	22,994	44,622	49,092
Renewables	1,376	1,372	2,463	2,340
Total Operating Revenues	45,042	48,037	91,130	95,382

Electricity Sales revenue

Caribbean Utilities Company, Ltd.
Notes to Condensed Consolidated Interim Financial Statements

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

Fuel Factor

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

Renewables

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

6. Accounts Receivable, net

Accounts Receivable		
(\$ thousands)	As at June 30, 2020	As at December 31, 2019
Billings to consumers	13,830	10,241
Other receivables	406	215
Allowance for credit losses	(1,555)	(1,335)
Total Accounts Receivable, net	12,681	9,121

Other receivables

Other receivables relate to amounts due outside of the normal course of operations.

Allowance for Credit Losses

Accounts receivable are recorded net of an allowance for credit losses. The change in the allowance for credit losses balance from June 30, 2020 follows.

Allowance for Credit Losses	
(\$ thousands)	Six Months Ended June 30, 2020
Beginning of period	\$ (1,335)
Credit loss expensed	(458)
Write-offs	260
Recoveries	(22)
End of period	\$ (1,555)

7. Regulatory Assets and Liabilities

Regulatory Assets and Liabilities			
(\$ thousands)			
Asset/Liability	Description	As at June 30, 2020	As at December 31, 2019
Regulatory Assets	Fuel Tracker Account	13,390	17,497
Regulatory Assets	Miscellaneous Regulatory Assets	151	164
Regulatory Assets	Demand rate Recoveries	189	483
Total Regulatory Assets		13,730	18,144
Regulatory Liabilities	Government & Regulatory Tracker Account	(1,816)	(1,298)
Total Regulatory Liabilities		(1,816)	(1,298)

8. Share Based Compensation Plans

Share Options:

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

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

Share Options				
	Six Months Ended June 30, 2020	Six Months Ended June 30, 2020	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ thousands)
	Number of Options	Weighted Average Exercise Price Per Share		
Outstanding at Beginning of Period	1,000	9.66	2.22	
Granted				
Exercised				
Forfeited/Cancelled				
Expired				
Outstanding, End of Period	<u>1,000</u>	<u>9.66</u>	<u>1.71</u>	
Vested, End of the Period	1,000	9.66	1.71	

Under the fair value method, the compensation expense was \$nil for Q2 2020 (June 30, 2019: \$nil).

Performance Share Unit (“PSU”) Plan:

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

PSU’s outstanding as at June 30, 2020 relate to grants in 2018 in the amount of 27,649, 2019 in the amount of 37,032 and 2020 in the amount of 27,555. The vesting period of the grant is three years, at which time a cash payment may be made to plan participants after evaluation by the Board of Directors of the achievement of certain payment criteria.

PSU Compensation expense was \$0.2 million for Q2 2020 (Q2 2019: \$0.2 million), resulting in a corresponding increase to Other Long-Term Liabilities.

9. Fair Value Measurement

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

The Company is required to determine the fair value of all derivative instruments in accordance with the following hierarchy:

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

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

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

There have been no changes in the methodologies used at June 30, 2020. The estimated fair values of the Company’s financial instruments, including derivative financial instruments, are as follows:

Financial Instruments				
(\$ thousands)	As at June 30, 2020		As at December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt, including Current Portion	310,239	351,326	322,050	323,034

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Notes to Condensed Consolidated Interim Financial Statements

The Company's long term debt and fuel derivative contracts, based on the three levels that distinguish the level of pricing observability utilized in measuring fair value, have been classified as Level 2. There were no transfers between levels for the period ended June 30, 2020.

10. Finance Charges

The composition of finance charges were as follows:

Finance Charges				
(\$ thousands)	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Interest costs – long-term debt	3,584	3,121	7,232	6,131
Other interest costs	57	303	78	677
AFUDC	(1,712)	(1,845)	(3,282)	(3,351)
Finance Charges	1,929	1,579	4,028	3,457

11. Foreign Exchange

The closing rate of exchange on June 30, 2020 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn \$1.3628 per US\$1.00 (December 2019: Cdn\$1.2988). The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by the Cayman Islands Monetary Authority is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of June 30, 2020 for conversion of Cayman Islands dollars into Canadian dollars was Cdn \$1.6354 per CI\$1.00 (December 31, 2019: Cdn \$1.5586).

12. 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 2020 and 2019 are summarized in the following table.

Related Party Transactions		
(in thousands)	As at June 30, 2020	As at December 31, 2019
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	6	5
Total Related Party Receivables	6	5
Payables to Fortis Inc. (the company's majority shareholder)	23	-
Total Related Party Payables	23	-

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

13. Commitments

As at June 30, 2020, the Company's consolidated commitments in each of the next five years and for periods thereafter are as follows:

Commitments					
(\$ thousands)					
	Total	2020	2021- 2022	2023- 2024	2025 Onward
Letter of Guarantee	500	500	-	-	-
Lease Liability	385	47	191	147	-
Commitments	885	547	191	147	-

14. Contingency

On July 11, 2017, 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).

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. DataLink submitted a response to the Consultation papers on February 28, 2020.

Shareholder Information

Shareholder Plans

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

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

Duplicate Annual Reports

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

Our Registrar and Transfer Agents are as follows:

AST Trust Company (Canada)

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

Caribbean Utilities Company, Ltd.

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

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

Caribbean Utilities Company, Ltd.

Assistant to the Company Secretary
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