



**Volunteering**



**Improving**



**Rewarding**



**Training**

Caribbean Utilities Company, Ltd.  
**2020 Third Quarter Report**  
September 30, 2020



## General Data

### **About the Company**

Caribbean Utilities Company, Ltd., known locally as “CUC”, commenced operations as the only electric utility in Grand Cayman on May 10, 1966. The Company currently has an installed generating capacity of 161 megawatts (“MW”). The record peak load of 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 65,000, 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 notes in the Management Discussion and Analysis section, concerning the use of forward-looking statements, which applies to the entirety of this Quarterly Report.

**Table of Contents:**

Interim Management's Discussion and Analysis	4
Condensed Consolidated Interim Financial Statements:	
Condensed Consolidated Interim Balance Sheets	24
Condensed Consolidated Interim Statements of Earnings	25
Condensed Consolidated Interim Statements of Comprehensive Income	26
Condensed Consolidated Interim Statements of Shareholders' Equity	27
Condensed Consolidated Interim Statements of Cash Flows	28
Notes to Condensed Consolidated Interim Financial Statements	29
Shareholder Information	38

## **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 "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 condensed consolidated financial statements and MD&A in this interim report were approved by the Audit Committee.*

October 30, 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 September 30, 2020	Three Months Ending September 30, 2019	Nine Months Ending September 30, 2020	Nine Months Ending September 30, 2019	Change	% Change
Electricity Sales Revenues	26,250	25,365	70,295	69,315	980	1%
Fuel Factor Revenues	16,264	29,596	60,886	78,688	(17,802)	-23%
Renewables Revenues	1,407	1,376	3,870	3,716	154	4%
Total Operating Revenues	43,921	56,337	135,051	151,719	(16,668)	-11%
Fuel & Lube Costs	16,264	29,596	60,886	78,688	(17,802)	-23%
Renewables Costs	1,407	1,376	3,870	3,716	154	4%
Other Operating Expenses	15,415	15,699	49,096	46,423	2,673	6%
Total Operating Expenses	33,086	46,671	113,852	128,827	(14,975)	-12%
Net Earnings for the Period	10,353	10,404	18,683	22,889	(4,206)	-18%
Cash Flow related to Operating Activities	21,439	24,484	49,729	48,212	1,517	3%
<i>Per Class A Ordinary Share:</i>						
Basic Earnings	0.31	0.31	0.55	0.68	(0.13)	-19%
Dividends Paid	0.175	0.175	0.525	0.525	-	0%
Total Customers	30,895	30,254	30,895	30,254	641	2%
Total Employees*	229	237	229	237	(8)	-3%
Customers per Employee (#)	135	128	135	128	7	5%
System Availability (%)	99.96	99.95	99.96	99.95	0.01	0%
Peak Load Gross (MW)	108.6	113.5	108.6	113.5	(4.9)	-4%
<i>Millions of kWh:</i>						
Net Generation	177.8	187.7	498.0	512.9	(14.9)	-3%
Total Energy Supplied	181.6	191.3	510.3	523.9	(13.6)	-3%
Kilowatt-Hour Sales	175.1	184.4	492.9	503.9	(11)	-2%
Sales per employee	0.76	0.78	2.15	2.13	0.02	1%

\*Total full time 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 proposed to OfReg to defer the required rate increase until January 1, 2021. OfReg approved the rate increase deferral on customer billings in August 2020. For the period June 1, 2020 to December 31, 2020, the Company will record a regulatory asset for the difference between billed revenues and revenues that would have been billed from the required rate increase. The amount recorded will be recovered within 2 years from the effective date of the increase on January 1, 2021.

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. The Company is currently estimating these costs to be approximately \$1.8 million. If approved, the COVID-19 related expenses would also be recorded as a regulatory asset and recovered through future rates. OfReg's response to the proposed COVID-19 cost recovery is expected during the Fourth 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.

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 Cayman Islands 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 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 eased certain restrictions and allowed some businesses to reopen. The easing of restrictions was completed in a systematic approach and social distancing requirements were relaxed. Hotels and condominiums have offered local residents staycation packages. The airport reopened on October 1, 2020 in a phased manner.

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 September 30, 2020 (“Third Quarter 2020” or “Q3 2020”) totalled 175.1 million kWh, a decrease of 9.3 million kWh, or 5% decrease in comparison to 184.4 million kWh for the three months ended September 30, 2019 (“Third Quarter 2019” or “Q3 2019”). The decrease was driven by reductions in the Large Commercial customers’ kWh consumption partially offset by the increase in Residential customers’ kWh consumption in Q3 2020 compared to Q3 2019. The average monthly temperature for Q3 2020 was 86.2 degrees Fahrenheit as compared to an average monthly temperature of 86.5 degrees for Q3

## Caribbean Utilities Company, Ltd.

2019. The average rainfall for Q3 2020 was 7.7 inches as compared to 3.1 inches in Q3 2019. Lower temperatures and increased rainfall can negatively impact the Company's sales.

Sales for the nine months ended September 30, 2020 totalled 492.9 million kWh, a decrease of 11.0 million kWh, or 2% decrease in comparison to 503.9 million kWh for the nine months ended September 30, 2019. Sales for the nine months ended September 30, 2020 were negatively impacted by a decrease in the kWh consumption of Large Commercial customers driven by the impact of the COVID-19 pandemic on the Cayman Islands' economy. The decrease in the Large Commercial customers' kWh consumption was partially offset by the increase in kWh consumption of Residential Customers.

Total customers as at September 30, 2020 were 30,895, an increase of 641 customers, or 2%, compared to 30,254 customers as at September 30, 2019.

The following tables present customer and sales highlights:

### Customers

	September 30, 2020	September 30, 2019	% Change
(numbers)			
Residential	26,397	25,786	2%
General Commercial	4,413	4,373	1%
Large Commercial	85	107	-21%
<b>Total Customers</b>	<b>30,895</b>	<b>30,266</b>	<b>2%</b>

### Sales

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Change	% Change
(thousands kWh)						
Residential	99,581	97,999	275,399	259,025	16,374	6%
General Commercial	37,196	38,721	99,765	108,431	(8,666)	-8%
Large Commercial	36,991	46,350	113,865	132,194	(18,329)	-14%
Other (street lighting, etc.)	1,297	1,378	3,914	4,210	(296)	-7%
<b>Total Sales</b>	<b>175,065</b>	<b>184,448</b>	<b>492,943</b>	<b>503,860</b>	<b>(10,917)</b>	<b>-2%</b>

### Average Monthly Consumption per Customer

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Change	% Change
(kWh)						
Residential	1,261	1,269	1,167	1,123	44	4%
General Commercial	2,799	2,957	2,509	2,774	(265)	-10%
Large Commercial	146,212	143,071	134,973	137,759	(2,786)	-2%



## **Operating Income**

Operating income for Q3 2020 totalled \$10.8 million, an increase of \$1.1 million when compared to operating income of \$9.7 million for Q3 2019. The increase is primarily attributable to higher electricity sales revenues due to the 6.6% base rate increase and lower maintenance. These factors were partially offset by higher depreciation and consumer services expenses.

As part of its COVID-19 Customer Relief Programme, the Company proposed to OfReg to defer the June 2020 required base rate increase of 6.6% until January 1, 2021. OfReg approved the rate increase deferral on customer billings in August 2020. For the period June 1, 2020 to December 31, 2020 the Company will record a regulatory asset for the difference between billed revenues and revenues that would have been billed from the required rate increase. The amount that was recorded for Q3 2020 was \$1.6 million and the amount for June to September 2020 was \$2.1 million.

Operating income for the nine months ended September 30, 2020 totalled \$21.2 million, a decrease of \$1.7 million when compared to operating income of \$22.9 million for the nine months ended September 30, 2019. The decrease is primarily attributable to higher depreciation and consumer services expenses. These factors were partially offset by higher electricity sales revenues and lower general and administration expenses.

## **Earnings**

Net earnings for Q3 2020 totalled \$10.4 million, comparable to \$10.4 million in Q3 2019.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Q3 2020 were \$10.2 million, or \$0.31 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$10.3 million, or \$0.31 per Class A Ordinary Share for Q3 2019.

Net earnings for the nine months ended September 30, 2020 totalled \$18.7 million, a decrease of \$4.2 million when compared to net earnings of \$22.9 million for the nine months ended September 30, 2019. The decrease is primarily attributable to higher depreciation and finance charges and lower other income partially offset by higher electricity sales revenues.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the nine months ended September 30, 2020 were \$18.3 million, or \$0.55 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$22.6 million, or \$0.68 per Class A Ordinary Share, for the nine months ended September 30, 2019.

## **Operating Revenues**

Operating revenues for Q3 2020 were \$43.9 million, a decrease of \$12.4 million from \$56.3 million for Q3 2019. Operating revenues for the nine months ended September 30, 2020 were \$135.1 million, a decrease of \$16.6 million from \$151.7 million for the nine months ended September 30, 2019. The decrease in operating revenues for the three and nine months ended September 30, 2020 was due to decreases in fuel factor revenues partially offset by higher electricity sales revenues.

Electricity sales revenues were \$26.3 million for Q3 2020, an increase of \$0.9 million from \$25.4 million for Q3 2019. Electricity sales revenues were \$70.3 million for the nine months ended September 30, 2020, an increase of \$1.0 million from \$69.3 million for the nine months ended September 30, 2019. Electricity sales revenues for the three and nine months ended September 30, 2020 increased when compared to the same periods last year due to the 6.6% and 0.9% base rate increases effective June 1, 2020 and June 1, 2019 respectively.

Fuel factor revenues for Q3 2020 totalled \$16.3 million, a decrease of \$13.3 million, compared to fuel factor revenues of \$29.6 million for Q3 2019. The average Fuel Cost Charge rate billed to consumers for Q3 2020 was \$0.10 per kWh, a decrease of \$0.08 per kWh when compared to the average Fuel Cost Charge rate of \$0.18 per kWh for Q3 2019. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

Fuel factor revenues for the nine months ended September 30, 2020 totalled \$60.9 million, a decrease of \$17.8 million compared to fuel factor revenues of \$78.7 million for the nine months ended September 30, 2019. The average Fuel Cost Charge rate billed to consumers for the nine months ended September 30, 2020 was \$0.13 per kWh, a decrease of \$0.04 per kWh when compared to the average Fuel Cost Charge rate of \$0.17 per kWh for the nine months ended September 30, 2019.

Renewables revenues for Q3 2020 totalled \$1.4 million, comparable to renewables revenues of \$1.4 million for Q3 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 nine months ended September 30, 2020 totalled \$3.9 million, an increase of \$0.2 million compared to renewables revenues of \$3.7 million for the nine months ended September 30, 2019.

### **Operating Expenses**

Operating expenses for Q3 2020 totalled \$33.1 million, a \$13.6 million decrease from \$46.7 million for Q3 2019. This decrease was due primarily to lower power generation and maintenance expenses, partially offset by higher depreciation expense for Q3 2020 when compared to Q3 2019.

Operating expenses for the nine months ended September 30, 2020 totalled \$113.9 million, a \$14.9 million decrease from \$128.8 million for the nine months ended September 30, 2019. This decrease was due primarily to lower power generation and general and administration expenses, partially offset by higher depreciation and consumer service expenses.

### **Power Generation**

Power generation costs for Q3 2020 decreased \$13.4 million to \$18.8 million when compared to \$32.2 million for Q3 2019. This decrease is primarily a result of lower fuel costs. Power generation costs for the nine months ended September 30, 2020 decreased \$17.6 million to \$68.3 million when compared to \$85.9 million for the nine months ended September 30, 2019. This decrease is primarily a result of lower fuel costs.

The Company's average cost per imperial gallon ("IG") of fuel for Q3 2020 decreased 31% to \$1.94, compared to \$2.80 for Q3 2019. The Company's average price per IG of fuel for the nine months ended September 30, 2020 decreased by 24% to \$2.15, compared to \$2.84 for the nine months ended September 30, 2019.

The Company's average cost per IG of lubricating oil for Q3 2020 increased 4% to \$9.57 when compared to \$9.24 for Q3 2019. The Company's average price per IG of lubricating oil for the nine months ended September 30, 2020 increased 2% to \$9.69 when compared to \$9.47 for the nine months ended September 30, 2019.

The decrease in the average fuel costs have resulted in the average rate per kWh decreasing for the nine months ended September 30, 2020 to \$0.2754 per kWh in comparison to \$0.3024 for the nine months ended September 30, 2019. As a result, customers have paid less per kWh for electricity consumed during the nine months ended September 30, 2020 in comparison to the nine months ended September 30, 2019.

Net generation was 177.8 million kWh for the Q3 2020, a 5% decrease when compared to 187.7 million kWh for Q3 2019. Net fuel efficiency for Q3 2020 of 18.52kWh per IG decreased when compared to net fuel efficiency for Q3 2019 of 18.89 kWh per IG. Fuel efficiency for Q3 2020 decreased as a result of the less efficient generating units being utilised due to scheduled maintenance of other units.

Net generation was 498.0 million kWh for the nine months ended September 30, 2020, a 3% decrease when compared to 512.9 million kWh for the nine months ended September 30, 2019. Net fuel efficiency for the nine months ended September 30, 2020 of 18.75 kWh per IG decreased when compared to net fuel efficiency for the nine months ended September 30, 2019 of 18.82 kWh per IG.

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 Q3 2020, there were no outstanding call options or call spreads.

Renewables costs for Q3 2020 totalled \$1.4 million, comparable to renewables costs of \$1.4 million for Q3 2019. Renewables costs for the nine months ended September 30, 2020 totalled \$3.9 million, an increase of \$0.2 million when compared to renewables costs of \$3.7 million for the nine months ended September 30, 2019. Renewables costs are a combination of charges from the CORE programme and BMR Energy.

### **General and Administration ("G&A")**

G&A expenses for the Q3 2020 totalled \$1.8 million, a decrease of \$0.1 million when compared to \$1.9 million for Q3 2019. The decrease is due to lower performance share unit expenses partially offset by higher insurance premiums.

G&A expenses for the nine months ended September 30, 2020 totalled \$5.4 million, a decrease of \$0.7 million when compared to G&A expenses of \$6.1 million for the nine months ended September 30, 2019. The decrease is due to lower performance share unit expense, staff welfare costs, legal fees and training expenses. These items were partially offset by an increase in property insurance premiums and lower General Expenses Capitalised (“GEC”).

GEC totalled \$4.3 million for the nine months ended September 30, 2020, a decrease of \$0.2 million when compared to GEC of \$4.5 million for the nine months ended September 30, 2019.

### **Consumer Services (“CS”)**

CS expenses for Q3 2020 totalled \$1.1 million, an increase of \$0.1 million when compared to \$1.0 million for Q3 2019.

CS expenses for the nine months ended September 30, 2020 totalled \$3.1 million, a \$0.6 million increase when compared to \$2.5 million for the nine months ended September 30, 2019. The increase is mainly due to higher provision for bad debt expense in 2020 related to Covid-19 when compared to 2019.

### **Transmission and Distribution (“T&D”)**

T&D expenses for Q3 2020 totalled \$0.8 million, a decrease of \$0.2 million when compared to T&D expenses for Q3 2019 of \$1.0 million. T&D expenses for Q3 2020 were impacted by higher capitalised labour recharges and lower payroll costs. These items were partially offset by higher vegetation management costs.

T&D expenses for the nine months ended September 30, 2020 totalled \$3.5 million, an increase of \$0.4 million when compared to T&D expenses of \$3.1 million for the nine months ended September 30, 2019. The increase is due to higher vegetation management costs, payroll costs and lower capitalised vehicle recharges.

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

Depreciation expenses for Q3 2020 totalled \$9.2 million, an increase of \$0.4 million from \$8.8 million for Q3 2019. Depreciation expenses for the nine months ended September 30, 2020 totalled \$28.4 million, an increase of \$1.9 million, from \$26.5 million for the nine months ended September 30, 2019. The increase in depreciation expenses is due to capital projects completed in prior periods.

### **Maintenance**

Maintenance expenses for Q3 2020 totalled \$1.1 million, a decrease of \$0.4 million from Q3 2019 maintenance expenses of \$1.5 million. The decrease is mainly due to lower generator maintenance costs and overtime costs.

Maintenance expenses for the nine months ended September 30, 2020 totalled \$4.6 million, an increase of \$0.4 million compared to \$4.2 million for the nine months ended September 30, 2019. The increase is mainly due to lower capitalised labour recharges and higher payroll costs.

### **Amortization**

Amortization of intangible assets for Q3 2020 totalled \$0.2 million, comparable to \$0.2 million for Q3 2019.

Amortization of intangible assets for the nine months ended September 30, 2020 totalled \$0.6 million, an increase of \$0.1 million compared to \$0.5 million for the nine months ended September 30, 2019.

Amortization represents the monthly recognition of the expenses 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 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 Q3 2020 totalled \$0.5 million, a decrease of \$1.2 million when compared to net other income of \$0.7 million for Q3 2019.

Net other expenses for the nine months ended September 30, 2020 totalled \$2.5 million, an increase of \$2.5 million from \$0.003 million for the nine months ended September 30, 2019. This increase in net other expenses for the nine months ended September 30, 2020 is due primarily to higher finance charges as a result of higher long-term debt and a reduction of other income.

Finance charges for Q3 2020 totalled \$1.7 million, a \$0.1 million increase from \$1.6 million for Q3 2019. This increase is as a result of higher interest on short-term debt and lower Allowance for Funds Used During Construction ("AFUDC") in Q3 2020.

Finance charges for the nine months ended September 30, 2020 totalled \$5.7 million, a \$0.7 million increase from \$5.0 million for the nine months ended September 30, 2019. This increase is as a result of higher long-term debt, partially offset by lower interest on short term debt for the nine months ended September 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 will be reviewed annually.

The AFUDC amount for Q3 2020 totalled \$1.9 million, comparable to \$1.9 million for Q3 2019.

The AFUDC amount for the nine months ended September 30, 2020 totalled \$5.2 million, a decrease of \$0.1 million from \$5.3 million for the nine months ended September 30, 2019. This decrease was attributable to lower cost of capital rate for the nine months ended September 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 in foreign currencies are translated into United States dollars at the exchange rate prevailing on the transaction date. Foreign exchange gains for Q3 2020 totalled \$0.4 million, an increase of \$0.1 million when compared to \$0.3 million in Q3 2019. Foreign exchange gains for the nine months ended September 30, 2020 totalled \$1.0 million, a \$0.2 million decrease when compared to \$1.2 million for the nine months ended September 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 \$0.9 million for Q3 2020, a decrease of \$1.1 million when compared to other income of \$2.0 million for Q3 2019. Other income totalled \$2.3 million for the nine months ended September 30, 2020, a \$1.5 million decrease when compared to other income of \$3.8 million for the nine months ended September 30, 2019. This decrease in other income for the three and nine months ended September 30, 2020 is mainly due to the reversal of previously recognised bad debt expenses by DataLink in the amount of \$1.1 million in 2019.

Revenues from DataLink for Q3 2020 are recorded in Other Income in the amount of \$0.3 million, a \$0.9 million decrease when compared to \$1.2 million for Q3 2019.

Revenues from DataLink for the nine months ended September 30, 2020 are recorded in Other Income in the amount of \$0.8 million, a decrease of \$1.2 million when compared to \$2.0 million for the nine months ended September 30, 2019.

## Liquidity

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

<b>Cash Flows</b>						
(\$ thousands)						
	<b>Three Months Ended September 30, 2020</b>	<b>Three Months Ended September 30, 2019</b>	<b>Nine Months Ended September 30, 2020</b>	<b>Nine Months Ended September 30, 2019</b>	<b>Change</b>	<b>% Change</b>
Beginning cash	24,927*	5,096	23,662	8,686	14,976	172%
Cash provided by/(used in):						
Operating activities	21,439	24,484	49,729	48,212	1,517	3%
Investing activities	(12,505)	(18,780)	(41,922)	(42,734)	812	-2%
Financing activities	(4,638)	25,982	(2,246)	22,618	(24,864)	-110%
<b>Ending cash</b>	<b>29,223</b>	<b>36,782</b>	<b>29,223</b>	<b>36,782</b>	<b>(7,559)</b>	<b>-21%</b>

\* Includes short-term debt to be repaid in Fourth Quarter 2020.

*Operating Activities:*

Cash flow provided by operations, after working capital adjustments, for Q3 2020, was \$21.4 million, a \$3.1 million decrease when compared to \$24.5 million for Q3 2019. This decrease is primarily attributable to the movement in regulatory deferrals balances and other assets, partially offset by the movements in accounts payable and accounts receivable in Q3 2020 when compared to the same period last year.

Cash flow provided by operations, after working capital adjustments, for the nine months ended September 30, 2020 was \$49.7 million, a \$1.5 million increase when compared to \$48.2 million for the nine months ended September 30, 2019. This increase is primarily attributable to the movement in accounts receivable, other assets, and inventory for the period partially offset by the movement in regulatory deferral accounts and prepayments for the nine months ending September 30, 2020 when compared to the same period last year.

*Investing Activities:*

Cash used in investing activities for Q3 2020 totalled \$12.5 million, a decrease of \$6.3 million from \$18.8 million for Q3 2019. This decrease is due mainly to lower expenditures related to PP&E for Q3 2020 when compared to the Q3 2019.

Cash used in investing activities for the nine months ended September 30, 2020 totalled \$41.9 million, a decrease of \$0.8 million from \$42.7 million for Q3 2019. This decrease is due mainly to proceeds from disposed assets.

*Financing Activities:*

Cash used in financing activities for Q3 2020 totalled \$4.6 million, a decrease of \$30.6 million when compared to cash provided in financing activities of \$26.0 million for Q3 2019. This decrease in cash provided by financing activities is primarily attributable to net proceeds from long-term debt financing in 2019 partially offset by the repayment of the bank overdraft.

Cash used in financing activities for the nine months ended September 30, 2020 totalled \$2.2 million, a decrease of \$24.8 million compared to cash provided in financing activities of \$22.6 million for the nine months ended September 30, 2019. This decrease in cash provided by financing activities is attributable to net proceeds from long-term debt financing in 2019 and higher repayment of long-term debt, partially offset by the proceeds from short term debt.

*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 has the available cash to fund its 2020 capital expenditure programme.

## 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 summarised in the following table.

Related Party Transactions		
<i>(\$ thousands)</i>	As at September 30, 2020	As at December 31, 2019
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	6	5

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 September 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	311,714	17,130	30,753	33,702	230,131
Long-term debt interest	148,786	13,609	24,368	20,650	90,159
<b>Total</b>	<b>460,500</b>	<b>30,739</b>	<b>55,121</b>	<b>54,352</b>	<b>320,288</b>



## Financial Position

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

<b>Significant changes in Balance Sheet</b>		
<i>(from December 31, 2019 to September 30, 2020)</i>		
<b>Balance Sheet Account</b>	<b>Increase/ (Decrease) (\$ thousands)</b>	<b>Explanation</b>
Cash and Cash Equivalents	5,561	Increase due to cash provided by operating activities of \$50.2 million partially offset by cash used in investing activities of \$42.4 million and cash used in financing activities of \$2.2 million.
Accounts Receivable	(1,910)	Decrease due to lower fuel factor revenues and higher expected credit losses due to the Covid-19 pandemic.
Regulatory Assets	(496)	Decrease due to lower fuel prices.
Inventories	(1,830)	Decrease due to lower fuel prices.
Prepayments	1,953	Increase due to renewal of insurance policies in July 2020.
Property, Plant and Equipment	10,345	Net increase is comprised of (1) capital expenditures of \$39.8 million (2) depreciation expense of \$28.4 million and (3) \$0.5 million in accrued capital expenditure and (4) \$0.8 million from proceeds on disposed assets and (5) \$0.2 million Contribution in Aid of Construction.
Accounts Payable and Accrued Expenses	(4,203)	Decrease attributable to lower fuel cost payable, capital expenditure accruals and dividend payable.
Short Term Debt	25,000	Increase due to draw down of Scotiabank capital expenditure facility in May 2020.
Long-Term Debt	(11,777)	Decrease due to principal payments made on the Company's Senior Unsecured Notes in the Second Quarter 2020
Share Premium	3,062	The Company issued 193,900 shares through its share purchase plans.
Retained Earnings	740	Increase due to Class A dividends of \$17.6 million and Class B dividends of \$0.3 million which were partially offset by net earnings for the period of \$18.7 million.

## Capital Resources

The Company's principal activity of generation, transmission, and distribution of electricity in Grand Cayman, requires having 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 rights offerings and the Company's Share Purchase Plans.

## Caribbean Utilities Company, Ltd.

In August 2020, the Company announced the commencement of a rights offering (“the Offering”). The Offering was completed on October 29, 2020. Under the Offering and related stand-by agreement, CUC raised gross proceeds of \$47.8 million through the issue of 3,359,362 Class A Ordinary Shares at a price of US\$14.24 per Class A Ordinary Share.

In connection with the Offering, the Company entered into a stand-by purchase agreement dated the date hereof (the “Stand-By Agreement”) with Fortis Energy (Bermuda) Ltd., a wholly-owned subsidiary of Fortis Inc. (the “Stand-By Purchaser”), the Company’s controlling shareholder. The Stand-By Purchaser agreed, subject to certain terms and conditions, to purchase from the Company, at the Subscription Price, all of the Class A Ordinary Shares that are not otherwise subscribed for and purchased under the Offering by holders of the rights so that the maximum number of Class A Ordinary Shares that may be issued in connection with the Offering will have been issued.

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

Capital Structure				
	September 30, 2020 (\$ thousands)	%	December 31, 2019 (\$ thousands)	%
Total debt	335,273	58	322,050	58
Shareholder’s equity	<u>241,804</u>	<u>42</u>	<u>237,942</u>	<u>42</u>
<b>Total</b>	<b>577,077</b>	<b>100</b>	<b>559,992</b>	<b>100</b>

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

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

S&P	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**

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect 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. 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 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 September 2020 was 5% (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 prioritise 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 amount recorded for expected credit losses.

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

#### *Revenue*

The 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 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 reopened on October 1, 2020 on a limited basis.

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

<b>Sensitivity Analysis</b>	
	<b>1% change in demand</b>
Absolute annual EPS impact	<b>\$0.02</b>

#### *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 unutilised, 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 \$40.0 million at 4.14% and 30-year \$20.0 million 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 September 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.

Through the Offering that was completed on October 29, 2020, the Company raised US\$47.8 million through the issue of 3,359,362 Class A Ordinary Shares at a price of US\$14.24 per Class A Ordinary Share. These funds will be utilised to re-pay short-term debt of \$25.0 million and finance capital projects.

#### *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 December 31, 2018 through September 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.

<b>Quarterly results</b>					
<i>(\$ thousands, except basic and diluted earnings per ordinary share)</i>					
	<b>Operating Revenue</b>	<b>Net Earnings</b>	<b>Earnings on Class A Ordinary Shares</b>	<b>Earnings per Class A Ordinary Share</b>	<b>Diluted earnings per Class A Ordinary Share</b>
September 30, 2020	43,921	10,353	10,240	0.31	0.31
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

### **Disclosure Controls and Procedures**

The President and Chief Executive Officer (“CEO”) and the VP Finance and Chief Financial Officer (“CFO”), together with Management, have established and maintained the Company’s disclosure controls and procedures (“DC&P”), to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the year ending December 31, 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 over disclosure controls and procedures, it was concluded that the DC&P of CUC is adequately designed and operating effectively as of September 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 September 30, 2020.

### **Outlook**

During the Third Quarter 2020, the Company submitted its 2021-2025 CIP in the amount of \$313.0 million to OfReg for approval. The Company also submitted an additional \$24.0 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. A decision on the proposed 2021-2025 Capital Investment Plan is expected during the Fourth Quarter 2020.

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. OfReg approved the rate increase deferral on customer billings in August 2020. The amount that was recorded for June to September 2020 was \$2.1 million.

The Company has also applied for recovery of various COVID-19 related expenses, including potential credit losses 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 COVID-19 cost recovery is expected during the Fourth Quarter 2020.

## Caribbean Utilities Company, Ltd.

---

In August 2020, the Company announced the commencement of a rights offering (“the Offering”). The Offering was completed on October 29, 2020. Under the Offering and related stand-by agreement, CUC raised gross proceeds of \$47.8 million through the issue of 3,359,362 Class A Ordinary Shares at a price of US\$14.24 per Class A Ordinary Share.

### Outstanding Share Data

At October 30, 2020 the Company had issued and outstanding 37,029,541 Ordinary Shares and 250,000 9% cumulative Participating Class B Preference Shares. Share issuance between September 30, 2020 and October 30, 2020 relate to the recently concluded rights offering.

The number of common shares of the Company that would be issued if all outstanding stock options were converted as at October 30, 2020 is as follows.

Conversion of Securities into Common Shares As at October 30, 2020 (Unaudited)	Number of Common Shares
Stock Options	1,000

Additional information, including CUC’s Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.cuc-cayman.com](http://www.cuc-cayman.com).

**Caribbean Utilities Company, Ltd.**

**Condensed Consolidated Interim Balance Sheets**

(expressed in thousands of United States Dollars)

<b>Unaudited</b>	<b>Note</b>	<b>As at September 30, 2020</b>	<b>As at December 31, 2019</b>
<b>Assets</b>			
<i>Current Assets</i>			
Cash		29,223	23,662
Accounts Receivable (Net of Allowance for Credit Losses and Doubtful Accounts of \$1,960 and \$1,335)	6	7,211	9,121
Related Party Receivables	12	6	5
Regulatory Assets	7	17,648	18,144
Inventories		2,700	4,530
Prepayments		4,933	2,980
<b>Total Current Assets</b>		<b>61,721</b>	58,442
Property, Plant and Equipment, net		548,331	537,986
Intangible Assets, net		3,665	3,598
Other Assets		464	391
<b>Total Assets</b>		<b>614,181</b>	600,417
<b>Liabilities and Shareholders' Equity</b>			
<i>Current Liabilities</i>			
Accounts Payable and Accrued Expenses		21,174	25,377
Related Party Payables	12	-	-
Regulatory Liabilities	7	2,257	1,298
Short-Term Debt		25,000	-
Current Portion of Long-Term Debt	9	17,130	14,857
Current Portion of Lease Liability		79	76
Consumers' Deposits and Advances for Construction		10,906	10,520
<b>Total Current Liabilities</b>		<b>76,546</b>	52,128
Defined Benefit Pension Liability		1,784	1,827
Long-Term Debt	9	293,143	307,193
Other Long-Term Liabilities		904	1,327
<b>Total Liabilities</b>		<b>372,377</b>	362,475
<b>Commitments and Contingency</b>	13/14	-	-
<b>Shareholders' Equity</b>			
Share Capital <sup>1</sup>		2,254	2,243
Share Premium		133,345	130,283
Retained Earnings		108,021	107,281
Accumulated Other Comprehensive Loss		(1,816)	(1,865)
<b>Total Shareholders' Equity</b>		<b>241,804</b>	237,942
<b>Total Liabilities and Shareholders' Equity</b>		<b>614,181</b>	600,417

*See accompanying Notes to Condensed Consolidated Interim Financial Statements*

<sup>1</sup> Consists of Class A Ordinary Shares of 33,670,179 and 33,476,279 issued and outstanding as at September 30, 2020 and December 31, 2019 and Class B Preference Shares of 250,000 and 250,000 issued and outstanding as at September 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 September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
<b>Operating Revenues</b>					
Electricity Sales	5	26,250	25,365	70,295	69,315
Fuel Factor	5	16,264	29,596	60,886	78,688
Renewables	5	1,407	1,376	3,870	3,716
<i>Total Operating Revenues</i>		<b>43,921</b>	56,337	<b>135,051</b>	151,719
<b>Operating Expenses</b>					
Power Generation		18,806	32,203	68,324	85,944
General and Administration		1,793	1,940	5,398	6,055
Consumer Services		1,143	1,034	3,082	2,540
Transmission and Distribution		837	984	3,518	3,051
Depreciation		9,165	8,828	28,367	26,533
Maintenance		1,139	1,508	4,554	4,169
Amortization of Intangible Assets		203	174	609	535
<i>Total Operating Expenses</i>		<b>33,086</b>	46,671	<b>113,852</b>	128,827
<b>Operating Income</b>					
		<b>10,835</b>	9,666	<b>21,199</b>	22,892
<b>Other (Expenses)/Income</b>					
Finance Charges	10	(1,718)	(1,582)	(5,745)	(5,039)
Foreign Exchange Gain	11	383	347	973	1,228
Other Income		853	1,973	2,256	3,808
<i>Total Net Other (Expenses)/ Income</i>		<b>(482)</b>	738	<b>(2,516)</b>	(3)
<b>Net Earnings for the Period</b>					
		<b>10,353</b>	10,404	<b>18,683</b>	22,889
<b>Preference Dividends Paid- Class B</b>					
		<b>(113)</b>	(113)	<b>(339)</b>	(339)
<b>Earnings on Class A Ordinary Shares</b>					
		<b>10,240</b>	10,291	<b>18,344</b>	22,550
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)					
		<b>33,594</b>	33,359	<b>33,566</b>	33,322
<b>Earnings per Class A Ordinary Share</b>					
Diluted Earnings per Class A Ordinary Share		<b>0.31</b>	0.31	<b>0.55</b>	0.68
Dividends Declared per Class A Ordinary Share		<b>0.175</b>	0.175	<b>0.525</b>	0.525

*See accompanying Notes to Condensed Consolidated Interim Financial Statements*

**Condensed Consolidated Interim Statements of Comprehensive Income**

*(expressed in thousands of United States Dollars)*

<b>Unaudited</b>	<b>Three Months Ended September 30, 2020</b>	<b>Three Months Ended September 30, 2019</b>	<b>Nine Months Ended September 30, 2020</b>	<b>Nine Months Ended September 30, 2019</b>
<b>Net Earnings for the Period</b>	<b>10,353</b>	10,404	<b>18,683</b>	22,889
Other Comprehensive Income:				
Defined Benefit Pension Plans:				
Amortization of Net Actuarial Loss	17	7	49	21
Total Other Comprehensive Income	17	7	49	21
<b>Comprehensive Income</b>	<b>10,370</b>	10,411	<b>18,732</b>	22,910

*See accompanying Notes to Condensed Consolidated Interim Financial Statements*

**Condensed Consolidated Interim Statements of Shareholders' Equity**

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

<b>Unaudited</b>	<b>Class A Ordinary Shares (in thousands)</b>	<b>Class A Ordinary Shares Value (\$)</b>	<b>Preference Shares (\$)</b>	<b>Share Premium (\$)</b>	<b>Accumulated Other Comprehensive Loss (\$)</b>	<b>Retained Earnings (\$)</b>	<b>Total Equity (\$)</b>
<b>As at December 31, 2019</b>	<b>33,476</b>	<b>1,993</b>	<b>250</b>	<b>130,283</b>	<b>(1,865)</b>	<b>107,281</b>	<b>237,942</b>
Net earnings	-	-	-	-	-	<b>18,683</b>	<b>18,683</b>
Common share issuance and stock options plans	<b>194</b>	<b>11</b>	-	<b>3,062</b>	-	-	<b>3,073</b>
Defined benefit plans	-	-	-	-	<b>49</b>	-	<b>49</b>
Dividends on common shares	-	-	-	-	-	<b>(17,604)</b>	<b>(17,604)</b>
Dividends on preference shares	-	-	-	-	-	<b>(339)</b>	<b>(339)</b>
<b>As at September 30, 2020</b>	<b>33,670</b>	<b>2,004</b>	<b>250</b>	<b>133,345</b>	<b>(1,816)</b>	<b>108,021</b>	<b>241,804</b>
As at December 31, 2018	33,232	1,978	250	126,837	(1,167)	102,484	230,382
Net earnings	-	-	-	-	-	22,889	22,889
Common share issuance and stock options plans	185	11	-	2,652	-	-	2,663
Defined benefit plans	-	-	-	-	21	-	21
Dividends on common shares	-	-	-	-	-	(17,485)	(17,485)
Dividends on preference shares	-	-	-	-	-	(339)	(339)
As at September 30, 2019	33,417	1,989	250	129,489	(1,146)	107,549	238,131

*See accompanying Notes to Condensed Consolidated Interim Financial Statements*

**Condensed Consolidated Interim Statements of Cash Flows**

(expressed in thousands of United States Dollars)

<b>Unaudited</b>	<b>Three Months Ended September 30, 2020</b>	<b>Three Months Ended September 30, 2019</b>	<b>Nine Months Ended September 30, 2020</b>	<b>Nine Months Ended September 30, 2019</b>
<i>Operating Activities</i>				
Net Earnings for the period	10,353	10,404	18,683	22,889
Items not affecting cash:				
Depreciation	9,165	8,828	28,367	26,533
Amortization of Intangible Assets	203	174	609	535
Amortization of Deferred Financing Costs	33	30	100	90
Non-Cash DataLink Adjustment	-	1,085	-	1,085
	<b>19,754</b>	<b>20,521</b>	<b>47,759</b>	<b>51,132</b>
Net Changes in Working Capital Balances Related to Operations	5,162	849	515	(5,827)
Net Change in Regulatory Deferrals	<b>(3,477)</b>	3,114	<b>1,455</b>	2,907
<i>Cash flow related to operating activities</i>	<b>21,439</b>	24,484	<b>49,729</b>	48,212
<i>Investing Activities</i>				
Purchase of Property, Plant and Equipment	<b>(12,497)</b>	(18,547)	<b>(42,300)</b>	(42,319)
Proceeds from Sale of Property, Plant and Equipment	-	19	-	37
Purchase of Intangible Assets	<b>(239)</b>	(252)	<b>(680)</b>	(580)
Proceeds on Disposed Assets	-	-	827	-
Contributions in Aid of Construction	231	-	231	128
<i>Cash flow related to investing activities</i>	<b>(12,505)</b>	(18,780)	<b>(41,922)</b>	(42,734)
<i>Financing Activities</i>				
Proceeds from Long-Term Debt Financing	-	40,000	-	80,000
Proceeds from / (Repayment of) Short-Term Debt	-	-	25,000	(30,000)
Repayment of Long-Term Debt	-	-	<b>(11,857)</b>	(9,714)
(Decrease) in Bank Overdraft	-	(8,990)	-	(1,993)
Dividends Paid	<b>(5,991)</b>	(5,958)	<b>(18,462)</b>	(18,338)
Net Proceeds from Share Issuance	1,353	930	3,073	2,663
<i>Cash flow related to financing activities</i>	<b>(4,638)</b>	25,982	<b>(2,246)</b>	22,618
Increase in net cash	4,296	31,686	5,561	28,096
Cash - Beginning of the period	24,927	5,096	23,662	8,686
Cash - End of the period	<b>29,223</b>	36,782	<b>29,223</b>	36,782
Supplemental disclosure of cash flow information:				
Interest paid during the period	835	61	8,233	6,699

*See accompanying Notes to Condensed Consolidated Interim Financial Statements*

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

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

These condensed consolidated interim financial statements include the regulated operations and the wholly owned subsidiary DataLink and reflect the decisions of 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 proposed to OfReg to defer the required rate increase until January 1, 2021. During the Third Quarter 2020 OfReg approved

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

---

the Company's proposal. 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 a Regulatory Asset amount due from customers. The amount recorded as a regulatory asset for the period June 1, 2020 to September 30, 2020 was \$2.1 million. The amount recorded will be recovered within 2 years from the effective date of the increase on January 1, 2021.

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, the COVID-19 related expenses would also be recorded as a Regulatory Asset and recovered through future rates. OfReg's response to the proposed COVID-19 cost recovery is expected during the Fourth 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 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 does not expect the adoption of this ASU to have a material impact on the related disclosure.

## 5. Operating Revenues

<b>Operating Revenues</b>				
	<b>Three Months Ended September 30, 2020</b>	<b>Three Months Ended September 30, 2019</b>	<b>Nine Months Ended September 30, 2020</b>	<b>Nine Months Ended September 30, 2019</b>
(\$ thousands)				
<b>Electricity Sales Revenues</b>				
Residential	14,591	13,187	38,423	34,880
Commercial	11,432	11,985	31,212	33,798
Other (street lighting etc.)	227	193	660	637
<b>Total Electricity Sales Revenues</b>	<b>26,250</b>	25,365	<b>70,295</b>	69,315
<b>Fuel Factor</b>	<b>16,264</b>	29,596	<b>60,886</b>	78,688
<b>Renewables</b>	<b>1,407</b>	1,376	<b>3,870</b>	3,716
<b>Total Operating Revenues</b>	<b>43,921</b>	56,337	<b>135,051</b>	151,719

### *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. During Q3 2020, additional revenue accruals were recorded for the June 2020 required base rate increase of 6.6% which was deferred until January 1, 2021.

### *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

<b>Accounts Receivable</b>		
	<b>As at September 30, 2020</b>	<b>As at December 31, 2019</b>
(\$ thousands)		
Billings to Consumers	8,767	10,241
Other Receivables	404	215
Allowance for Doubtful Accounts	-	(1,335)
Allowance for Credit Losses	(1,960)	-
<b>Total Accounts Receivable, net</b>	<b>7,211</b>	9,121

### *Other receivables*

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



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

*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 December 31, 2019 to September 30, 2020 is listed in the following table.

Allowance for Credit Losses	
(\$ thousands)	Nine Months Ended September 30, 2020
<b>Beginning of Period</b>	\$ (1,335)
Credit Loss Expensed	(854)
Write-offs	274
Recoveries	(45)
<b>End of Period</b>	(1,960)

**7. Regulatory Assets and Liabilities**

Regulatory Assets and Liabilities			
(\$ thousands)			
<u>Asset/Liability</u>	<u>Description</u>	As at September 30, 2020	As at December 31, 2019
Regulatory Assets	Fuel Tracker Account	15,271	17,497
Regulatory Assets	Miscellaneous Regulatory Assets	144	164
Regulatory Assets	Demand Rate	143	483
Regulatory Assets	Deferred Base Rate Revenues	2,090	-
<b>Total Regulatory Assets</b>		<b>17,648</b>	18,144
Regulatory Liabilities	Government & Regulatory Tracker Account	(2,257)	(1,298)
<b>Total Regulatory Liabilities</b>		<b>(2,257)</b>	(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.

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

<b>Share Options</b>				
	<b>Nine Months Ended September 30, 2020</b>	<b>Nine Months Ended September 30, 2020</b>		
	<b>Number of Options</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Contractual Term (years)</b>	<b>Aggregate Intrinsic Value (\$ thousands)</b>
Outstanding at Beginning of Period	1,000	9.66	2.22	-
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited/Cancelled	-	-	-	-
Expired	-	-	-	-
Outstanding, End of Period	1,000	9.66	1.46	-
<b>Vested, End of the Period</b>	<b>1,000</b>	<b>9.66</b>	<b>1.46</b>	<b>-</b>

Under the fair value method, the compensation expense was \$nil for Q3 2020 (September 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 September 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 reduced by \$0.1 million for Q3 2020 (Q3 2019: \$0.1 million). PSU Compensation expense was \$0.1 million for nine months ended September 30, 2020 (2019: \$0.5 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 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.

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

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 September 30, 2020. The estimated fair values of the Company's financial instruments are as follows:

Financial Instruments				
(\$ thousands)	As at September 30, 2020		As at December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt, including Current Portion	310,273	349,118	322,050	323,034

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

## 10. Finance Charges

The composition of finance charges were as follows:

Finance Charges				
(\$ thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	Interest costs - long-term debt	3,425	3,402	10,590
Other interest costs	163	91	308	768
AFUDC	(1,870)	(1,911)	(5,153)	(5,262)
<b>Finance Charges</b>	<b>1,718</b>	<b>1,582</b>	<b>5,745</b>	<b>5,039</b>

## 11. Foreign Exchange

The closing rate of exchange on September 30, 2020 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn \$1.3339 per US\$1.00 (December 31, 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 September 30, 2020 for conversion of Cayman Islands dollars into Canadian dollars was Cdn \$1.6007 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 summarised in the following table.

Related Party Transactions		As at September 30, 2020	As at December 31, 2019
<i>(\$ thousands)</i>			
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)		6	5

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

## **13. Commitments**

As at September 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	358	20	191	147	-
<b>Commitments</b>	<b>858</b>	<b>520</b>	<b>191</b>	<b>147</b>	<b>-</b>

## **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. A response to DataLink's submission remains pending.

**15. Subsequent Event**

In August 2020, the Company announced the commencement of a Rights Offering (the “Offering”) and related stand-by agreement with Fortis Energy (Bermuda) Ltd. (“FEBL”), a wholly-owned subsidiary of Fortis Inc., the Company’s controlling shareholder. Under the Offering, each shareholder received one right per Class A Ordinary Share as at September 1, 2020 and ten rights enabled shareholders to purchase one Class A Ordinary Share of the Company at a subscription price of \$14.24 per share. The Offering was successfully completed on October 29, 2020. Under the Offering and related stand-by agreement, the Company raised \$47.8 million through the issue of 3,359,362 shares. The funds will be utilised to repay short-term debt and to finance capital projects.

Subsequent events were evaluated until the date the financial statements were issued, October 30, 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 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 residing 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](mailto: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](mailto:investor@cuc.ky)  
Website: [www.cuc-cayman.com](http://www.cuc-cayman.com)

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

#### **Caribbean Utilities Company, Ltd.**

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