



Training



Supporting



Expanding



Rewarding

Caribbean Utilities Company, Ltd.
2019 Third Quarter Report
September 30, 2019



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

A Governor, presently His Excellency Mr. 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.

Table of Contents:

Interim Management’s Discussion and Analysis	4
Condensed Consolidated Interim Financial Statements:	
Condensed Consolidated Interim Balance Sheets	21
Condensed Consolidated Interim Statements of Earnings	22
Condensed Consolidated Interim Statements of Comprehensive Income	23
Condensed Consolidated Interim Statements of Shareholders’ Equity	24
Condensed Consolidated Interim Statements of Cash Flows	25
Notes to Condensed Consolidated Interim Financial Statements	26
Shareholder Information	37

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, 2018 ("Fiscal 2018"). 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 2018 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 materialize, or should underlying assumptions prove incorrect. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

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

October 31, 2019

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, 2019	Three Months Ending September 30, 2018	Nine Months Ending September 30, 2019	Nine Months Ending September 30, 2018	Change	% Change
Electricity Sales Revenues	25,365	23,345	69,315	63,810	5,505	9%
Fuel Factor Revenues	29,596	28,869	78,688	75,765	2,923	4%
Renewables Revenues	1,376	1,141	3,716	3,017	699	23%
Total Operating Revenues	56,337	53,355	151,719	142,592	9,127	6%
Fuel & Lube Costs	29,596	28,869	78,688	75,765	2,923	4%
Renewables Costs	1,376	1,141	3,716	3,017	699	23%
Other Operating Expenses	15,699	13,910	46,423	43,451	2,972	7%
Total Operating Expenses	46,671	43,920	128,827	122,233	6,594	5%
Net Earnings for the Period	10,404	9,181	22,889	18,888	4,001	21%
Cash Flow related to Operating Activities	24,484	17,409	48,212	40,949	7,263	18%
<i>Per Class A Ordinary Share:</i>						
Basic Earnings	0.31	0.27	0.68	0.56	0.12	21%
Dividends Paid	0.175	0.175	0.525	0.520	0.005	1%
Total Customers	30,254	29,584	30,254	29,584	670	2%
Total Employees*	237	221	237	221	16	7%
Customers per Employee (#)	128	134	128	134	(6)	-4%
System Availability (%)	99.95	99.92	99.95	99.92	0.03	0%
Peak Load Gross (MW)	113.5	103.6	113.5	103.6	9.9	10%
<i>Millions of kWh:</i>						
Net Generation	187.7	174.0	512.9	480.1	32.8	7%
Total Energy Supplied	191.3	178.9	523.9	489.1	34.8	7%
Kilowatt-Hour Sales	184.4	170.8	503.9	471.0	32.9	7%
Sales per employee	0.78	0.77	2.13	2.13	-	0%

*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 2018 was 7.1% (2017: 6.9%). CUC’s RORB for 2019 is targeted in the 7.5% to 9.5% range (2018: 7.00% to 9.00%).

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel, lube and renewables cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2019, following review and approval by the OfReg, the Company increased its base rates by 0.9%. This increase was a result of the 2018 RORB and the increase in the applicable United States ("US") and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2018. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80% based on the range of the RORB values. The required rate adjustment of 0.9% can be calculated by applying 80% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 1.12%. All fuel, lubricating oil and renewables costs are passed through to customers without mark-up as a per kWh charge. Rate base is the value of capital upon which the Company is permitted an opportunity to earn a return. The value of this capital is the average of the beginning and ending values for the applicable financial year of: fixed assets less accumulated depreciation, plus the allowance for working capital, plus regulatory assets less regulatory liabilities.

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.

Prior to May 1, 2018, a licence fee of 1%, payable to the Government, was charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge. In addition to the licence fee, a regulatory fee of 0.5% was charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The OfReg and the Company agreed on a change to the licence and regulatory fee structure which commenced on May 1, 2018, whereby the objective is to collect fixed amounts annually of \$2.9 million for the license fee and \$1.4 million for the regulatory fee. This translates to a rate of \$0.0149 per kWh, which is applied to customer billings with consumption over 1,000 kWh per month as a pass-through charge.

CUC's wholly-owned subsidiary, 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

Sales

Sales for the three months ended September 30, 2019 (“Third Quarter 2019” or “Q3 2019”) totalled 184.4 million kWh, an increase of 13.6 million kWh, or 8% increase in comparison to 170.8 million kWh for the three months ended September 30, 2018 (“Third Quarter 2018” or “Q3 2018”). The increase was driven by increases in the average customer kWh consumption in Q3 2019 compared to Q3 2018. The average monthly temperature for Q3 2019 was 86.5 degrees Fahrenheit as compared to an average monthly temperature of 85.4 degrees for Q3 2018. Warmer temperatures increase air conditioning load which can positively impact the Company’s sales.

Sales for the nine months ended September 30, 2019 totalled 503.9 million kWh, an increase of 32.9 million kWh, or 7% increase in comparison to 471.0 million kWh for the nine months ended September 30, 2018. Sales for the nine months ended September 30, 2019 were positively impacted by an increase in average customer consumption and higher overall customer numbers when compared to the same period last year.

The following table presents the average customer consumption by rate class:

Average Consumption per Customer						
	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Change	% Change
Residential	1,269	1,171	1,123	1,042	81	8%
General Commercial	2,957	2,857	2,774	2,673	101	4%
Large Commercial	143,071	136,025	137,759	127,324	10,435	8%

Total customers as at September 30, 2019 were 30,254, an increase of 670 customers, or 2%, compared to 29,584 customers as at September 30, 2018.

Earnings

Operating income for Q3 2019 totalled \$9.7 million, an increase of \$0.3 million when compared to operating income of \$9.4 million for Q3 2018. The increase is primarily attributable to higher electricity sales revenues which were partially offset by higher depreciation and maintenance expenses.

Net earnings for Q3 2019 totalled \$10.4 million, an increase of \$1.2 million from \$9.2 million in Q3 2018. In addition to the items impacting operating income, net earnings were also positively impacted by higher other net income and lower finance charges driven by higher Allowance for Funds Used During Construction (“AFUDC”). Other income was positively impacted by a one-off write back of previously recognized bad debt expenses of \$1.1 million

by the subsidiary company DataLink. These items were partially offset by higher interest on long-term debt and lower foreign exchange gains.

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

As a result of a legal review and assessment of the Directives contained in ICT 2017-1, DataLink sought a stay of the decision and leave to apply for Judicial Review from the Cayman Islands Grand Court. Both the stay and leave 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. At the end of first quarter 2019 DataLink had fully reserved for potential bad debts based on the OfReg determination.

On July 25, 2019, the Company was notified of the Court's decision in the Company's favour, to quash OfReg's determination. As a result of the Court's decision, in Q3 2019 DataLink wrote back previously recognized bad debts in the amount of \$1.1 million to other income. The bad debt expenses was formerly recorded over the years by the Company from the onset of the Determination case in July 2017 to February 2019.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Q3 2019 were \$10.3 million, or \$0.31 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$9.1 million, or \$0.27 per Class A Ordinary Share for Q3 2018.

Operating income for the nine months ended September 30, 2019 totalled \$22.9 million, an increase of \$2.5 million when compared to operating income of \$20.4 million for the nine months ended September 30, 2018. The increase is primarily attributable to higher electricity sales revenues and which were partially offset by higher power generation and depreciation expenses.

Net earnings for the nine months ended September 30, 2019 totalled \$22.9 million, an increase of \$4.0 million when compared to net earnings of \$18.9 million for the nine months ended September 30, 2018. The increase is primarily attributable to the higher electricity sales revenues, lower finance charges and higher other income. These items were partially offset by higher depreciation expenses.

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, 2019 were \$22.6 million, or \$0.68 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of \$18.5 million, or \$0.56 per Class A Ordinary Share, for the nine months ended September 30, 2018.

Operating Revenues

Operating revenues for Q3 2019 were \$56.3 million, an increase of \$2.9 million from \$53.4 million for Q3 2018. Operating revenues for the nine months ended September 30, 2019 were \$151.7 million, an increase of \$9.1 million from \$142.6 million for the nine months ended September 30, 2018. The increase in operating revenues for the three and nine months ended September 30, 2019 was due to kWh sales growth and increases in fuel factor and renewables revenue.

Electricity sales revenues were \$25.4 million for Q3 2019, an increase of \$2.1 million from \$23.3 million for Q3 2018. Electricity sales revenues were \$69.3 million for the nine months ended September 30, 2019, an increase of \$5.5 million from \$63.8 million for the nine months ended September 30, 2018. Electricity sales revenues for the three and nine months ended September 30, 2019 increased when compared to the same periods last year due to the 0.9% and 1.8% base rate increases effective June 1, 2019 and June 1, 2018 respectively. Electricity sales revenues for the nine months ended September 30, 2019 were also positively impacted by an increase of 7% in kWh sales.

Fuel factor revenues for Q3 2019 totalled \$29.6 million, an increase of \$0.7 million, compared to fuel factor revenues of \$28.9 million for Q3 2018. The average Fuel Cost Charge rate billed to consumers for Q3 2019 was \$0.18 per kWh, comparable to the average Fuel Cost Charge rate of \$0.18 per kWh for Q3 2018. 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, 2019 totalled \$78.7 million, an increase of \$2.9 million compared to fuel factor revenues of \$75.8 million for the nine months ended September 30, 2018. Fuel factor revenues for the nine months ended September 30, 2019 increased when compared to the nine month period ended September 30, 2018 due to fuel and lube consumption.

Renewables revenues for Q3 2019 totalled \$1.4 million, an increase of \$0.3 million compared to renewables revenues of \$1.1 million for Q3 2018. The renewables revenues are a combination of charges from the Customer Owned Renewable Energy (“CORE”) programme and Entropy Cayman Solar Limited (“Entropy”) which are passed-through to consumers on a two-month lag basis with no mark-up. During 2015, the Company entered into a Power Purchase Agreement (“PPA”) with Entropy for a 25-year term. This 5 MW solar project was completed in June 2017.

Renewables revenues for the nine months ended September 30, 2019 totalled \$3.7 million, an increase of \$0.7 million compared to renewables revenues of \$3.0 million for the nine months ended September 30, 2018.

Operating Expenses

Operating expenses for Q3 2019 totalled \$46.7 million, a \$2.8 million increase from \$43.9 million for Q3 2018. This increase was due primarily to higher power generation expenses, depreciation and maintenance expenses for Q3 2019 when compared to Q3 2018.

Operating expenses for the nine months ended September 30, 2019 totalled \$128.8 million, a \$6.6 million increase from \$122.2 million for the nine months ended September 30, 2018. This

increase was due primarily to higher power generation, depreciation and consumer service expenses.

Power Generation

Power generation costs for Q3 2019 increased \$1.2 million to \$32.2 million when compared to \$31.0 million for Q3 2018. This increase is primarily a result of higher fuel and lube consumption.

Power generation costs for the nine months ended September 30, 2019 increased \$4.2 million to \$85.9 million when compared to \$81.7 million for the nine months ended September 30, 2018. This increase is primarily a result of higher fuel and lube consumption.

The Company's average cost per imperial gallon ("IG") of fuel for Q3 2019 decreased 11% to \$2.80, compared to \$3.13 for Q3 2018. The Company's average price per IG of fuel for the nine months ended September 30, 2019 decreased by 7% to \$2.84, compared to \$3.07 for the nine months ended September 30, 2018.

The Company's average cost per IG of lubricating oil for Q3 2019 decreased 5% to \$9.24 when compared to \$9.75 for Q3 2018. The Company's average price per IG of lubricating oil for the nine months ended September 30, 2019 decreased 3% to \$9.47 when compared to \$9.75 for the nine months ended September 30, 2018.

The decrease in the average fuel & lube costs have resulted in the average rate per kWh decreasing for the nine months ended September 30, 2019 to \$0.3024 per kWh in comparison to \$0.3026 for the nine months ended September 30, 2018. As a result, customers have paid less per kWh for electricity consumed during the nine months ended September 30, 2019 in comparison to the nine months ended September 30, 2018.

Net generation was 187.7 million kWh for the Q3 2019, an 8% increase when compared to 174.0 million kWh for Q3 2018. Net fuel efficiency for Q3 2019 of 18.89 kWh per IG increased when comparable to net fuel efficiency for Q3 2018 of 18.82 kWh per IG. The return to improved fuel efficiency for Q3 2019 is a result of the more efficient generating units having been brought back into service after scheduled maintenance.

Net generation was 512.9 million kWh for the nine months ended September 30, 2019, a 7% increase when compared to 480.1 million kWh for the nine months ended September 30, 2018. Net fuel efficiency for the nine months ended September 30, 2019 of 18.82 kWh per IG decreased when compared to net fuel efficiency for the nine months ended September 30, 2018 of 18.85 kWh per IG.

The Fuel Tracker Account (see Note 8 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. A contract initiated in 2018 which remains outstanding as at September 30,

2019, utilizes call options and call spreads to promote transparency in pricing. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

Renewables costs for Q3 2019 totalled \$1.4 million, an increase of \$0.3 million when compared to renewables costs of \$1.1 million for Q3 2018. Renewables costs for the nine months ended September 30, 2019 totalled \$3.7 million, an increase of \$0.7 million when compared to renewables costs of \$3.0 million for the nine months ended September 30, 2018. Renewables costs are a combination of charges from the CORE programme and Entropy.

General and Administration (“G&A”)

G&A expenses for the Q3 2019 totalled \$1.9 million, an increase of \$0.1 million when compared to \$1.8 million for Q3 2018.

G&A expenses for the nine months ended September 30, 2019 totalled \$6.1 million, an increase of \$0.2 million when compared to G&A expenses of \$5.9 million for the nine months ended September 30, 2018. The increase is due to higher performance share unit expense, staff welfare costs and property insurance premiums in 2019 when compared to 2018. These items were partially offset by an increase in General Expenses Capitalised (“GEC”).

GEC totalled \$4.5 million for the nine months ended September 30, 2019, an increase of \$0.6 million when compared to GEC of \$3.9 million for the nine months ended September 30, 2018.

Consumer Services (“CS”)

CS expenses for Q3 2019 totalled \$1.0 million, an increase of \$0.2 million when compared to \$0.8 million for Q3 2018.

CS expenses for the nine months ended September 30, 2019 totalled \$2.5 million, a \$0.3 million increase when compared to \$2.2 million for the nine months ended September 30, 2018. The increase is mainly due to higher provision for bad debt expense and lower labour recharges in 2019 when compared to 2018.

Transmission and Distribution (“T&D”)

T&D expenses for Q3 2019 totalled \$1.0 million, an increase of \$0.2 million when compared to T&D expenses for Q3 2018 of \$0.8 million. T&D expenses for Q3 2019 were impacted by an increase in the T&D department’s payroll costs and higher line maintenance materials costs.

T&D expenses for the nine months ended September 30, 2019 totalled \$3.1 million, comparable to T&D expenses of \$3.1 million for the nine months ended September 30, 2018.

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

Depreciation expenses for Q3 2019 totalled \$8.8 million, an increase of \$0.6 million from \$8.2 million for Q3 2018. Depreciation expenses for the nine months ended September 30, 2019 totalled \$26.5 million, an increase of \$1.9 million, from \$24.6 million for the nine months ended September 30, 2018. The increase in depreciation expenses is due to capital projects completed in prior periods.

Maintenance

Maintenance expenses for Q3 2019 totalled \$1.5 million, an increase of \$0.3 million from Q3 2018 maintenance expenses of \$1.2 million. The increase is mainly due to an increase in generator maintenance costs.

Maintenance expenses for the nine months ended September 30, 2019 totalled \$4.2 million, comparable to \$4.2 million for the nine months ended September 30, 2018.

Amortization

Amortization of intangible assets for Q3 2019 totalled \$0.2 million, comparable to \$0.2 million for Q3 2018.

Amortization of intangible assets for the nine months ended September 30, 2019 totalled \$0.5 million, comparable to \$0.5 million for the nine months ended September 30, 2018.

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 income for Q3 2019 totalled \$0.7 million, an increase of \$1.0 million when compared to net other expenses of \$0.3 million for Q3 2018.

Net other expenses for the nine months ended September 30, 2019 totalled \$0.3 million, a decrease of \$1.2 million from \$1.5 million for the nine months ended September 30, 2018. This decrease in net other expenses for the nine months ended September 30, 2019 is due primarily to reversal of previously expected bad debt expenses by DataLink in the amount of \$1.1 million to other income.

Finance charges for Q3 2019 totalled \$1.6 million, a \$0.2 million decrease from \$1.8 million for Q3 2018. This decrease is as a result of higher AFUDC and lower interest on short-term debt in Q3 2019.

Finance charges for the nine months ended September 30, 2019 totalled \$5.0 million, a \$1.0 million decrease from \$6.0 million for the nine months ended September 30, 2018. This decrease is as a result of higher AFUDC, partially offset by higher interest on short term debt for the nine month period ended September 30, 2019.

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 2019 is 8.5% (2018: 8%) as agreed with the OfReg, in accordance with the T&D Licence, and will be reviewed annually.

The AFUDC amount for Q3 2019 totalled \$1.9 million, an increase of \$0.4 million from \$1.5 million for Q3 2018. The AFUDC amount for the nine months ended September 30, 2019

totalled \$5.3 million, an increase of \$1.3 million from \$4.0 million for the nine months ended September 30, 2018. This increase was attributable to higher capital expenditure, driven primarily by a higher average of work in progress capital projects for the three and nine month periods ended September 30, 2019.

Foreign exchange gains and losses are the result of monetary assets and liabilities denominated in foreign currencies that are translated into United States dollars at the exchange rate prevailing on the 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 2019 totalled \$0.3 million, a decrease of \$0.2 million when compared to \$0.5 million in Q3 2018. Foreign exchange gains for the nine months ended September 30, 2019 totalled \$1.2 million, a \$0.3 million decrease when compared to \$1.5 million for the nine months ended September 30, 2018.

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 \$2.0 million for Q3 2019, an increase of \$0.9 million when compared to other income of \$1.1 million for Q3 2018. Other income totalled \$3.8 million for the nine months ended September 30, 2019, a \$0.8 million increase when compared to other income of \$3.0 million for the nine months ended September 30, 2018. This increase in other income for the three and nine months ended September 30, 2019 is mainly due to the reversal of previously recognized bad debt expenses by DataLink in the amount of \$1.1 million. The bad debt expenses was formerly recorded by the Company over the years from the onset of the Determination case in July 2017 to February 2019.

Revenues from DataLink for Q3 2019 are recorded in Other Income in the amount of \$1.4 million, a \$1.0 million increase when compared to \$0.4 million for Q3 2018.

Revenues from DataLink for the nine month period ended September 30, 2019 are recorded in Other Income in the amount of \$2.0 million, an increase of \$0.9 million when compared to \$1.1 million for the nine month period ended September 30, 2018.

Liquidity

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

Cash Flows						
(\$ thousands)						
	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Change	% Change
Beginning cash	5,096	6,544	8,686	7,258	1,428	20%
Cash provided by/(used in):						
Operating activities	24,484	17,409	48,212	40,949	7,263	18%
Investing activities	(18,780)	(10,931)	(42,734)	(34,312)	(8,422)	25%
Financing activities	25,982	(7,505)	22,618	(8,378)	30,996	-370%
Ending cash	36,782	5,517	36,782	5,517	31,265	567%

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for Q3 2019, was \$24.5 million, a \$7.1 million increase when compared to \$17.4 million for Q3 2018. This increase is primarily attributable to the movement in regulatory deferral and accounts receivable in Q3 2019 when compared to the same period last year.

Cash flow provided by operations, after working capital adjustments, for the nine months ended September 30, 2019 was \$48.2 million, a \$7.2 million increase when compared to \$41.0 million for the nine months ended September 30, 2018. This increase is primarily attributable to the movement in regulatory deferral for the period partially offset by the movement in accounts payable for the nine month period ending September 30, 2019 when compared to the same period last year.

Investing Activities:

Cash used in investing activities for Q3 2019 totalled \$18.8 million, an increase of \$7.9 million from \$10.9 million for Q3 2018. This increase is due mainly to higher expenditures related to PP&E for Q3 2019 when compared to the Q3 2018.

Cash used in investing activities for the nine months ended September 30, 2019 totalled \$42.7 million, an increase of \$8.4 million from \$34.3 million for Q3 2018. This increase is due mainly to higher expenditures related to PP&E.

Financing Activities:

Cash provided by financing activities for Q3 2019 totalled \$26.0 million, an increase of \$33.5 million when compared to cash used in financing activities of \$7.5 million for Q3 2018. This increase in cash provided by financing activities is primarily attributable to net proceeds from long-term debt financing partially offset by the repayment of the bank overdraft.

Cash provided by financing activities for the nine months ended September 30, 2019 totalled \$22.6 million, an increase of \$31.0 million compared to cash used in financing activities of \$8.4

million for the nine months ended September 30, 2018. This increase in cash provided by financing activities is attributable to net proceeds from long-term debt financing and lower repayment of long-term debt partially offset by the repayment of the bank overdraft.

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 2019 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 2019 and 2018 are summarized in the following table.

Related Party Transactions		
<i>(in thousands)</i>	As at September 30, 2019	As at December 31, 2018
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	-	6
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	11	-
Total Related Party Receivables	11	6
Payables to Fortis Inc. (the company's majority shareholder)	-	5
Total Related Party Payables	-	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, 2019 are outlined in the following table:

Contractual Obligations					
(\$ thousands)					
	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt ¹	326,572	14,857	32,688	34,675	244,352
Long-term debt interest	<u>163,333</u>	<u>11,297</u>	<u>19,755</u>	<u>16,044</u>	<u>116,237</u>
Total	489,905	26,154	52,443	50,719	360,589

1. Relates to principal payments on long-term debt only.

Financial Position

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2018 to September 30, 2019:

Significant changes in Balance Sheet		
<i>(from December 31, 2018 to September 30, 2019)</i>		
Balance Sheet Account	Increase/ (Decrease) (\$ thousands)	Explanation
Cash and Cash Equivalents	28,096	Increase due to cash provided by operating activities of \$48.2 million and cash provided by financing activities of \$22.6 million partially offset by cash used in investing activities of \$42.7 million.
Regulatory Assets	(2,185)	Decrease due to the timing of expense recognition.
Property, Plant and Equipment	16,404	Net increase is comprised of (1) capital expenditures of \$41.3 million (2) depreciation expense of \$26.5 million and (3) \$1.7 million in accrued capital expenditure and (4) \$0.1 million in funds received in aid of construction.
Accounts Payable and Accrued Expenses	(4,735)	Decrease attributable to decreases in payables and dividends payables which were partially offset by increases in capital expenditure accruals and fuel costs payable.
Short Term Debt	(30,000)	Decrease due to repayment of Scotiabank capital expenditure facility in May and June 2019.
Current Portion of Long Term Debt	2,143	Increase due to higher long-term debt repayments within the coming year.
Consumers' Deposits and Advances for Construction	1,050	Increase due to additional customer deposits of \$1.1 million.
Long-Term Debt	68,103	Increase due to proceeds of long term debt issuance of \$80 million partially offset by principal payments made on the Company's Senior Unsecured Notes in the Second Quarter 2019
Share Premium	2,652	The Company issued 184,740 shares through its share purchase plans.
Retained Earnings	5,065	Increase due to net earnings for the period of \$22.9 million offset by Class A dividends of \$17.5 million and Class B dividends of \$0.3 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 the Class A Ordinary Share rights offering that occurred in 2015 and the Company's Share Purchase Plans.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 60% of the Company's consolidated capital structure, as defined by short-term and long-term debt agreements. As at September 30, 2019, the Company was in compliance with all debt covenants.

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

Capital Structure				
	September 30, 2019	%	December 31, 2018	%
	(\$ thousands)		(\$ thousands)	
Total debt	325,259	58	285,013	55
Shareholder's equity	<u>238,131</u>	<u>42</u>	<u>230,382</u>	<u>45</u>
Total	563,390	100	515,395	100

The change in the Company's capital structure between December 31, 2018 and September 30, 2019 was driven by an increase in total debt and equity. The increase in total debt is a result of the net proceeds from long-term debt financing partially offset by the repayment of long-term and short-term debt.

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

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

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

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

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. The Company has no such off-balance sheet arrangements as at September 30, 2019.

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 2019 is 5%. This compares to assumed long-term rates of return of 5% used during 2018. There is

no assurance that the pension plan assets will be able to earn the assumed rate of returns. The loss on pension plan assets during 2018 was 3% (2017: 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 2019 is 4.2% compared to the discount rate assumed during 2018 of 3.7%.

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

A discussion of the critical accounting estimates associated with pensions is provided 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 2018 annual audited consolidated financial statements, except as described in Note 3 of the Condensed Consolidated Interim Financial Statements.

Quarterly Results

The table “Quarterly Results” summarises unaudited quarterly information for each of the eight quarters ended December 31, 2017 through September 30, 2019. 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
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
June 30, 2018	47,763	7,042	6,929	0.21	0.21
March 31, 2018	41,474	2,665	2,552	0.08	0.08
December 31, 2017	44,311	5,475	4,862	0.15	0.15

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, 2018; 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 September 30, 2019.

Internal Controls over Financial Reporting (“ICFR”)

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

The design of CUC’s internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated 2013 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, 2019.

Outlook

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

During the fourth quarter of 2019, the Company submitted its 2020-2024 CIP in the amount of \$263.6 million to OfReg for approval. The Company also submitted an additional \$87.6 million in proposed efficiency and grid enhancement projects for review by OfReg. These projects are expected to be financed by direct recovery mechanism outside of the Company’s rate cap and adjustment mechanism and have the potential to provide significant financial or service benefits to consumers.

In January 2019, the OfReg confirmed its acceptance of the Integrated Resource Plan (“IRP”) as an energy roadmap to inform future utility developments. The IRP calls for new technologies to be introduced including significant amounts of solar and wind power, procurement of natural gas and conversion of existing generating units to operate as dual fuel

engines, deployment of appropriate amounts of energy storage and integration of municipal solid waste to energy plant. The IRP analyzed various resource portfolios against cost, price stability, reliability, and environmental performance, among other goals. The Company's goal in undertaking the IRP was to ensure that all energy options were explored, taking into account their safety, reliability and efficiency, before recommendations were proposed with respect to additions to the energy grid.

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

Outstanding Share Data

At October 31, 2019 the Company had issued and outstanding 33,417,082 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 October 31, 2019 is as follows.

Conversion of Securities into Common Shares As at October 31, 2019 (Unaudited)	Number of Common Shares
Stock Options	4,000

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 September 30, 2019	As at December 31, 2018
Assets			
<i>Current Assets</i>			
Cash		36,782	8,686
Accounts Receivable, net	7	12,902	12,599
Related Party Receivables	14	11	6
Regulatory Assets	8	19,249	21,434
Inventories		3,314	3,451
Prepayments		3,056	2,331
Total Current Assets		75,314	48,507
Property, Plant and Equipment, net		527,534	511,130
Intangible Assets, net		3,150	3,106
Other Assets		349	11
Total Assets		606,347	562,754
Liabilities and Shareholders' Equity			
<i>Current Liabilities</i>			
Bank Overdraft		-	1,993
Accounts Payable and Accrued Expenses		29,038	33,773
Related Party Payables	14	-	5
Regulatory Liabilities	8	1,067	345
Short-Term Debt		-	30,000
Current Portion of Long-Term Debt	9	14,857	12,714
Current Portion of Lease Liability	6	63	-
Consumers' Deposits and Advances for Construction		10,486	9,436
Total Current Liabilities		55,511	88,266
Defined Benefit Pension Liability		1,120	1,122
Long-Term Debt	9	310,402	242,299
Other Long-Term Liabilities		1,183	685
Total Liabilities		368,216	332,372
Commitments and Contingency	15/16		
Shareholders' Equity			
Share Capital ¹		2,239	2,228
Share Premium		129,022	126,370
Additional Paid-in Capital		467	467
Retained Earnings		107,549	102,484
Accumulated Other Comprehensive Loss		(1,146)	(1,167)
Total Shareholders' Equity		238,131	230,382
Total Liabilities and Shareholders' Equity		606,347	562,754

See accompanying Notes to Condensed Consolidated Interim Financial Statements

¹ Consists of Class A Ordinary Shares of 33,417,082 and 33,232,342 issued and outstanding as at September 30, 2019 and December 31, 2018 and Class B Preference Shares of 250,000 and 250,000 issued and outstanding as at September 30, 2019 and December 31, 2018, 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, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Operating Revenues					
Electricity Sales	5	25,365	23,345	69,315	63,810
Fuel Factor	5	29,596	28,869	78,688	75,765
Renewables	5	1,376	1,141	3,716	3,017
<i>Total Operating Revenues</i>		56,337	53,355	151,719	142,592
Operating Expenses					
Power Generation		32,203	30,974	85,944	81,653
General and Administration		1,940	1,819	6,055	5,880
Consumer Services		1,034	796	2,540	2,201
Transmission and Distribution		984	772	3,051	3,127
Depreciation		8,828	8,163	26,533	24,643
Maintenance		1,508	1,236	4,169	4,243
Amortization of Intangible Assets		174	160	535	486
<i>Total Operating Expenses</i>		46,671	43,920	128,827	122,233
Operating Income		9,666	9,435	22,892	20,359
Other (Expenses)/Income					
Finance Charges	12	(1,582)	(1,782)	(5,039)	(5,960)
Foreign Exchange Gain	13	347	451	1,228	1,524
Other Income		1,973	1,077	3,808	2,965
<i>Total Net Other Income / (Expenses)</i>		738	(254)	(3)	(1,471)
Net Earnings for the Period		10,404	9,181	22,889	18,888
Preference Dividends Paid- Class B		(113)	(113)	(339)	(339)
Earnings on Class A Ordinary Shares		10,291	9,068	22,550	18,549
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)					
		33,359	33,115	33,322	33,079
Earnings per Class A Ordinary Share		0.31	0.27	0.68	0.56
Diluted Earnings per Class A Ordinary Share		0.31	0.27	0.68	0.56
Dividends Declared per Class A Ordinary Share		0.175	0.175	0.525	0.520

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 September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Net Earnings for the Period	10,404	9,181	22,889	18,888
Other Comprehensive Income:				
Defined Benefit Pension Plans:				
Amortization of Net Actuarial Loss	7	7	21	21
Total Other Comprehensive Income	7	7	21	21
Comprehensive Income	10,411	9,188	22,910	18,909

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)*

Unaudited	Class A Ordinary Shares (in thousands)	Class A Ordinary Shares Value (\$)	Preference Shares (\$)	Share Premium (\$)	Additional Paid-in Capital (\$)	Accumulated Other Comprehensive Loss (\$)	Retained Earnings (\$)	Total Equity (\$)
As at December 31, 2018	33,232	1,978	250	126,370	467	(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	129,022	467	(1,146)	107,549	238,131
As at December 31, 2017	32,995	1,964	250	123,376	467	(1,302)	99,668	224,423
Net earnings	-	-	-	-	-	-	18,888	18,888
Common share issuance and stock options plans	166	10	-	2,187	-	-	-	2,197
Defined benefit plans	-	-	-	-	-	21	-	21
Dividends on common shares	-	-	-	-	-	-	(17,186)	(17,186)
Dividends on preference shares	-	-	-	-	-	-	(339)	(339)
As at September 30, 2018	33,161	1,974	250	125,563	467	(1,281)	101,031	228,004

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 September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
<i>Operating Activities</i>				
Net Earnings for the period	10,404	9,181	22,889	18,888
Items not affecting cash:				
Depreciation	8,828	8,163	26,533	24,643
Amortization of Intangible Assets	174	160	535	486
Amortization of Deferred Financing Costs	30	30	90	102
Non-Cash DataLink Adjustment	1,085	-	1,085	-
	20,521	17,534	51,132	44,119
Net Changes in Working Capital Balances Related to Operations	849	(1,183)	(5,827)	865
Net Change in Regulatory Deferrals	3,114	1,058	2,907	(4,035)
<i>Cash flow related to operating activities</i>	24,484	17,409	48,212	40,949
<i>Investing Activities</i>				
Purchase of Property, Plant and Equipment	(18,547)	(11,770)	(42,319)	(36,034)
Proceeds from Sale of Property, Plant and Equipment	19	-	37	45
Purchase of Intangible Assets	(252)	(163)	(580)	(436)
Contributions in Aid of Construction	-	1,002	128	2,113
<i>Cash flow related to investing activities</i>	(18,780)	(10,931)	(42,734)	(34,312)
<i>Financing Activities</i>				
Proceeds from Long-Term Debt Financing	40,000	-	80,000	-
(Repayment of)/ Proceeds from Short-Term Debt	-	-	(30,000)	20,000
Repayment of Long-Term Debt	-	-	(9,714)	(13,714)
(Decrease) / Increase in Bank Overdraft	(8,990)	(2,312)	(1,993)	1,158
Dividends Paid	(5,958)	(5,908)	(18,338)	(18,018)
Net Proceeds from Share Issuance	930	715	2,663	2,196
<i>Cash flow related to financing activities</i>	25,982	(7,505)	22,618	(8,378)
Increase /(Decrease) in net cash	31,686	(1,027)	28,096	(1,741)
Cash - Beginning of the period	5,096	6,544	8,686	7,258
Cash - End of the period	36,782	5,517	36,782	5,517
Supplemental disclosure of cash flow information:				
Interest paid during the period	61	214	6,699	6,851

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Unaudited – September 30, 2019 (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”). Effective June 1, 2019, following review and approval by the OfReg, the Company increased its base rates by 0.9%. This increase was a result of the 2018 Return on Rate Base (“RORB”) and the increase in the applicable United States (“US”) and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2018. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80% based on the range of the RORB values. The required rate adjustment of 0.9% can be calculated by applying 80% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 1.12%. All fuel, lubricating oil and 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, 2018.

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

Leases

Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-02, *Leases*, that requires lessees to recognize a right-of-use asset and lease liability for all leases with a lease term greater than 12 months, along with additional disclosures (Note 6).

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

options are included in the lease term when it is reasonably certain that the option will be exercised.

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

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

Hedging

Effective January 1, 2019, the Company adopted ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which better aligns risk management activities and financial reporting for hedging relationships through changes to designation, measurement, presentation and disclosure guidance. Adoption did not have a material impact on the Condensed Consolidated Interim Financial Statements and related disclosures.

Fair Value Measurement Disclosures

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

4. Future Accounting Policies

Measurement of Credit Losses on Financial Instruments

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

Changes to the Disclosure Requirements for Defined Benefit Plans

ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, issued in August 2018, is effective for CUC January 1, 2021 and is to be applied on a retrospective basis for all periods presented. Principally, it modifies the disclosure requirements for employers with defined pension or other post-retirement plans and clarifies disclosure requirements. In particular, it removes the following disclosures: (a) the amounts in accumulated other comprehensive income expected to be 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 plans to early adopt this update in the 2019 annual consolidated financial statements.

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

5. Operating Revenues

Operating Revenues				
	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
(\$ thousands)				
Electricity Sales Revenues				
Residential	13,187	11,813	34,880	31,296
Commercial	11,985	11,336	33,798	31,959
Other (street lighting etc.)	193	196	637	555
Total Electricity Sales Revenues	25,365	23,345	69,315	63,810
Fuel Factor	29,596	28,869	78,688	75,765
Renewables	1,376	1,141	3,716	3,017
Total Operating Revenues	56,337	53,355	151,719	142,592

Electricity Sales revenue

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

Fuel Factor

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

6. Leases

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

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

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

Operating Leases		
(\$ thousands)	Classification	As at September 30, 2019
Operating Lease Assets	Other Assets	338
Current Portion Lease Liability	Current Portion of Lease Liability	63
Noncurrent Operating Lease Liability	Other Long-Term Liabilities	278

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

Lease Cost			
(\$ thousands)	Classification	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating Lease Costs	Operating Expenses – Consumer Services	22	67
Variable Lease Costs	Operating Expenses – Consumer Services	1	3
Total Lease Costs		23	70

Operating lease cost for Q3 2019 approximated \$0.02 million.

As of September 30, 2019, the Company had the following future minimum lease payments:

Future Minimum Lease Payments	
(\$ thousands)	Operating Lease
2019	20
2020	79
2021	80
2022	81
2023	83
Thereafter	42
Total	385
Less: imputed Interest	(44)
Present Value of Lease Liability	341

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

7. Accounts Receivable, net

Accounts Receivable		
(\$ thousands)	As at September 30, 2019	As at December 31, 2018
Billings to consumers	13,864	12,637
Other receivables	410	1,079
Allowance for doubtful accounts	(1,372)	(1,117)
Total Accounts Receivable, net	12,902	12,599

Other receivables

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

8. Regulatory Assets and Liabilities

Regulatory Assets and Liabilities			
(\$ thousands)			
Asset/Liability	Description	As at September 30, 2019	As at December 31, 2018
Regulatory Assets	Fuel Tracker Account	18,412	20,135
Regulatory Assets	Miscellaneous Regulatory Assets	171	191
Regulatory Assets	Government & Regulatory Tracker Account	-	349
Regulatory Assets	Demand rate	666	759
Total Regulatory Assets		19,249	21,434
Regulatory Liabilities	Derivative contracts	(43)	(345)
Regulatory Liabilities	Government & Regulatory Tracker Account	(1,024)	-
Total Regulatory Liabilities		(1,067)	(345)

9. Long-term debt

Long-term debt		
(\$ thousands)	As at September 30, 2019	As at December 31, 2018
Total Long-term debt	326,571	256,286
Less: Current portion of long-term debt	(14,857)	(12,714)
Less: Deferred debt issue costs	(1,312)	(1,273)
	310,402	242,299

The long-term debt issuances for the nine months ended September 30, 2019 are summarised below:

(\$ thousands, except %)	Month Issued	Interest Rate (%)	Maturity	Amount	Use of proceeds
Unsecured Notes	May	4.14%	2049	40,000	(1)(3)(4)
Unsecured Notes	August	3.83%	2039	20,000	(2)(3)(4)
Unsecured Notes	August	4.14%	2049	20,000	(2)(3)(4)

- (1) Repay credit facility
- (2) Finance capital expenditure
- (3) General corporate purposes
- (4) Repay maturing long-term debt

10. 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				
	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2019		
	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$ thousands)
Outstanding at Beginning of Period	45,000	9.66	4.25	-
Granted	-	-	-	-
Exercised	(41,000)	9.66	-	-
Forfeited/Cancelled	-	-	-	-
Expired	-	-	-	-
Outstanding, End of Period	4,000	9.66	2.48	0.03
Vested, End of the Period	4,000	9.66	2.48	0.03

Under the fair value method, the compensation expense was \$nil for Q3 2019 (September 30, 2018: \$ 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, 2019 relate to grants in 2017 in the amount of 28,235, 2018 in the amount of 29,151 and 2019 in the amount of 38,692. The vesting period of the grant is three years, at which time a cash payment may be made to plan participants after evaluation by the Board of Directors of the achievement of certain payment criteria.

PSU Compensation expense was \$0.1 million for Q3 2019 (Q3 2018: \$0.1 million). PSU Compensation expense was \$0.5 million for nine months ended September 30, 2019 (2018: \$0.3 million), resulting in a corresponding increase to Other Long-Term Liabilities.

11. 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 September 30, 2019. The estimated fair values of the Company's financial instruments, including derivative financial instruments, are as follows:

Financial Instruments				
(\$ thousands)	As at September 30, 2019		As at December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt, including Current Portion	325,259	335,428	255,014	261,989
Fuel Option Contracts	43	43	345	345

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 September 30, 2019.

12. Finance Charges

The composition of finance charges were as follows:

Finance Charges				
(\$ thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Interest costs - long-term debt	3,402	3,055	9,533	9,522
Other interest costs	91	243	768	416
AFUDC	(1,911)	(1,516)	(5,262)	(3,978)
Finance Charges	1,582	1,782	5,039	5,960

13. Foreign Exchange

The closing rate of exchange on September 30, 2019 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn \$1.3243 per US\$1.00 (December 29, 2018: Cdn \$1.3642). 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, 2019 for conversion of Cayman Islands dollars into Canadian dollars was Cdn \$1.5892 per CI\$1.00 (December 29, 2018: Cdn \$1.6370).

14. Transactions with Related Parties

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

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

Related Party Transactions		
	As at September 30, 2019	As at December 31, 2018
<i>(in thousands)</i>		
Receivables from Belize Electricity Company Limited (a subsidiary of Fortis Inc.)	-	6
Receivables from Fortis TCI (a subsidiary of Fortis Inc.)	11	-
Total Related Party Receivables	11	6
Payables to Fortis Inc. (the company's majority shareholder)	-	5
Total Related Party Payables	-	5

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

15. Commitments

As at September 30, 2019, the Company's consolidated commitments in each of the next five years and for periods thereafter are as follows:

Commitments					
(\$ thousands)					
	Total	2019	2020- 2021	2022- 2023	2024 Onward
Letter of Guarantee	500	500	-	-	-
Lease Liability	385	20	159	164	42
Commitments	885	520	159	164	42

16. Contingency

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

As a result of a legal review and assessment of the Directives contained in ICT 2017-1, DataLink sought a stay of the decision and leave to apply for Judicial Review from the Cayman Islands Grand Court. Both the stay and leave 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. At the end of first quarter 2019 DataLink had fully reserved for potential bad debts based on the OfReg determination.

On July 25, 2019, the Company was notified of the Court's decision in the Company's favour, to quash OfReg's determination. As a result of the Court's decision, in Q3 2019 DataLink recorded a one-off write back of previously recognized bad debt expenses in the amount of \$1.1 million.

Shareholder Information

Shareholder Plans

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

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

Duplicate Annual Reports

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

Our Registrar and Transfer Agents are as follows:

AST Trust Company (Canada)

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

Caribbean Utilities Company, Ltd.

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

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

Caribbean Utilities Company, Ltd.

Assistant to the Company Secretary
P.O. Box 38
Grand Cayman KY1-1101
CAYMAN ISLANDS
Tel: (345) 949-5200
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E-mail: investor@cuc.ky
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