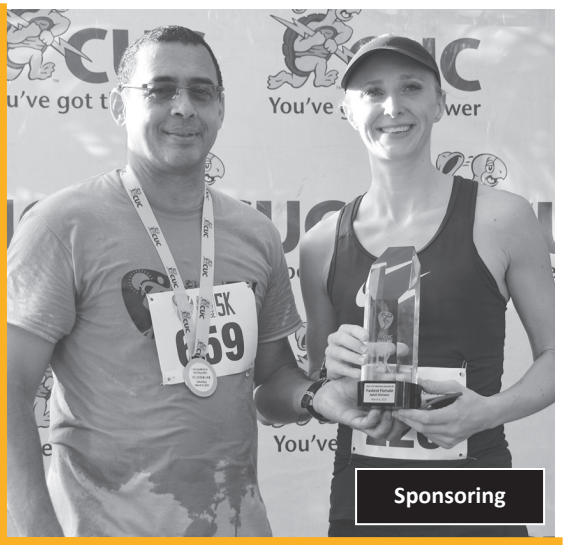

Caribbean Utilities Company, Ltd.

2021 First Quarter Report

March 31, 2021

You've got the power

General Data

About the Company

Caribbean Utilities Company, Ltd., ("CUC" or "the Company"), 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 31,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's development for over the past 50 years.

About the Cayman Islands

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

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

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

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

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Interim Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or "the Company") consolidated financial statements for the twelve months ended December 31, 2020 ("Fiscal 2020"). 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 2020 annual financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation, the amount and timing of recovery or refund by the Company of costs of providing services, including a fair return on rate base assets, from customers through appropriate billing rates would not be subject to regulatory approval.

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements concerning anticipated future events, results, circumstances, performance or expectations with respect to the Company and its operations, including its strategy and financial performance and condition. Forward looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedules", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward-looking statements are based on underlying assumptions and management's beliefs, estimates and opinions, and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Some of the important risks and uncertainties that could affect forward looking statements are described in the MD&A in the sections labelled "Global Pandemic", "Business Risks", "Capital Resources" and "Corporate and Regulatory Overview" and include but are not limited to operational, general economic, market and business conditions, regulatory developments and weather. CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties 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.

May 5, 2021

Financial and Operational Highlights

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Change	% Change
$ thousands				
Electricity Sales Revenues	**21,392**	21,187	205	1%
Fuel Factor Revenues	**16,368**	23,814	(7,446)	-31%
Renewables Revenues	**1,083**	1,087	(4)	-1%
Total Operating Revenues	**38,843**	46,088	(7,245)	-16%
Fuel & Lube Costs	**16,368**	23,814	(7,446)	-31%
Renewables Costs	**1,083**	1,087	(4)	-1%
Other Operating Expenses	**17,675**	16,448	1,227	7%
Total Operating Expenses	**35,126**	41,349	(6,223)	-15%
Net Earnings for the Period	**3,329**	3,826	(497)	-13%
Cash Flow related to Operating Activities	**16,851**	15,342	1,509	10%
$ Per Class A Ordinary Share:				
Basic Earnings	**0.09**	0.11	(0.02)	-18%
Dividends Paid	**0.175**	0.175	-	0%
Actual values:				
Total Customers	**31,496**	30,734	762	2%
Total Employees*	**236**	242	(6)	-2%
Customer per Employee (#)	**133**	127	6	5%
System Availability (%)	**99.97**	99.97	-	-
Peak Load Gross (MW)	**95.4**	99.7	(4.3)	-4%
Millions of kWh:				
Net Generation	**144.9**	154.3	(9.4)	-6%
Renewable Energy Generation	**4.9**	4.5	0.4	9%
Total Energy Supplied	**148.7**	158.3	(9.6)	-6%
Kilowatt-Hour Sales	**143.8**	152.3	(8.5)	-6%
Sales per employee	**0.61**	0.63	(0.02)	-3%

* Total Full time CUC employees

Corporate and Regulatory Overview

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

The Company is regulated by the Cayman Islands Utility Regulation and Competition Office ("OfReg"), which has the overall responsibility of regulating the electricity, information and communications technology, water, and the petroleum industries in the Cayman Islands in accordance with the Utility Regulation and Competition Office Act (2021).

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 2020 was 6.6% (2019: 7.2%). CUC's RORB for 2021 is targeted in the 5.75% to 7.75% range (2020: 6.75% to 8.75%).

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel, lube, 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 June 1, 2020 rate increase until January 1, 2021. In August 2020, OfReg approved the Company's proposal. For the period from June 1, 2020 to December 31, 2020, the Company recorded 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 year ended December 31, 2020 was $3.5 million. The amount recorded will be recovered within two years from the effective date of the increase on January 1, 2021. During the first three months of 2021, $0.4 million was recovered from customers for the base rate increase deferral.

The Company was also granted approval by OfReg to recover various COVID-19 related expenses, including potential credit losses resulting from suspension of disconnections during the pandemic. A total of $0.7 million was recorded as a regulatory asset and will be recovered through future rates from the effective date of January 1, 2021. During the first three months of 2021, $70,000 was recovered from customers for COVID-19 related expenses.

In September 2020, the Company submitted its 2021-2025 capital investment plan ("CIP") in the amount of $313.0 million to the OfReg for approval. The Company has also submitted an additional $24.0 million in proposed efficiency and grid enhancement projects for review by the OfReg. In February 2021, OfReg approved the proposed 2021-2025 CIP in the amount of $313.0 million.

The Company successfully completed a Rights Offering (the "Offering") on October 29, 2020. Pursuant to the Offering, the Company raised gross proceeds of $47.8 million through the issue of 3,359,362 Class A Ordinary Shares at a price of $14.24 per Class A Ordinary Share. The net proceeds of the Offering were used to repay short-term debt and to finance capital projects.

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

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

A licence fee of $2.9 million and a regulatory fee of $1.4 million are payable to the Government. Both fees apply only to customer billings with consumption over 1,000 kWh per month as a pass-through charge rate of $0.006 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 global pandemic. The outbreak of COVID-19 initially resulted in the closure in the Cayman Islands of businesses, schools, hotels, restaurants, the seaport, and the 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. In November 2020, it was announced by the Cayman Islands Government that a vaccine has been approved and should be available in the Cayman Islands in a phased in approach starting January 2021 with frontline workers and the most vulnerable receiving the first doses. By March 2021, the vaccine was available to all residents 16 years and over. The vaccine is also being rolled out in the United States, a country that heavily impacts Cayman's tourism. The Cayman Islands Government plans to reopen the Cayman Islands borders in 2021 following the vaccination of the majority of the population.

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 continued duration and spread of the outbreak, the reopening of the Cayman borders, 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 March 31, 2021 ("First Quarter 2021" or "Q1 2021") totalled 143.8 million kilowatt hours ("kWh"), a decrease of 8.5 million kWh in comparison to 152.3 million kWh for the three months ended March 31, 2020 ("First Quarter 2020" or "Q1 2020"). The decrease in sales for Q1 2021 is primarily due to the Covid-19 pandemic which began to impact the Cayman economy in March 2020.

Earnings

Net earnings decreased $0.5 million from $3.8 million in Q1 2020 to $3.3 million in Q1 2021. The decrease in net earnings is due primarily to higher general and administration and depreciation, costs. These items were partially offset by higher electricity sales revenues and lower finance charges.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Q1 2021 were $3.2 million or $0.09 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of $3.7 million, or $0.11 per Class A Ordinary Share for Q1 2020. The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average number of Class A Ordinary Shares outstanding were 37,095,463 for First Quarter 2021 and 33,476,279 for First Quarter 2020. This increase in the weighted average number of Class A Ordinary Shares outstanding was primarily driven by the Offering in October 2020 which resulted in the issuance of 3,359,362 Class A Ordinary shares.

Operating Revenues

Operating revenues for Q1 2021 were $38.8 million, a decrease of $7.3 million from $46.1 million for Q1 2020. The decrease in operating revenues for Q1 2020 was due to decreased fuel factor revenues partially offset by an increase in electricity sales revenues.

Electricity sales revenues were $21.4 million for Q1 2021, an increase of $0.2 million when compared to electricity sales revenues of $21.2 million for Q1 2020. Electricity sales revenues for Q1 2021 increased when compared to the same period last year due to a 6.6% base rate increase effective June 1, 2020, partially offset by a 6% reduction in kWh sales.

Fuel factor revenues for Q1 2021 totalled $16.4 million, a decrease of $7.4 million compared to fuel factor revenues of $23.8 million for Q1 2020. Fuel factor revenues for Q1 2021 decreased due to a lower average fuel cost charge per kWh when compared to Q1 2020. The average Fuel Cost Charge rate billed to consumers for Q1 2021 was $0.12 per kWh, compared to the average Fuel Cost Charge rate of $0.15 per kWh for Q1 2020. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

Renewables revenues for Q1 2021 totalled $1.1 million, comparable to renewables revenues for Q1 2020 of $1.1 million. The renewables revenues are a combination of charges from the Customer Owned Renewable Energy ("CORE") programme and the Bodden Town Solar Limited 5 MW solar farm, which are passed-through to consumers on a two-month lag basis with no mark-up.

Operating Expenses

Operating expenses for Q1 2021 totalled $35.1 million, a $6.2 million decrease from $41.3 million for Q1 2020. This decrease was due primarily to lower power generation cost, partially offset by higher general and administration and depreciation costs.

Power Generation

Power generation costs for Q1 2021 decreased $7.4 million to $18.7 million when compared to $26.1 million for Q1 2020. This decrease is a result of lower fuel costs (net of deferred fuel costs) which was partially offset by lower fuel efficiency in Q1 2021.

The Company's average price per Imperial Gallon ("IG") of fuel for Q1 2021 was $2.42 compared to $2.75 for Q1 2020. The March 2021 average price per IG increased 4% from the prior month.

The Company's average price per IG of lubricating oil for Q1 2021 decreased to $8.94 when compared to $9.67 for Q1 2020. The Company passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

Net generation was 144.9 million kWh for Q1 2021, a 6% decrease when compared to 154.3 million kWh for Q1 2020. Net generation is reported for CUC-owned generation only and does not include kWh generated from CORE or the Bodden Town Solar Limited solar farm. Net fuel efficiency for Q1 2021 of 18.80 kWh per IG, which decreased when compared to net fuel efficiency for Q1 2020 of 18.87 kWh per IG.

The Fuel Tracker Account (see Note 5 of the condensed consolidated interim financial statements) is comprised of total diesel fuel, lubricating oil costs, 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.

Renewables costs for Q1 2021 totalled $1.1 million, comparable to renewables costs for Q1 2020 of $1.1 million. For Q1 2021 the renewables costs are a combination of charges from the CORE programme and the Entropy Solar Farm.

Other generation expenses for Q1 2021 totalled $1.2 million, a $0.1 million or 9% increase from other generation expenses of $1.1 million for Q1 2020.

General and Administration ("G&A")

G&A expenses for Q1 2021 totalled $2.6 million, an increase of $0.9 million when compared to G&A expenses of $1.7 million for Q1 2020. This increase was mainly due to higher short term incentive bonus payments and insurance premiums. These items were partially offset by higher general expenses capitalized.

Consumer Services ("CS")

CS expenses for Q1 2021 totalled $0.7 million, comparable to CS expenses for Q1 2020 of $0.7 million.

Transmission and Distribution ("T&D")

T&D expenses for Q1 2021 totalled $1.2 million, a decrease of $0.2 million compared to T&D expenses for Q1 2020 of $1.4 million. This decrease was due primarily to lower maintenance costs compared to Q1 2020.

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

Depreciation expenses for Q1 2021 totalled $10.4 million, an increase of $0.7 million from $9.7 million for Q1 2020. The increase in depreciation expenses is due to capital projects completed in 2020.

Maintenance

Maintenance expenses for Q1 2021 totalled $1.4 million, a decrease of $0.1 million when compared to $1.5 million for Q1 2020. This decrease is due to lower generator maintenance costs, partially offset by higher computer maintenance costs.

Amortisation

Amortisation of intangible assets for Q1 2021 totalled $0.3 million, a $0.1 million, or 50% increase compared to $0.2 million for Q1 2020. The increase in amortization expenses is due to computer software projects completed in 2020.

Other Income and Expenses

Net Other Expenses for Q1 2021 totalled $0.4 million, a decrease of $0.5 million when compared to $0.9 million for Q1 2020.

Finance charges for Q1 2021 totalled $1.6 million, a $0.5 million decrease from $2.1 million for Q1 2020. This decrease is a result of lower long-term debt and higher Allowance for Funds Used During Construction ("AFUDC").

Under the T&D Licence there is a provision for AFUDC that allows for capitalisation of financing costs as calculated by multiplying the Company's Cost of Capital rate by the average construction work in progress ("CWIP") for each month. The cost of capital rate for 2021 is 6.75% (2020: 7.75%) as agreed with the OfReg, in accordance with the T&D Licence, and is reviewed annually.

The AFUDC amount for Q1 2021 totalled $1.8 million, an increase of $0.2 million from $1.6 million for Q1 2020. This increase was attributable to higher average CWIP in Q1 2021, driven primarily by the transmission and distributions projects that were started in 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 Q1 2021 totalled $0.3 million, a decrease of $0.1 million when compared to Q1 2020 foreign exchange gains of $0.4 million.

Other income totalled $0.9 million for Q1 2021, a $0.1 million increase when compared to other income of $0.8 million for Q1 2020.

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.

Revenues from DataLink for Q1 2021 are recorded in Other Income in the amount of $0.3 million, comparable to revenues from DataLink for Q1 2020 of $0.3 million.

Liquidity

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

Cash Flows ($ thousands)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Change	% Change
Beginning cash	**45,586**	23,662	21,924	93%
Cash provided by/(used in):				
Operating activities	**16,851**	15,342	1,509	10%
Investing activities	**(14,433)**	(14,205)	(228)	2%
Financing activities	**(6,055)**	(5,562)	(493)	9%
Ending cash	**41,949**	19,237	22,712	118%

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for Q1 2021, was $16.9 million, a $1.6 million increase when compared to $15.3 million for Q1 2020. This increase was primarily due to changes in accounts payable and accrued expenses which were partially offset by changes in accounts receivable, inventory and regulatory deferrals.

Investing Activities:

Cash used in investing activities for Q1 2021 totalled $14.4 million, an increase of 0.2 million from $14.2 million for Q1 2020. This increase is due to higher capital expenditures.

Financing Activities:

Cash used in financing activities for Q1 2021 totalled $6.1 million, an increase of $0.5 million compared to cash used in financing activities of $5.6 million for Q1 2020. The increase in cash used in financing activities is attributable to higher dividends paid in Q1 2021.

Cash Flow Requirements:

The Company expects that operating expenses and interest costs will generally be paid from the Company's operating cash flows, with residual cash flows available for capital expenditures and dividend payments. Borrowings under credit facilities may be required from time to time to support seasonal working capital requirements. Cash flows required to complete planned capital expenditures are expected to be financed from a combination of proceeds from operating cash, debt and equity transactions. The Company expects to be able to source the cash required to fund its 2021 capital expenditure programme (see the "Forward Looking Statements" section of this MD&A for more details on this item).

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 2021 and 2020 are summarized in the following table.

Related Party Transactions

($ thousands)	As at March 31, 2021	As at December 31, 2020
Receivables from UNS Energy/TEP (a subsidiary of Fortis Inc.)	-	7
Total Related Party Receivables	-	7

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at March 31, 2021, are outlined in the following table:

Contractual Obligations

($ thousands)

	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	308,714	14,130	35,039	39,870	219,675
Long-term debt interest	141,937	13,083	23,495	19,875	85,484
Total	**450,651**	**27,213**	**58,534**	**59,745**	**305,159**

Financial Position

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2020 to March 31, 2021:

Significant changes in Balance Sheet

(from December 31, 2020 to March 31, 2021)

Balance Sheet Account	Increase/ (Decrease) *($ thousands)*	Explanation
Cash and Cash Equivalents	(3,637)	Decrease due to cash used in investing activities of $14.4 million and cash used in financing activities of $6.1 million offset by cash provided by operating activities of $16.9 million.
Accounts Receivable	1,055	Increase due to higher electricity sales and an increase in fuel factor rates.
Regulatory Assets	3,013	Increase due to higher balances in the fuel tracker partially offset by lower balances in the 2020 deferred revenues and the COVID-19 cost accounts.
Property, Plant and Equipment	2,941	Net increase is comprised of (1) capital expenditures of $12.4 million (2) depreciation expense of $10.4 million (3) $1.0 million in accrued capital expenditure and (4) $0.04 million from proceeds on disposed assets and (5) $0.07 million in funds received in aid of construction.
Accounts Payable and Accrued Expenses	6,991	Increases in fuel costs and fuel creditor payable, and an increase in accrued interest.
Retained Earnings	(3,275)	Decrease due to Class A dividends of $6.5 million and Class B dividends of $0.1 million which were partially offset by net earnings for the period of $3.3 million.

Capital Resources

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

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

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 60% of the Company's consolidated capital structure, as defined by short-term and long-term debt agreements. As at March 31, 2021, the Company was in compliance with all debt covenants.

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

Capital Structure

	March 31, 2021 ($ thousands)	%	December 31, 2020 ($ thousands)	%
Total debt	**307,324**	**52**	307,306	51
Shareholder's equity	**287,328**	**48**	289,499	49
Total	**594,652**	**100**	596,805	100

For Q1 2021, shareholder's equity decreased by $2.2 million to $287.3 million when compared to $289.5 million as at December 31, 2020. This decrease was primarily due to lower retained earnings, which was partially offset by an increase in equity resulting from the issuance of Class A Ordinary Shares through the Company's share purchase plans.

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)/Stable

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 November 2020, S&P affirmed the Company's "BBB+"credit rating with a negative outlook. The negative outlook on CUC reflects the view that the COVID-19 pandemic could severely hurt the tourism industry. This in turn could affect CUC's financial measures.

In February 2021, DBRS Morningstar affirmed the Company's "A" credit rating while maintaining the categorization of low with a Stable trend. As stated in the report, the rating confirmations reflect CUC's strong credit metrics and stable business risk profile despite the ongoing Coronavirus Disease (COVID-19) pandemic, which has not had a material impact on CUC's financial performance to date. The current ratings reflect (1) a supportive regulatory environment that allows CUC to earn good returns on its rate base and to generate predictable cash flow; (2) limited competition; and (3) no exposure to commodity price risk and only modest regulatory lag associated with the recovery of fuel and nonfuel costs as well as capital spending. The ratings also incorporate the CUC's exposure to hurricane risks and the relatively small size of its operations and customer base.

Off-Balance Sheet Arrangements

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

Defined Benefit Pension Plan

The Company maintains a defined benefit pension plan, which provides a specified monthly benefit on retirement irrespective of individual investment returns. The assumed long-term rate of return on pension plan assets for the purposes of estimating pension expense for 2021 is 5%. This compares to assumed long-term rates of return of 5% used during 2020. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The gain on pension plan assets during Q1 2021 was 1.7% (2020: loss of 2%).

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 2021 is 2.4% compared to the discount rate assumed during 2020 of 3.2%.

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.

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 2020 annual audited consolidated financial statements.

Forward Looking Statements

COVID-19 Pandemic

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

The uncertainty surrounding the evolution of the pandemic makes it difficult to predict the ultimate operational and financial impacts on CUC. Depending on the severity and length of the pandemic, such impacts could have material adverse effects and affect the Company's ability to execute business strategies and initiatives in the expected time frames. To date, the impacts on CUC have not been material.

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

Revenue
The recent outbreak of COVID-19 has resulted in the closure of businesses, schools, hotels, restaurants, the seaport (closed to cruise ships and private yachts) and the airport. As businesses have 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 is expected to be partially offset by increased residential demand as more people are expected to be working from home during the summer months. The estimated annual impact on EPS of a 1% change in demand in these segments is summarized below.

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

Capital Expenditures
Currently, the Company does not expect any material change in the 2021 capital plan; however, the impact of the COVID-19 Pandemic on forecast capital expenditures will continue to be evaluated. Any change in the 2021 capital expenditures is 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 $69.0 million unutilized, or $111 million including current cash holdings.

The Company successfully completed a Rights Offering (the "Offering") on October 29, 2020. Pursuant to the Offering, the Company raised gross proceeds of $47.8 million through the issue of 3,359,362 Class A Ordinary Shares at a price of $14.24 per Class A Ordinary Share. The net proceeds of the Offering were used to repay short-term debt and to finance capital projects.

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. Given the uncertainty, it is too early to assess the full impact of potential credit losses associated with the pandemic. As at March 31, 2021, the Company's allowance for credit losses was not materially impacted. See Note 5 in the Condensed Consolidated Interim Financial Statements.

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

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

Quarterly Results

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended June 30, 2019 through March 31, 2021. This information has been obtained from CUC's unaudited interim Financial Statements which, in the opinion of Management, have been prepared in accordance with US GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarterly results
($ thousands, except basic and diluted earnings per ordinary share)

	Operating Revenue	Net Earnings	Earnings on Class A Ordinary Shares	Earnings per Class A Ordinary Share	Diluted earnings per Class A Ordinary Share
March 31, 2021	38,843	3,329	3,216	0.09	0.09
December 31, 2020	42,399	7,382	6,751	0.19	0.19
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

Disclosure Controls and Procedures ("DC&P")

The President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), together with Management, have established and maintained the Company's disclosure controls and procedures, 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, 2020; 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 are adequately designed and operating effectively as of March 31, 2021.

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, 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 ICFR 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 March 31, 2021.

Outlook

In September 2020, the Company submitted its 2021-2025 CIP in the amount of $313.0 million to the 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 projects are expected to be financed directly by consumers outside of the Company's RCAM and have the potential to provide significant financial or service benefits to consumers.

In February 2021, OfReg approved the proposed 2021-2025 CIP in the amount of $313.0 million, not including the grid enhancement projects. The Company is currently reviewing the efficiency and grid enhancement projects for potential resubmission.

In January 2019, OfReg confirmed its acceptance of CUC's Integrated Resource Plan ("IRP") as an energy roadmap to inform future utility developments. The study recommended a portfolio of 60% renewable energy and natural gas replacing diesel by 2037.

In-line with the recommendations in the IRP, the Company continues to facilitate the connection of renewable energy sources to the grid and to propose renewable energy projects to meet the objectives and targets of the National Energy Policy over the longer term.

In September 2020, the Company submitted a utility scale solar project to OfReg which is permitted under its license and is in keeping with Company and the Cayman Islands renewable energy goals. The project remains under review by OfReg.

The Company continues to assess the impact of COVID-19 on its operational and financial performance.

Outstanding Share Data

At May 5, 2021 the Company had issued and outstanding 37,159,225 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 May 5, 2021 is as follows.

Conversion of Securities into Common Shares As at May 5, 2021 (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* 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 March 31, 2021	As at December 31, 2020
Assets			
Current Assets			
Cash		**41,949**	45,586
Accounts Receivable (Net of Allowance for Credit Losses of $1,928 and $2,303)	4	**5,192**	4,137
Related Party Receivables	10	**-**	7
Regulatory Assets	5	**21,210**	18,197
Inventories		**4,287**	3,437
Prepayments		**3,901**	3,755
Total Current Assets		**76,539**	75,119
Property, Plant and Equipment, net		**557,432**	554,491
Intangible Assets, net		**3,831**	3,744
Other Assets		**283**	313
Total Assets		**638,085**	633,667
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts Payable and Accrued Expenses		**25,983**	18,992
Regulatory Liabilities	5	**2,523**	2,625
Current Portion of Long-Term Debt	7	**14,130**	14,130
Current Portion of Lease Liability		**82**	80
Consumers' Deposits and Advances for Construction		**11,246**	11,286
Total Current Liabilities		**53,964**	47,113
Defined Benefit Pension Liability		**2,868**	2,891
Long-Term Debt	7	**293,194**	293,176
Other Long-Term Liabilities		**731**	988
Total Liabilities		**350,757**	344,168
Commitments and Contingency	11,12		
Shareholders' Equity			
Share Capital[1]		**2,462**	2,458
Share Premium		**182,736**	181,671
Retained Earnings		**105,017**	108,292
Accumulated Other Comprehensive Loss		**(2,887)**	(2,922)
Total Shareholders' Equity		**287,328**	289,499
Total Liabilities and Shareholders' Equity		**638,085**	633,667

See accompanying Notes to Condensed Consolidated Interim Financial Statements

[1] Consists of Class A Ordinary Shares of 37,159,225 and 37,095,463 issued and outstanding as at March 31, 2021 and December 31, 2020 and Class B Preference Shares of 250,000 and 250,000 issued and outstanding as at March 31, 2021 and December 31, 2020, 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 March 31, 2021	Three Months Ended March 31, 2020
Operating Revenues			
Electricity Sales	3	**21,392**	21,187
Fuel Factor	3	**16,368**	23,814
Renewables	3	**1,083**	1,087
Total Operating Revenues		**38,843**	46,088
Operating Expenses			
Power Generation		**18,666**	26,106
General and Administration		**2,557**	1,702
Consumer Services		**661**	731
Transmission and Distribution		**1,233**	1,370
Depreciation		**10,387**	9,713
Maintenance		**1,364**	1,523
Amortisation of Intangible Assets		**258**	204
Total Operating Expenses		**35,126**	41,349
Operating Income		**3,717**	4,739
Other (Expenses)/Income			
Finance Charges	8	**(1,607)**	(2,099)
Foreign Exchange Gain	9	**296**	361
Other Income		**923**	825
Total Net Other (Expenses)/Income		**(388)**	(913)
Net Earnings for the Period		**3,329**	3,826
Preference Dividends Paid- Class B		**(113)**	(113)
Earnings on Class A Ordinary Shares		**3,216**	3,713
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)		**37,095**	33,476
Earnings per Class A Ordinary Share		**0.09**	0.11
Diluted Earnings per Class A Ordinary Share		**0.09**	0.11
Dividends Declared per Class A Ordinary Share		**0.175**	0.175

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 March 31, 2021	Three months Ended March 31, 2020
Net Earnings for the Period	**3,329**	3,826
Other Comprehensive Income:		
Amortisation of Net Actuarial Loss	**35**	17
Total Other Comprehensive Income	**35**	17
Comprehensive Income	**3,364**	3,843

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 ($)	Accumulated Other Comprehensive Loss ($)	Retained Earnings ($)	Total Equity ($)
As at December 31, 2020	**37,095**	**2,208**	**250**	**181,671**	**(2,922)**	**108,292**	**289,499**
Net earnings						3,329	3,329
Common share issuance and stock options plans	64	4		1,065			1,069
Defined benefit plans					35		35
Dividends on common shares						(6,491)	(6,491)
Dividends on preference shares						(113)	(113)
As at March 31, 2021	**37,159**	**2,212**	**250**	**182,736**	**(2,887)**	**105,017**	**287,328**
As at December 31, 2019	33,476	1,993	250	130,283	(1,865)	107,281	237,942
Net earnings	-	-	-	-	-	3,826	3,826
Common share issuance and stock options plans	49	3	-	926	-	-	929
Defined benefit plans	-	-	-	-	17	-	17
Dividends on common shares	-	-	-	-	-	(5,858)	(5,858)
Dividends on preference shares	-	-	-	-	-	(113)	(113)
As at March 31, 2020	33,525	1,996	250	131,209	(1,848)	105,136	236,743

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 March 31, 2021	Three Months Ended March 31, 2020
Operating Activities		
Net Earnings for the period	**3,329**	3,826
Items not affecting cash:		
Depreciation	**10,387**	9,713
Amortisation of Intangible Assets	**258**	204
Amortisation of Deferred Financing Costs	**29**	34
	14,003	13,777
Net Changes in Working Capital Balances Related to Operations	**5,963**	2,078
Net Change in Regulatory Deferrals	**(3,115)**	(513)
Cash flow related to operating activities	**16,851**	15,342
Investing Activities		
Purchase of Property, Plant and Equipment	**(14,200)**	(14,818)
Costs related to Intangible Assets	**(345)**	(214)
Proceeds on Disposed Assets	**44**	827
Contribution in Aid of Construction	**68**	-
Cash flow related to investing activities	**(14,433)**	(14,205)
Financing Activities		
Increase in Bank Overdraft		-
Dividends Paid	**(7,124)**	(6,491)
Net Proceeds from Share Issues	**1,069**	929
Cash flow related to financing activities	**(6,055)**	(5,562)
(Decrease) in net cash	**(3,637)**	(4,425)
Cash - Beginning of the period	**45,586**	23,662
Cash - End of the period	**41,949**	19,237
Supplemental disclosure of cash flow information:		
Interest paid during the period	**810**	819

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Unaudited – March 31, 2021 (expressed in thousands of United States dollars unless otherwise stated)

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

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

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

The Company is regulated by 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 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 June 1, 2020 rate increase until January 1, 2021. In August 2020, OfReg approved the Company's proposal. For the period from June 1, 2020 to December 31, 2020, the Company recorded 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 year ended December 31, 2020 was $3.5 million. The amount recorded will be recovered within two years from the effective date of the increase on January 1, 2021. During the first three months of 2021, $0.4 million was recovered from customers for the base rate increase deferral.

The Company was also granted approval by OfReg to recover various COVID-19 related expenses, including potential credit losses resulting from suspension of disconnections during the pandemic. A total of $0.7 million was recorded as a regulatory asset and will be recovered through future rates from the effective date of January 1, 2021. During the first three months of 2021, $70,000 was recovered from customers for COVID-19 related expenses.

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 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, 2020.

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. Operating Revenues

Operating Revenues		
($ thousands)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Electricity Sales Revenues		
Residential	**10,963**	10,544
General Commercial	**5,495**	5,161
Large Commercial	**4,722**	5,261
Other (street lighting etc.)	**212**	221
	21,392	21,187
Fuel Factor	**16,368**	23,814
Renewables	**1,083**	1,087
Total Operating Revenues	**38,843**	46,088

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 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 is based on actual bills-rendered during the 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 the Bodden Town Solar Limited 5 MW solar farm , which are passed through to consumers on a two-month lag basis with no mark-up.

4. Accounts Receivable, net

Accounts Receivable		
($ thousands)	As at March 31, 2021	As at December 31, 2020
Billings to consumers	**6,821**	5,916
Other receivables	**299**	524
Allowance for Credit Losses	**(1,928)**	(2,303)
Total Accounts Receivable, net	**5,192**	4,137

*Includes billings to DataLink customers

Other receivables

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

Allowance for Credit Losses

Accounts receivable are recorded net of an allowance for credit losses. The change in the allowance for credit losses balance for March 31, 2021 follows.

Allowance for Credit Losses	
($ thousands)	Three months ended March 31, 2021
Beginning of period	$ (2,303)
Credit loss increase	(18)
Write-offs	393
Recoveries	-
End of period	$ (1,928)

5. Regulatory Assets and Liabilities

Regulatory Assets and Liabilities

($ thousands)

Asset/Liability	Description	As at March 31, 2021	As at December 31, 2020
Regulatory Assets	Fuel Tracker Account (a)	**17,125**	13,892
Regulatory Assets	Derivative Contract (b)	**253**	27
Regulatory Assets	Miscellaneous Regulatory Assets (c)	**131**	137
Regulatory Assets	Deferred 2020 Revenues (f)	**3,112**	3,482
Regulatory Assets	Deferred COVID-19 Costs (g)	**589**	659
Total Regulatory Assets		**21,210**	18,197
Regulatory Liabilities	Government & Regulatory Tracker Account (d)	**(2,176)**	(2,541)
Regulatory Liabilities	Demand Rate Recoveries (e)	**(347)**	(84)
Total Regulatory Liabilities		**(2,523)**	(2,625)

a) Fuel Tracker Account – The T&D Licence established a fuel tracker mechanism to ensure the Company and the consumers neither gain nor lose from the pass-through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel and renewables costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel and renewables costs to be recovered from or reimbursed to the consumers on a two-month lag. The receivable or payable value represents a regulatory asset or liability. The net position of the fuel tracker accounts fluctuates monthly and is affected by fuel prices and electricity consumption.

b) Derivative Contract – The Company uses derivatives to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers in the face of price volatility for the fuel that the Company must purchase in order to provide electric service. This account represents the fair value adjustments for the call options.

c) Miscellaneous Regulatory Assets – Represent costs incurred by the Company, other than fuel and the specifically itemised licence and regulatory fees, to be recovered through the Company's base rates on terms as agreed with the OfReg.

d) Government and Regulatory Tracker Account – The balance in this account represents the difference between the fixed amounts to be collected and actual amounts collected from customers.

e) Demand Rate Recoveries – The introduction of demand rates for the large commercial customers, to be phased in over a three-year period beginning on January 1, 2018, was intended to be revenue neutral. For the First Quarter 2018, the electricity sales revenues for large commercial customers under the newly introduced demand rate were less than what would have been billed under the previous energy only rate. The Company applied to the OfReg to request a recovery of the shortfall and an adjustment in the rate going forward. In June 2018, the OfReg approved an increase of the large commercial demand rate going forward. The Company was also granted approval to record the 2018 revenue shortfall as a Regulatory Asset. The revenue shortfall will be recovered over years two and three of the demand rate implementation in order to smoothen the effects of the adjustment to the large commercial customers. As at March 31, 2021, the revenue shortfall had been recovered and the account had a credit balance of $0.3 million as of March 31, 2021.

f) Deferred Base Rate revenues - As part of its COVID-19 Customer Relief Programme, OfReg granted the Company approval to defer the required June 1, 2020 rate increase to January 1, 2021. For the period from June 1, 2020 to December 31, 2020, the Company recorded 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 year ended December 31, 2020 was $3.5 million. The amount recorded will be recovered within two years from the effective date of the increase on January 1, 2021.

g) Deferred COVID-19 Costs - The Company was granted approval by OfReg to recover various COVID-19 related expenses, including potential bad debts resulting from suspension of disconnections during the pandemic. The COVID-19 related expenses were recorded as a Regulatory Asset and will be recovered through future rates.

6. 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	Three Months Ended March 31, 2021	Three Months Ended March 31, 2021		
	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($ thousands)
Outstanding at Beginning of Period	1,000	9.66	1.20	
Granted				
Exercised				
Forfeited/Cancelled				
Expired				
Outstanding, End of Period	1,000	9.66	0.90	15,000
Vested, End of the Period	**1,000**	**9.66**	**0.90**	**15,000**

Under the fair value method, the compensation expense was $nil for the three month period ended March 31, 2021 (March 31, 2020: $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 March 31, 2021 relate to grants in 2019 in the amount of 37,032, 2020 in the amount of 27,555 and 2021 in the amount of 36,940. 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 ($0.02) million for the three month period ended March 30, 2021 (March 30, 2020: ($0.02) million), resulting in a corresponding increase to Other Long-Term Liabilities.

7. 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 three levels of the fair value hierarchy:

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 March 31, 2021. The estimated fair values of the Company's financial instruments, including derivative financial instruments, are as follows:

Financial Instruments				
	As at March 31, 2021		As at December 31, 2020	
($ thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt, including Current Portion*	**307,324**	**319,441**	307,306	320,224
Fuel Option Contracts	**253**	**253**	27	27

*Net of Debt costs

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 March 31, 2021.

8. Finance Charges

The composition of finance charges were as follows:

Finance Charges		
($ thousands)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Interest costs - long-term debt	**3,373**	3,614
Other interest costs	**41**	56
AFUDC	**(1,807)**	(1,571)
Finance Charges	**1,607**	2,099

9. Foreign Exchange

The closing rate of exchange on March 31, 2021 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn $1.2575 per US$1.00 (December 2020: Cdn$1.2732). 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 March 31, 2021 for conversion of Cayman Islands dollars into Canadian dollars was Cdn $1.509 per CI$1.00 (December 31, 2020: Cdn $1.5278).

10. 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 2021 and 2020 are summarized in the following table.

Related Party Transactions		
($ thousands)	As at March 31, 2021	As at December 31, 2020
Receivables from UNS Energy/TEP (a subsidiary of Fortis Inc.)	-	7
Total Related Party Receivables	-	7

11. Commitments

As at March 31, 2021, the Company's consolidated commitments in each of the next five years and for periods thereafter are as follows:

Commitments					
($ thousands)	Total	2021	2022-2023	2024-2025	2026 Onward
Letter of Guarantee	500	500	-	-	-
Lease Liability	314	70	194	50	-
Commitments	**814**	**570**	**194**	**50**	**-**

12. 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).

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.

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.

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
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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:

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Company Secretary
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CAYMAN ISLANDS
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