Caribbean Utilities Company, Ltd.

2022

Second Quarter Report

June 30, 2022

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Table of Contents

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.

Interim Management's Discussion and Analysis
For the Quarter Ended June 30, 2022

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, 2021 ("Fiscal 2021"). 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 2021 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.

Forward-Looking Statements

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements concerning anticipated future events, results, circumstances, performance or expectations with respect to the Company and its operations, including its strategy and financial performance and condition. Forward looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedules", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward-looking statements are based on underlying assumptions and management's beliefs, estimates and opinions, and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Some of the important risks and uncertainties that could affect forward looking statements are described in the MD&A in the sections labelled "Global Pandemic", "Business Risks", "Capital Resources" and "Corporate and Regulatory Overview" and include but are not limited to operational, general economic, market and business conditions, regulatory developments and weather. CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

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

July 28, 2022

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 32,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's development for over the past 55 years.

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. The OfReg assesses CUC's performance against the performance standard expectations in accordance with the Utility Regulation and Competition Office Act (2021). 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 license fee of $2.9 million per annum and a regulatory fee of $1.4 million per annum are payable to the Cayman Islands Government in quarterly installments. Both fees apply only to customer billings with consumption over 1,000 kWh per month as a pass-through charge rate of $0.0149 per kWh.

Customer Rates

The Licenses 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 2021 was 7% (2020: 6.6%). CUC's RORB for 2022 is targeted in the 6.25% to 8.25% range (2021: 5.75% to 7.75%).

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, 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.

Deferral Mechanism

As part of its COVID-19 Customer Relief Programme, OfReg approved the deferral of the 6.6% rate base increase effective June 1, 2020 to January 1, 2021. Total deferred revenue amounted to $3.5 million and will be recovered within two years from January 1, 2021. During the first six months of 2022, $0.8 million was recovered from customers for the base rate increase deferral (2021: $0.8 million), bringing the total amount recovered to $3.0 million as at June 30, 2022.

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 six months of 2022, $0.2 million was recovered from customers for COVID-19 related expenses), bringing the total amount recovered to $0.5 million as at June 30, 2022.

In April 2022, the Company submitted its annual rate adjustment to OfReg for review and approval. The required rate increase as confirmed by OfReg was 5.4%, with an effective date of June 1, 2022. This required increase was a result of the applicable RORB and United States ("US") and Cayman Islands consumer price indices, adjusted to exclude food and fuel.

Due to the current economic environment and rising fuel prices, OfReg approved the Company's proposal to defer billing of the required rate increase until January 1, 2023. For the period June 1, 2022 to December 31, 2022, the Company will track the difference between billed revenues and revenues that would have been billed from the required rate increase as an amount due from customers. The amount recorded as deferred revenue for June 2022 was $0.4 million.

DataLink, Ltd.

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

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

Financial and Operational Highlights

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

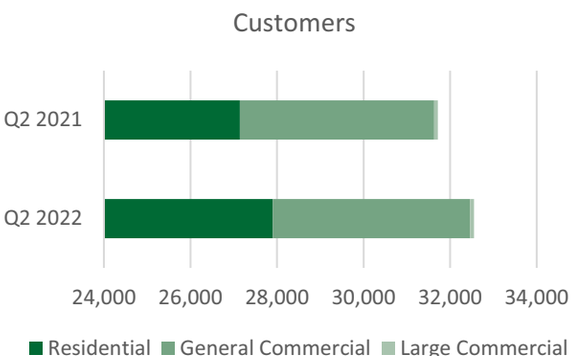
	Three Months Ending June 30, 2022	Three Months Ending June 30, 2021	Six Months Ending June 30, 2022	Six Months Ending June 30, 2021	Change	% Change
Electricity Sales Revenues	**25,538**	25,213	**47,634**	46,605	**1,029**	2%
Fuel Factor	**30,946**	21,415	**59,294**	37,783	**21,511**	57%
Renewables	**1,683**	1,629	**2,886**	2,712	**174**	6%
Total Operating Revenues	**58,167**	48,257	**109,814**	87,100	**22,714**	26%
Power Generation[1]	**33,927**	24,281	**64,821**	42,947	**21,874**	51%
Other Expenses	**16,109**	15,108	**31,624**	31,568	**56**	0%
Total Operating Expenses	**50,036**	39,389	**96,445**	74,515	**21,930**	29%
Net Earnings for the Period	**8,310**	8,562	**13,799**	11,892	**1,907**	16%
Cash Flow related to Operating Activities	**11,942**	12,627	**31,632**	29,478	**2,154**	7%
Per Class A Ordinary Share:						
Basic Earnings	**0.22**	0.23	**0.36**	0.32	**0.04**	13%
Dividends Paid	**0.175**	0.175	**0.350**	0.350	**-**	-
Total Customers	**32,553**	31,719	**32,553**	31,719	**834**	3%
Total Full-Time Employees	**243**	236	**243**	236	**7**	3%
Customers per Employee (#)	**134**	134	**134**	134	**-**	-
System Availability (%)	**99.97**	99.97	**99.97**	99.97	**-**	-
Peak Load Gross (MW)	**110.3**	111.2	**110.3**	111.2	**(0.9)**	-1%
Millions of kWh:						
Net Generation	**172.5**	171.9	**323.2**	316.8	**6.4**	2%
Renewable Energy Generation	**5.9**	6.1	**11.1**	11.0	**0.1**	1%
Total Energy Supplied	**177.9**	176.6	**332.3**	325.3	**7.0**	2%
Kilowatt-Hour Sales	**171.3**	170.8	**320.7**	314.6	**6.1**	2%
Sales per employee	**0.71**	0.72	**1.32**	1.33	**-(0.01)**	-1%

[1] All amounts from Fuel Factor and Renewables revenues are included within the Power Generation expense as they are passed through to customers without mark-up as a per kWh.

Results of Operations

Operating Revenues

Sales in kilowatt-hours ("kWh") for the three months ended June 30, 2022 ("Second Quarter 2022" or "Q2 2022") totalled 171.3 million kWh, an increase of 0.5 million kWh in comparison to 170.8 million kWh for the three months ended June 30, 2021 ("Second Quarter 2021" or "Q2 2021"). Despite the 3% increase in the customer numbers between Q2 2021 and Q2 2022, Q2 2022 was impacted by relatively cooler temperatures resulting in a decrease in gross peak load. This was also reflected in the decrease in average consumption for residential and commercial customers as shown below:



There is a 3% increase in the number of customers in June 30, 2022 compared to the prior year.

Average Monthly Consumption per Customer

(in kwh)

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	% Change	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	% Change
Residential	**1,114**	1,159	-4%	**1,030**	1,046	-2%
General Commercial	**2,714**	2,735	-1%	**2,554**	2,593	-2%
Large Commercial	**142,031**	144,058	-1%	**135,452**	135,658	0%

Sales for the six months ended June 30, 2022 totalled 320.7 million kWh, an increase of 6.1 million kWh in comparison to 314.6 million kWh for the six months ended June 30, 2021. The increase in sales is primarily due to a 3% growth in overall customer numbers for the six months ended June 30, 2022 compared to the six months ended June 30, 2021.

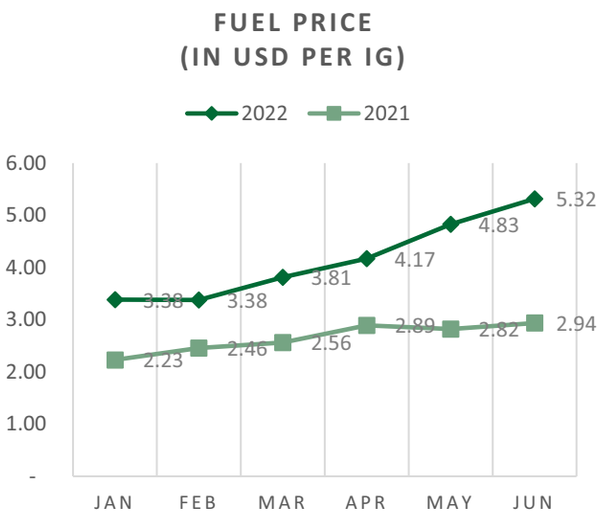
Operating revenues for Q2 2022 were $58.2 million, an increase of $9.9 million from $48.3 million for Q2 2021. Operating revenues for the first six months ended June 30, 2022 totalled $109.8 million, an increase of 26% when compared to $87.1 million for the six months ended June 30, 2021. These increases were due primarily to higher electricity sales revenues and an increase in fuel factor revenues resulting from higher fuel costs.

Fuel factor revenues for Q2 2022 totalled $30.9 million, an increase of 44% compared to fuel factor revenues of $21.4 million for Q2 2021. Fuel factor revenues for the six months ended June 30, 2022 increased by 57% to $59.3 million from $37.8 million in 2021. This is primarily due to the 43% increase in the average fuel cost per kWh. The average Fuel Cost Charge rate billed to consumers for Q2 2022 was $0.20 per kWh, compared to the average Fuel Cost Charge rate of $0.14 per kWh for Q2 2021. CUC passes through all fuel costs and renewable costs to consumers on a two-month lag basis with no mark-up.

Operating Expenses

Operating expenses for Q2 2022 were $50.0 million, a 27% increase from $39.4 million in Q2 2021. This is due to an increase in fuel prices, general & administration costs and depreciation, partially offset by a decrease in T&D costs.

Operating expenses for the six months ended June 30, 2022 totalled $96.4 million, a 29% increase compared to $74.5 million for the six months ended June 30, 2021. This increase was due primarily to higher power generation, consumer services and maintenance expenses partially offset by lower depreciation and amortization expenses.



During Q2 2022, the average fuel price per kWh increased significantly compared to the prior year driven by the global economic environment and the conflict in Ukraine.

The explanation of the primary cause of the significant changes in the Company's operating expenses for the Second Quarter 2021 and 2022 and the six months ending June 30, 2021 and June 30, 2022 are as follows:

Changes in Operating Expenses

($ in millions)

	Increases (Decreases)		
Item	Three-Months Ending June 30	Six-Months Ending June 30	Explanation
Power Generation	9.6	21.9	This increase was primarily due to increase in kWh sales and the increase in fuel costs. The Company's average price per imperial gallon ("IG") of fuel for the six months ended June 30, 2022 increased by 57% to $4.15 compared to $2.65 for the six months ended June 30 2021. The Company's average price per IG of lubricating oil for the six months ended June 30, 2022, increased by 32% to $11.90 when compared to $8.99 for the six months ended June 30, 2021.
Depreciation of Property, Plant and Equipment ("PP&E")	0.7	(0.8)	The increase in Q2 2022 depreciation was due to the completion of the Seven Mile Beach and Prospect substations, partially offset by the effect of OfReg's approval to extend the useful lives of four of the Company's generating units in 2021. The decrease in depreciation expenses for the six months ended June 30, 2022 was due to the asset life extension in 2021, partially offset by capital projects completed during the year.
General and Administration ("G&A")	0.2	0.4	This increase was mainly due to higher compensation cost, insurance premiums and legal fees. These items were partially offset by higher General Expenses Capitalized.
Consumer Services ("CS")	0.1	0.4	The increase was due to higher allowance for credit losses in 2022 when compared to 2021.

	Increases (Decreases)		
Item	Three-Months Ending June 30	Six-Months Ending June 30	Explanation
Other Income	0.5	1.1	The increase in Other Income was primarily due to the net impact of: • Increased income from third party customers of Datalink, and • Reduction in finance charges due to principal payments. Finance charges for Q1 2022 totalled $1.2 million, a decrease of $0.2 million when compared to $1.4 million in Q2 2021.

Operating Income

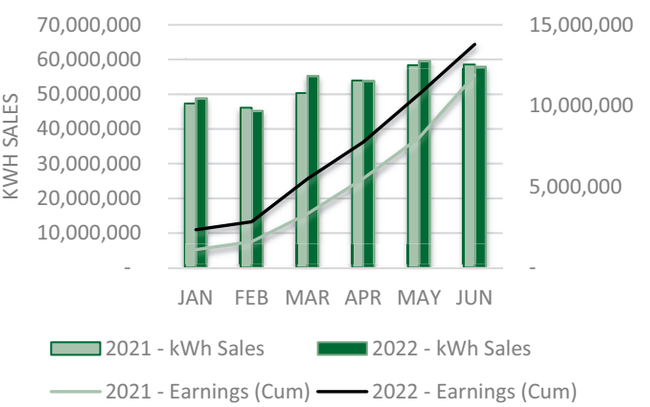
Operating income for Q2 2022 totalled $8.1 million, a decrease of $0.8 million when compared to $8.9 million for Q2 2021. The decrease is primarily attributable to an increase in general and administration expenses, customer services and depreciation, which was partially offset by an increase in electricity sales. Electricity sales revenues for Q2 2022 increased due to higher kWh sales and a 5.4% base rate increase that went into effect on June 1, 2022. Due to the current economic environment and rising fuel prices, OfReg approved the Company's proposal to defer billing of the required rate increase until January 1, 2023. The amount recorded as deferred revenue for June 2022 was $0.4 million.

Operating income for the six months ended June 30, 2022 totalled $13.4 million, an increase of 6% when compared to operating income of $12.6 million for the six months ended June 30, 2021. The increase is primarily attributable to higher electricity sales revenues and lower depreciation expense.

Net Earnings

Net earnings for Q2 2022 totalled $8.3 million, a decrease of $0.3 million or 3% compared to $8.6 million Q2 2021. In addition to the items impacting operating income, net earnings during the quarter were positively impacted by lower finance charges and higher other income.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Q2 2022 totalled $8.2 million, or $0.22 per Class A Ordinary Share, compared to earnings of $8.4 million, or $0.23 per Class A Ordinary Share in Q2 2021.



Above: *Comparative kWh sales during the first six months of 2021 and 2022 along with the earning trend for both years.*

Net earnings for the six months ended June 30, 2022 totalled $13.8 million, an increase of $1.9 million or 16% when compared to net earnings of $11.9 million for the six months ended June 30, 2021. In addition to the items impacting operating income, net earnings for the six months ended June 30, 2022 were positively impacted by lower finance charges and higher other income.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the six months ended June 30, 2022 totalled $13.6 million, or $0.36 per Class A Ordinary Share, compared to earnings on Class A Ordinary Shares of $11.7 million, or $0.32 per Class A Ordinary Share, for the six months ended June 30, 2021.

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 37,444,256 for Q2 2022 and 37,095,463 for Q2 2021.

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended September 30, 2020 through June 30, 2022. 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
June 30, 2022	**58,167**	**8,310**	**8,197**	**0.22**	**0.22**
March 31, 2022	51,648	5,485	5,372	0.14	0.14
December 31, 2021	55,276	8,330	7,697	0.21	0.21
September 30, 2021	56,102	10,098	9,987	0.26	0.26
June 30, 2021	48,257	8,562	8,449	0.23	0.23
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

Financial Position

The following table is a summary of significant changes to the Company's balance sheet :

Significant changes in Balance Sheet *(from December 31, 2021 to June 30, 2022)*

($ in millions)

Balance Sheet Account	Increase/ (Decrease)	Explanation
Cash and Cash Equivalents	(4.0)	Decrease due to increase in working capital requirements
Accounts Receivable	5.3	Increase due to higher electricity sales revenue and higher fuel costs
Inventories	2.2	Increase due to higher fuel prices
Regulatory Assets	11.4	Increase due to higher fuel, lube and renewable costs which are passed through to customers without mark-up
Prepayments	(2.6)	Decrease due to the timing of expense recognition.
Property, Plant and Equipment	21.7	Increase due to capital expenditures for the period
Accounts Payable and Accrued Expenses	16.4	Increase attributable to higher fuel costs payable resulting from higher fuel prices
Short Term Debt	30.0	Drawdown of credit facility to meet obligations
Long-Term Debt	(15.2)	Decrease due to debt repayments
Share Premium	2.3	Increase due to issuance of 154,864 shares through the Company's share purchase plans.

The Economy

The Cayman Islands Economics and Statistics Office ("ESO") published the 2021 Third Quarter Economic Report in May 2022. The report indicated that the Gross Domestic Product ("GDP") expanded by an estimated 1.7% in the first nine months of 2021. The economic expansion for the period was relatively broad-based, with only four sectors estimated to have contracted. The highest growth was estimated for real estate activities (up by 6.5%), construction (up by 5.7%), and business activities (up by 5.5%). Finance and insurance services sector, which continues to be the largest contributor to GDP, expanded by 2.4% during the review period.

In May 2022, ESO also reported the Consumer Price Index ("CPI") increased by 11.2% in the first quarter of 2022 when compared to the same period in 2021. The increase in the first quarter CPI is mainly traced to the following divisions: Housing and Utilities increased by 20.1%, Transport increased by 15.7% due to a significant increase in the average cost of fuels (29.0%), while the index for the purchase of motor vehicles went up by 14.7%, and Clothing and Footwear increased by 8%.

Financial services is one of the two main industries of the Cayman Islands. The table below itemises trends in some of the key financial sectors:

Indicators for the Financial Services Industry		
	As at June 30, 2022	As at December 30, 2021
Bank Licenses	100	101
Mutual Funds	12,785	12,719
Mutual Fund Administrators	76	75
Registered Companies	109,533	99,327
Captive Insurance Companies	664	686

The tourism sector is the second main pillar of the Cayman Islands economy. Due to the COVID-19 pandemic, the Country's borders were closed to tourism in March 2020. The borders have been reopened in a phased manner since 2021. The Cayman Islands Government launched Phase Five of its reopening plan in January 2022 which allowed more travellers to enter the country. Travel restrictions and COVID protocols continued to be eased which continue to stimulate the tourism sector as a significant contributor of the economy.

The following table presents statistics for tourist arrivals in the Cayman Islands for the three months ending June 30:

Tourist Arrivals to the Cayman Islands					
	2022	2021	2020	2019	2018
By Air	**70,504**	2,212	532	134,900	118,758
By Sea	**159,375**	-	-	367,410	390,012
Total	**229,879**	2,212	532	502,310	508,770

All data is sourced from the Cayman Islands Government, Cayman Islands Economics & Statistics Office, Cayman Islands Monetary Authority, Cayman Financial Review, Cayman Islands Department of Tourism and Health City websites; www.gov.ky www.ESO.ky www.cimoney.com.ky www.caymanfinancialreview.com www.caymanislands.ky www.healthcitycaymanislands.com.

Liquidity

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

Cash Flows ($ thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Change	% Change
Beginning cash	**1,394**	41,949	**7,360**	45,586	**(38,226)**	-84%
Cash provided by/(used in):						
Operating activities	**11,942**	12,627	**31,632**	29,478	**2,154**	7%
Investing activities	**(18,875)**	(15,710)	**(38,591)**	(30,144)	**(8,447)**	-28%
Financing activities	**8,851**	(19,761)	**2,911**	(25,815)	**28,726**	111%
Ending cash	**3,312**	19,105	**3,312**	19,105	**(15,793)**	-83%

Operating Activities:

Cash flow provided by operations after working capital adjustments for Q2 2022 decreased by $0.7 million when compared to Q2 2021. Cash flow provided by operations after working capital adjustments for the six months ending June 30, 2022 increased by $2.2 million when compared to the six months ended June 30, 2021. The changes are primarily attributable to the movements in regulatory deferral balances in Q2 2022 when compared to the same period last year, partially offset by higher earnings.

Investing Activities:

Cash used in investing activities for Q2 2022 totalled $18.9 million, an increase of $3.2 million from $15.7 million for Q2 2021. For the six months ending June 30, there was a 28% increase in cash used from investing activities between 2021 and 2022. This increase is due mainly to higher capital expenditures. Significant capital projects in 2022 include the Low Voltage System Upgrades, purchase of a 4.6 MW Gas Turbine and T&D System upgrades.

Financing Activities:

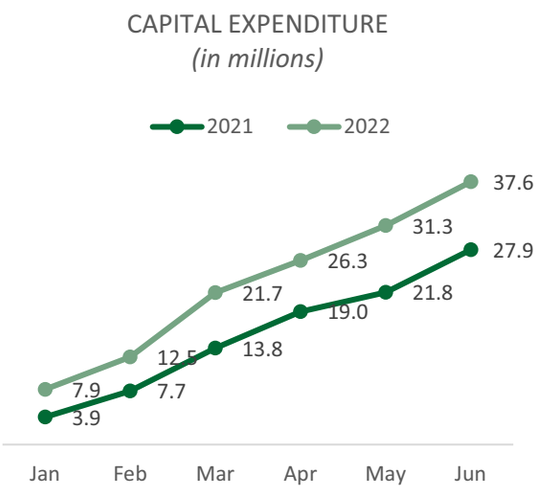
Cash provided by financing activities for Q2 2022 totalled $8.9 million, an increase of $28.7 million compared to cash used for financing activities of $19.8 million for Q2 2021. Cash provided by financing activities for the six months ended June 30, 2022 totalled $2.9 million, an increase of $28.7 million compared to cash used for financing activities of $25.8 million for the six months ended June 30, 2021. This increase in cash provided by financing activities was due to the short-term debt proceeds partially offset by debt repayments.

Capital Expenditures

Capital expenditures for the six months ended June 30, 2022 were $37.6 million, a $9.7 million, or 35% increase from $27.9 million in capital expenditures for the six months ended June 30, 2021. The capital expenditures for the six months ended June 30, 2022 primarily relate to:

- Distribution system extension and upgrades - $10.9 million
- Generation Replacement - $7.7 million
- 4.6MW Gas Turbine - $7.3 million
- Seven Mile Beach 69/13kV Substation – $1.2 Million
- Engine Room Upgrades - $1.0 million

AFUDC of $4.3 million was capitalized in the six months ended June 30, 2022.



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. There were no related party transactions balances as at June 30, 2022.

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at June 30, 2022, are outlined in the following table:

Contractual Obligations

($ thousands)

	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	309,026	45,195	33,701	37,727	192,403
Debt interest	123,430	11,826	20,650	17,504	73,450
Total	**432,456**	**57,021**	**54,351**	**55,231**	**265,853**

Capital Resources

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

Capital Structure

	June 30, 2022 ($ thousands)	%	December 31, 2021 ($ thousands)	%
Total debt	**307,762**	**51%**	293,291	50
Shareholder's equity	**300,702**	**49%**	297,878	50
Total	**608,464**	**100%**	591,169	100

The change in the Company's capital structure between December 31, 2021 and June 30, 2022 was a net effect of long term debt principal payments amounting to $15.6 million and the $30.0 million short-term debt acquired in Q2 2022.

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 June 30, 2022, the Company was in compliance with all debt covenants.

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 Morningstar A (low)/**Stable**

In May 2022, S&P revised its outlook of the Company to stable from negative due to consistent financial performance. Despite the pandemic, which negatively affected Cayman's tourism industry, CUC's financial measures have consistently remained above S&P's downgrade threshold.

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 2022 is 5%. This compares to assumed long-term rates of return of 5% used during 2021. 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 Q2 2022 was 4% (Q2 2021: gain of 3%). The discount rate assumed for 2022 is 2.8% compared to the discount rate assumed during 2021 of 2.4%.

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 2021 annual audited consolidated financial statements.

Future Accounting Policies

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

US GAAP Exemptive Relief Application

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

In May 2022, the Ontario Securities Commission issued a final relief order which revokes the US GAAP Relief issued in 2017. The US GAAP Relief will terminate the earliest of: (i) January 1, 2027; (ii) the first date of the financial year that commences after the Company ceases to have activities subject to rate regulation; and (iii) the first date of the Company's financial year that commences on or following the later of: (i) the effective date prescribed by the IASB for a mandatory rate-regulated standard; and (ii) two years after the IASB publishes the final version of a mandatory rate-regulated standard.

The Company is currently reviewing the implications of this order and analyzing alternate options to continue to report under US GAAP.

Disclosure Controls and Procedures

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, 2021; 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 June 30, 2022.

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 June 30, 2022.

Outlook

In October 2021, following a consultation process, OfReg announced the adoption of a new Renewable Energy Auction Scheme[2] ("REAS") to solicit additional solar and wind power over the next decade. In April 2022, OfReg issued a Request for Qualification (RFQ) for the REAS Competition Round 1. The REAS Round 1 is intended to select a party, or parties, to operate and maintain Solar Photovoltaic Plants and Energy Storage up to 100MW with 60MW Battery Energy Storage System Facility. OfReg also issued an RFQ for a 23MW Dispatchable Photovoltaic Generation plant paired with energy storage facility. CUC is preparing to participate in these bid invitations.

The Government subsequently announced on April 27, 2022 a change in policy direction and its intention to hold a majority ownership stake in all future large scale renewable energy projects. CUC is currently in discussions with the Government and OfReg to determine what impact this announcement will have on future renewable energy plans.

Residential Customer Fuel Relief Programme
In anticipation of the increases in fuel cost, the Cayman Islands Government will be offering a fuel cost credit to residents across the country to help alleviate the price of electricity during the peak summer period. The temporary Government assistance will offer a fuel cost credit for residential customers who have monthly consumption between 101 kWh and 2,000 kWh by subsidising the fuel cost in excess of $0.18/kWh which will be paid to the Company in advance of each month's billing cycle. The credit from the programme applies to energy consumed in July, August and September and billed in August, September and October. Total estimated Programme cost to the Cayman Islands Government during the relief period amounts to $5 million.

Outstanding Share Data

At July 28, 2022, the Company had issued and outstanding 37,524,342 Class A Ordinary Shares and 249,500 9% cumulative Participating Class B Preference Shares.

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*.

[2] Under the REAS, potential energy producers are anticipated to bid to supply energy through long-term contracts at the lowest possible price. The programme, which will be managed by OfReg, is designed to enable the procurement of renewable energy at competitive prices while advancing the goals of the National Energy Policy ("NEP"') in-line with CUC's Integrated Resource Plan ("IRP"). The IRP projects 140 MW of utility-scale solar by 2030.

Condensed Consolidated Interim Balance Sheets

(expressed in thousands of United States Dollars)

Unaudited	Note	As at June 30, 2022	As at December 31, 2021
Assets			
Current Assets			
Cash		**3,312**	7,360
Accounts Receivable (Net of Allowance for Credit Losses of $2,119 and $1,976)	3	**16,604**	11,343
Regulatory Assets	4	**36,096**	24,746
Inventories		**7,442**	5,277
Prepayments		**1,909**	4,542
Total Current Assets		**65,363**	53,268
Property, Plant and Equipment, net		**598,406**	576,703
Intangible Assets, net		**4,279**	3,947
Other Assets		**159**	232
Total Assets		**668,207**	634,150
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts Payable and Accrued Expenses		**43,346**	26,933
Regulatory Liabilities	4	**1,445**	1,310
Short-Term Debt	7	**30,000**	-
Current Portion of Long-Term Debt	6	**15,195**	15,558
Current Portion of Lease Liability		**90**	87
Consumers' Deposits and Advances for Construction		**12,402**	11,864
Total Current Liabilities		**102,478**	55,752
Defined Benefit Pension Liability		**1,848**	1,894
Long-Term Debt	6	**262,567**	277,733
Other Long-Term Liabilities		**612**	893
Total Liabilities		**367,505**	336,272
Shareholders' Equity			
Share Capital[3]		**2,483**	2,474
Share Premium		**187,982**	185,687
Retained Earnings		**112,085**	111,602
Accumulated Other Comprehensive Loss		**(1,848)**	(1,885)
Total Shareholders' Equity		**300,702**	297,878
Total Liabilities and Shareholders' Equity		**668,207**	634,150

See accompanying Notes to Condensed Consolidated Interim Financial Statements

[3] Consists of Class A Ordinary Shares of 37,524,342 and 37,369,478 issued and outstanding as at June 30, 2022 and December 31, 2021, respectively and Class B Preference Shares of 249,500 and 249,500 issued and outstanding as at June 30, 2022 and December 31, 2021, respectively.

Condensed Consolidated Interim Statements of Earnings

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

Unaudited	Note	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Operating Revenues					
Electricity Sales	2	**25,538**	25,213	**47,634**	46,605
Fuel Factor	2	**30,946**	21,415	**59,294**	37,783
Renewables	2	**1,683**	1,629	**2,886**	2,712
Total Operating Revenues		**58,167**	48,257	**109,814**	87,100
Operating Expenses					
Power Generation		**33,927**	24,281	**64,821**	42,947
General and Administration		**2,289**	2,087	**5,064**	4,643
Consumer Services		**977**	833	**1,891**	1,494
Transmission and Distribution		**1,116**	1,270	**2,467**	2,504
Depreciation		**9,960**	9,223	**18,769**	19,610
Maintenance		**1,537**	1,442	**2,973**	2,806
Amortization of Intangible Assets		**230**	253	**460**	511
Total Operating Expenses		**50,036**	39,389	**96,445**	74,515
Operating Income		**8,131**	8,868	**13,369**	12,585
Other Income/(Expenses)					
Finance Charges	8	**(1,176)**	(1,448)	**(2,102)**	(3,055)
Foreign Exchange Gain	9	**409**	413	**789**	709
Other Income		**946**	729	**1,743**	1,653
Total Net Other Income/ (Expenses)		**179**	(306)	**430**	(693)
Net Earnings for the Period		**8,310**	8,562	**13,799**	11,892
Preference Dividends Paid- Class B		**(113)**	(113)	**(226)**	(226)
Earnings on Class A Ordinary Shares		**8,197**	8,449	**13,573**	11,666
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)		**37,444**	37,095	**37,370**	37,184
Earnings per Class A Ordinary Share		**0.22**	0.23	**0.36**	0.32
Diluted Earnings per Class A Ordinary Share		**0.22**	0.23	**0.36**	0.32
Dividends Declared per Class A Ordinary Share		**0.175**	0.175	**0.350**	0.350

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Condensed Consolidated Interim Statements of Comprehensive Income

(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Net Earnings for the Period	**8,310**	8,562	**13,799**	11,892
Other Comprehensive Income:				
Amortization of Net Actuarial Loss	**18**	35	**37**	66
Total Other Comprehensive Income	**18**	35	**37**	66
Comprehensive Income	**8,328**	8,597	**13,836**	11,958

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, 2021	**37,369**	**2,224**	**250**	**185,687**	**(1,885)**	**111,602**	**297,878**
Net earnings	-	-	-	-	-	13,799	13,799
Common share issuance and stock options plans	155	9	-	2,295	-	-	2,304
Defined benefit plan	-	-	-	-	37	-	37
Dividends on common shares	-	-	-	-	-	(13,090)	(13,090)
Dividends on preference shares	-	-	-	-	-	(226)	(226)
As at June 30, 2022	**37,524**	**2,233**	**250**	**187,982**	**(1,848)**	**112,085**	**300,702**
As at December 31, 2020	37,095	2,208	250	181,671	(2,922)	108,292	289,499
Net earnings	-	-	-	-	-	11,892	11,892
Common share issuance and stock options plans	145	9	-	2,044	-	-	2,053
Defined benefit plan	-	-	-	-	66	-	66
Dividends on common shares	-	-	-	-	-	(12,996)	(12,996)
Dividends on preference shares	-	-	-	-	-	(226)	(226)
As at June 30, 2021	37,240	2,217	250	183,715	(2,856)	106,962	290,288

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Condensed Consolidated Interim Statements of Cash Flows

(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Operating Activities				
Net Earnings for the period	**8,310**	8,562	**13,799**	11,892
Items not affecting cash:				
Depreciation	**9,960**	9,223	**18,769**	19,610
Amortization of Intangible Assets	**230**	253	**460**	511
Amortization of Deferred Financing Costs	**31**	28	**59**	57
	18,531	18,066	**33,087**	32,070
Net Changes in Working Capital Balances Related to Operations	**2,350**	(2,119)	**9,760**	3,843
Net Change in Regulatory Deferrals	**(8,939)**	(3,320)	**(11,215)**	(6,435)
Cash flow related to operating activities	**11,942**	12,627	**31,632**	29,478
Investing Activities				
Purchase of Property, Plant and Equipment	**(18,545)**	(15,458)	**(37,832)**	(29,659)
Costs Related to Intangible Assets	**(330)**	(266)	**(792)**	(611)
Proceeds on Disposed Assets	**-**	4	**33**	48
Contributions in Aid of Construction	**-**	10	**-**	78
Cash flow related to investing activities	**(18,875)**	(15,710)	**(38,591)**	(30,144)
Financing Activities				
Proceeds from Short-Term Debt	**30,000**	-	**30,000**	-
Repayment of Long-Term Debt	**(15,558)**	(14,130)	**(15,558)**	(14,130)
Dividends Paid	**(5,996)**	(6,002)	**(12,480)**	(12,539)
Net Proceeds from Share Issues	**405**	371	**949**	854
Cash flow related to financing activities	**8,851**	(19,761)	**2,911**	(25,815)
Increase/(Decrease) in net cash	**1,918**	(22,844)	**(4,048)**	(26,481)
Cash, Beginning of the period	**1,394**	41,949	**7,360**	45,586
Cash, End of the period	**3,312**	19,105	**3,312**	19,105
Supplemental disclosure of cash flow information:				
Interest paid during the period	**5,626**	6,775	**6,441**	5,978

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Unaudited – June 30, 2022 (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 Act (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").

As part of its COVID-19 Customer Relief Programme, OfReg approved the deferral of the 6.6% rate base increase effective June 1, 2020 to January 1, 2021. Total deferred revenue amounted to $3.5 million and will be recovered within two years from January 1, 2021. During the first six months of 2022, $0.8 million was recovered from customers for the base rate increase deferral (2021: $0.8 million), bringing the total amount recovered to $2.9 million as at June 30, 2022.

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 six months of 2022, $0.2 million was recovered from customers for COVID-19 related expenses.

In April 2022, the Company submitted its annual rate adjustment to OfReg for review and approval. The required rate increase as confirmed by OfReg was 5.4%, with an effective date of June 1, 2022. This required increase was a result of the applicable return on base rate ("RORB") and United States ("US") and Cayman Islands consumer price indices, adjusted to exclude food and fuel.

Due to the current economic environment and rising fuel prices, OfReg approved the Company's proposal to defer the required rate increase until January 1, 2023. For the period June 1, 2022 to December 31, 2022 the Company will track the difference between billed revenues and revenues that would have been billed from the required rate increase as an amount due from customers. The amount recorded as deferred revenue for June 2022 was $0.4 million.

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.

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, 2021.

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.

2. Operating Revenues

Operating Revenues ($ thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Electricity Sales Revenues				
Residential	**13,662**	13,566	**25,091**	24,530
General Commercial	**6,336**	6,188	**11,705**	11,682
Large Commercial	**5,345**	5,268	**10,425**	9,990
Other (street lighting, etc.)	**195**	191	**413**	403
Total Electricity Sales Revenues	**25,538**	25,213	**47,634**	46,605
Fuel Factor	**30,946**	21,415	**59,294**	37,783
Renewables	**1,683**	1,629	**2,886**	2,712
Total Operating Revenues	**58,167**	48,257	**109,814**	87,100

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 BMR Energy Limited ("BMR Energy"), which are passed through to consumers on a two-month lag basis with no mark-up.

3. Accounts Receivable, net

Accounts Receivable		
($ thousands)	As at June 30, 2022	As at December 31, 2021
Billings to consumers	18,107	12,384
Other receivables	616	935
Allowance for credit losses	(2,119)	(1,976)
Total Accounts Receivable, net	**16,604**	11,343

Other receivables

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

Allowance for Credit Losses

Accounts receivable are recorded net of an allowance for credit losses. The change in the allowance for credit losses balance from June 30, 2022 are as follows:

Allowance for Credit Losses		
($ thousands)	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Beginning of period	(1,976)	(2,303)
Credit loss expensed	(141)	(71)
Write-offs (Recoveries)	(2)	433
End of period	(2,119)	(1,941)

4. Regulatory Assets and Liabilities

Regulatory Assets and Liabilities			
($ thousands)			
Asset/Liability	Description	As at June 30, 2022	As at December 31, 2021
Regulatory Assets	Fuel Tracker Account (a)	**34,196**	22,557
Regulatory Assets	Derivatives Contract (b)	**-**	19
Regulatory Assets	Miscellaneous Regulatory Assets (c)	**97**	110
Regulatory Assets	Deferred 2020 Revenues (f)	**896**	1,724
Regulatory Assets	Deferred 2022 Revenues (h)	**396**	-
Regulatory Assets	Deferred COVID-19 Costs (g)	**179**	336
Regulatory Assets	Government & Regulatory Tracker Account (d)	**332**	-
Total Regulatory Assets		**36,096**	24,746
Regulatory Liabilities	Government & Regulatory Tracker Account (d)	**-**	(749)
Regulatory Liabilities	Demand Rate Recoveries (e)	**(243)**	(561)
Regulatory Liabilities	Derivatives Contract (b)	**(1,202)**	-
Total Regulatory Liabilities		**(1,445)**	(1,310)

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 smooth the effects of the adjustment to the large commercial customers. As at June 30, 2022, the revenue shortfall had been recovered and the account had a credit balance of $0.2 million.

f) Deferred Base Rate Revenues 2020 - 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.

h) Deferred Base Rate Revenues 2022 - In April 2022, the Company submitted its annual rate adjustment to OfReg for review and approval. The required rate increase as confirmed by OfReg, was 5.4%, with an effective date of June 1, 2022. This required increase was a result of the applicable RORB and the United States ("US") and Cayman Islands consumer price indices, adjusted to exclude food and fuel.

Due to the current economic environment and raising fuel prices, the Company has proposed to OfReg to defer the required base rate increase until January 1, 2023. For the period June 1, 2022 to December 31, 2022 the Company will track the difference between billed revenues and revenues that would have been billed from the required rate increase as an amount due from customers.

5. Share Based Compensation Plans

Share Options:

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

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

Subject to certain amendments requiring shareholder approval, the Board of Directors may amend or discontinue the ESOP at any time without shareholder approval subject to TSX regulations, provided, however, that any amendment that may materially and adversely affect any option rights previously granted to a participant under the ESOP must be consented to in writing by the participant. As at June 30, 2022, all stock options were exercised.

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.

PSUs outstanding as at June 30, 2022 relate to grants in 2020, 2021 and 2022 for 25,152, 34,178 and 37,072, respectively. 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 $0.05 million for the three month period ended June 30, 2022 (the three month period ended June 30, 2021: $0.08 million), resulting in a corresponding increase to Other Long-Term Liabilities.

PSU Compensation expense was $0.2 million for the six month period ended June 30, 2022 (the six month period ended June 30, 2021: $0.2 million), resulting in a corresponding increase to Other Long-Term Liabilities.

6. Fair Value Measurement

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

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

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

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

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

There have been no changes in the methodologies used at June 30, 2022. The estimated fair values of the Company's financial instruments, including derivative financial instruments, are as follows:

Financial Instruments				
	As at June 30, 2022		As at December 31, 2021	
($ thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt, including Current Portion	277,762	280,834	293,291	300,241
Fuel Option Contracts	-	-	19	19

The Company's long term debt and fuel derivative contracts, based on the three levels that distinguish the level of pricing observability utilized in measuring fair value, have been classified as Level 2. There were no transfers between levels for the period ended June 30, 2022.

7. Short-Term Debt

In May 2022, the Company drew down $30.0 million against its credit facilities with Scotia Bank and Trust (Cayman) Limited to assist with the short term operational and capital investment needs until the Company's long term financing plan is in place. The funds are planned to be repaid in 6 months with interest rate of 3.18% per annum.

8. Finance Charges

The composition of finance charges were as follows:

Finance Charges				
($ thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Interest costs – long-term debt	**3,085**	3,307	**6,246**	6,680
Other interest costs	**152**	32	**199**	73
AFUDC	**(2,061)**	(1,891)	**(4,343)**	(3,698)
Finance Charges	**1,176**	1,448	**2,102**	3,055

9. Foreign Exchange

The closing rate of exchange on June 30, 2022 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn $1.2286 per US$1.00 (December 2021: Cdn$1.2678). The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by the Cayman Islands Monetary Authority is fixed at CI$1.00 per US$1.20. Thus, the rate of exchange as of June 30, 2022 for conversion of Cayman Islands dollars into Canadian dollars was Cdn $1.4743 per CI$1.00 (December 31, 2021: Cdn $1.5214).

10. Commitments

As at June 30, 2022, the Company's consolidated commitments in each of the next five years and for periods thereafter are as follows:

Commitments							
($ thousands)	Total	2022	2023-2024	2025-2026	2026-2027	2027-2028	2028 Onward
Letter of Guarantee	1,000	1,000	-	-	-	-	-
Lease Liability	196	49	147	-	-	-	-
Commitments	**1,196**	**1,049**	**147**	-	-	-	**-**

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:

TSX Trust Company
P.O. Box 4229, Station A
Toronto, ON, Canada M5W 0G1
North America (toll free): 1-800-387-0825
Direct: (416) 682-3860
Fax: (888) 249-6189
E-mail: *shareholderinquiries@tmx.com*
Website : *www.tsxtrust.com*
(Acting as principal agent)

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:

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Company Secretary
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We invest in people Gold

CUC
You've got the power

Certified System
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ISO 14001
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