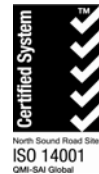




Caribbean Utilities Company, Ltd.

**2010 First Quarter Report**

March 31, 2010



### **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 152.6 megaWatts (“MW”), and a new record peak load of 97.5 MW was experienced in August 2009. CUC is committed to providing a safe and reliable supply of electricity to over 25,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman’s rapid development for over 40 years.

### **About the Cayman Islands**

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 54,000, 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. Duncan Taylor, is appointed by her Majesty the Queen. A democratic society, the Cayman Islands have a Legislative Assembly comprised of representatives elected from each of Grand Cayman’s five districts as well as two 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, further in this Quarterly Report, 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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**To Our Shareholders**

Dear Shareholder,

We are pleased to report, that despite continued challenging economic circumstances in the Cayman Islands, during the three months ended March 31, 2010 (the "First Quarter 2010") the Company continued its steady performance with some growth in sales, total customers and net earnings compared to the three months ended March 31, 2009 (the "First Quarter 2009")

KiloWatt-hour ("kWh") sales for the First Quarter 2010, totalled 123.4 million for an increase of 3.3 million kWh or 3% over 120.1 kWh for the First Quarter 2009. An increase in the total number of customers, coupled with warmer, drier weather contributed to this growth.

Total customers as at the end of the First Quarter 2010 were 25,676, up by 3% compared to the 24,846 at the end of the First Quarter 2009. During the First Quarter 2010, residential customers increased by 223 and commercial customers decreased by 8.

Electricity sales revenues were higher by 5% or \$0.7 million at \$15.5 million for the First Quarter 2010 compared to \$14.8 million for the First Quarter 2009.

Net earnings for the First Quarter 2010 of \$2.46 million were comparable to earnings of \$2.44 million in the First Quarter 2009. The Company continued its focus on expenditure reduction throughout the period resulting in further reductions to general and administrative expenses. These reductions were partially offset by higher maintenance costs as well as higher depreciation arising from capital asset expansion during 2009 and financing costs arising from the 2009, 7.50% Senior Unsecured Notes offering.

Earnings on Class A Ordinary Shares for the First Quarter 2010, after adjustment for dividends on the Class B Preference Shares were \$2.3 million or \$0.08 per Class A Ordinary Share, comparable to Class A Ordinary Share earnings for the First Quarter 2009.

With slowed demand growth, the Company has reduced capital investment plans for 2010 from those of 2009, when the Company added 16 megaWatts ("MW") of diesel generation. Capital expenditure during the First Quarter 2010 was \$6.1 million, a \$3.1 million or 34% decrease when compared to the First Quarter 2009. We continue to monitor economic growth indicators which, in conjunction with peak demand increases will drive recommendations to the Cayman Islands Electricity Regulatory Authority (the "ERA") to commence the solicitation process for additional generation.

The average fuel price for the First Quarter 2010 was \$3.15 compared to the \$2.46 for the same period in 2009. The Company continues to monitor and evaluate the technical feasibility and economics of alternative fuel and energy sources. The Company's installed MAN Diesel generation capacity can, with additional capital investment, be converted to a variety of hydrocarbon fuel sources including natural gas.

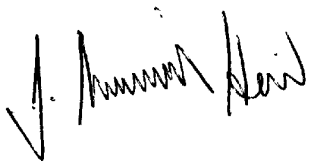
While recessionary pressures have impacted growth in demand and thereby curtailed the need for "firm" diesel generation expansion, the Company has continued to pursue "non-firm" generation sources such as wind and photovoltaic. With recent advancements in technology, available manufacturing capacity and continued high fuel costs, wind generation is believed to be approaching economic viability. The Company is presently evaluating proposals for 10 MW of wind generation from qualified third party developers and hopes to be able to confirm economic viability and project commitments in the near future.

Once again, the Company has provided to its customers, high reliability performance during the First Quarter 2010 with an Average Service Availability Index of 99.976%. We believe that reliability of service continues to be a key factor in attracting new high quality commerce

to Grand Cayman in anticipation of economic recovery. We credit our experienced and specialized workforce with continuing to make this characteristic of our product first class.

Finally, the Company was proud to participate as a local sponsor of the 2010 CARIFTA Games, the Caribbean region's premier track and field event, held in early April in the Cayman Islands which brought nearly 600 athletes and coaches and numerous supporters to Grand Cayman from 25 participating countries. CUC has been the major supporter of athletics in the Cayman Islands for over 30 years. Again we thank all of those employee volunteers who made our representation and the games an overwhelming success.

The Management's Discussion and Analysis section of this report contains a detailed discussion of our unaudited first quarter financial results, the Cayman Islands economy, our liquidity and capital resources, capital expenditures and the business risks faced by the Company.



J.F. Richard Hew  
President & Chief Executive Officer

April 27, 2010

## **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") unaudited financial statements for the three months ended March 31, 2010 and audited financial statements for the twelve months ended December 31, 2009. 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 Canadian generally accepted accounting principles ("Canadian GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, and their impact, which are disclosed in the notes to the Company's 2009 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 the recovery or refund would not be subject to regulatory approval.*

*CUC includes forward-looking statements in this material. Forward looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plan", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedule", 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 section labelled "Business Risks" and include but are not limited to 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 financial statements and MD&A in this interim report were approved by the Audit Committee.*

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 21.5 year non-exclusive Generation Licence ("the Licences") granted by the Cayman Islands Government ("Government"), which expire in April 2028 and September 2029 respectively.

**Financial and Operational Highlights**

| <i>(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)</i> | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 | Change | % Change |
|--|-----------------------------------|-----------------------------------|--------|----------|
| Electricity Sales  | 15,538                            | 14,844                            | 694    | 5%       |
| Fuel Factor Revenues   | 24,839                            | 20,246                            | 4,593  | 23%      |
| Operating Revenues   | 40,377                            | 35,090                            | 5,287  | 15%      |
| Total Operating Expenses   | 36,221                            | 31,695                            | 4,526  | 14%      |
| Earnings for the Period  | 2,456                             | 2,435                             | 21     | 1%       |
| Basic Earnings per Class A Ordinary Share  | 0.08                              | 0.08                              | -      | -        |
| Dividends paid per Class A Ordinary Share  | 0.165                             | 0.165                             | -      | -        |
| Peak Load Gross (MW)   | 91.9                              | 84.8                              | 7.1    | 8%       |
| Net Generation (millions of kWh)   | 132.3                             | 129.0                             | 3.3    | 3%       |
| Kilowatt-Hour Sales (millions of kWh)  | 123.4                             | 120.1                             | 3.3    | 3%       |
| System Availability (%)  | 99.98                             | 99.97                             | 0.01   | -        |
| Total Customers (#)  | 25,676                            | 24,846                            | 830    | 3%       |
| Customers per Employee (#)   | 131                               | 125                               | 6      | 5%       |
| Sales per employee (millions of kWh)   | 0.63                              | 0.60                              | 0.03   | 5%       |

**Corporate and Regulatory Overview**

CUC, a vertically integrated utility, operates the only electric utility on Grand Cayman, Cayman Islands, pursuant to a 20-year exclusive T&D Licence and a 21.5 year non-exclusive Generation Licence granted by the Government, which expire in April 2028 and September 2029 respectively. 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 2009 was 7.8%. CUC's RORB for 2010 is targeted in the 7.75% to 9.75% range (2009: 9% to 11%).

CUC's base rates are designed to recover all non-fuel and regulatory costs and include per kWh electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2009 the base rates were increased by 2.4%. All fuel and lubricating oil costs are passed through to customers without mark-up as a per kiloWatt-hour ("kWh") charge.

Rate Base is the value of capital upon which the Company is permitted an opportunity to earn a return. The value of this capital is the average of the beginning and ending values for the applicable financial year of: Fixed Assets less accumulated depreciation, plus the allowance for working capital, plus regulatory assets less regulatory liabilities.

The Electricity Regulatory Authority ("ERA") has the overall responsibility of regulating the electricity industry in the Cayman Islands in accordance with the ERA Law. The ERA oversees all licencees, establishes and enforces licence standards, enforces applicable environmental

and performance standards, reviews the proposed RCAM and sets the rate adjustment factors as appropriate.

The ERA also annually reviews and approves CUC's capital investment plan ("CIP"). In February 2010 the ERA approved CUC's 2010-2014 CIP for \$98 million of non-generation expansion expenditures. Additional generation needs are subject to a competitive bid process.

A licence fee of 1%, payable to the Government, is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge. In addition to the licence fee, a regulatory fee of ½ of 1% is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month.

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

### **Earnings**

Net earnings for the three months ended March 31, 2010 ("the First Quarter 2010") of \$2.46 million were comparable to net earnings of \$2.44 million for the three months ended March 31, 2009 ("the First Quarter 2009") due to 3% kWh sales growth for the period and lower general and administration expenses, which were partially offset by higher maintenance, depreciation and financing costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2010 were \$2.3 million, or \$0.08 per Class A Ordinary Share, which were comparable to earnings on Class A Ordinary Shares for the First Quarter 2009.

### **Sales**

KiloWatt-hour sales for the First Quarter 2010 totalled 123.4 million, an increase of 3.3 million kWh, or 3%, in comparison to 120.1 million for the First Quarter 2009. Sales were positively impacted by increased customer numbers quarter-over-quarter and warmer and drier weather conditions that affected customer air conditioning load. The average temperature for the First Quarter 2010 was 78.1 degrees Fahrenheit as compared to an average temperature of 77.9 degrees for the same period last year. The average rainfall for the First Quarter 2010 was 0.7 inches as compared to an average rainfall of 0.8 inches for the same period last year.

Total customers as at March 31, 2010 were 25,676, an increase of 830 customers, or 3%, compared to 24,846 customers as at March 31, 2009. The Company had a net increase of 215 customers for the First Quarter 2010, comprising 223 residential connections and eight commercial disconnections.



## Caribbean Utilities Company, Ltd.

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The following tables present sales and customer highlights:

| Customers (#)          | March 2010    | March 2009    | Change %  |
|------------------------|---------------|---------------|-----------|
| Residential            | 21,924        | 21,175        | 4%        |
| Commercial             | <u>3,752</u>  | <u>3,671</u>  | 2%        |
| <b>Total Customers</b> | <b>25,676</b> | <b>24,846</b> | <b>3%</b> |

Sales and customer highlights continued:

| Sales (thousands kWh)         | Three Months Ended March 2010 | Three Months Ended March 2009 | Change %  |
|-------------------------------|-------------------------------|-------------------------------|-----------|
| <b>Residential</b>            | 55,772                        | 55,438                        | 1%        |
| <b>Commercial</b>             | 66,088                        | 63,205                        | 5%        |
| Other (street lighting, etc.) | <u>1,560</u>                  | <u>1,462</u>                  | 7%        |
| <b>Total Sales</b>            | <b>123,420</b>                | <b>120,105</b>                | <b>3%</b> |

### Operating Revenues

Operating revenues increased \$5.3 million, or 15%, to \$40.4 million for the First Quarter 2010, from \$35.1 million for the First Quarter 2009, due to 3% kWh sales growth and 23% higher fuel factor revenues.

Electricity sales revenue increased \$0.7 million, or 5%, to \$15.5 million for the First Quarter 2010, from \$14.8 million for the First Quarter 2009. Electricity sales revenues are higher primarily due to 3% kWh sales growth experienced quarter-over-quarter and the 2.4% base rate increase implemented in June 2009.

Fuel factor revenues for the First Quarter 2010 totalled \$24.8 million, a \$4.6 million, or 23%, increase from the \$20.2 million in fuel factor revenues for the First Quarter 2009. Fuel factor revenues increased due to an increase in the cost of fuel (see Power Generation for further detail). The average Fuel Cost Charge rate per kWh charged to consumers for the First Quarter 2010 was \$0.20, an 18% increase from \$0.17 per kWh for the First Quarter 2009. CUC passes through 100% of fuel costs to consumers on a two-month lag basis with no mark-up.

## Caribbean Utilities Company, Ltd.

Total operating revenues were as follows:

| Revenues (thousands \$)           | Three Months Ended March 2010 | Three Months Ended March 2009 | Change       | % Change |
|-----------------------------------|-------------------------------|-------------------------------|--------------|----------|
| Residential                       | 7,297                         | 7,124                         | 173          | 2%       |
| Commercial                        | 8,159                         | 7,655                         | 504          | 7%       |
| Other (street lighting, etc.)     | 82                            | 65                            | 17           | 26%      |
| <b>Electricity Sales Revenues</b> | <b>15,538</b>                 | 14,844                        | <b>694</b>   | 5%       |
| <b>Fuel Factor Revenues</b>       | <b>24,839</b>                 | <u>20,246</u>                 | <b>4,593</b> | 23%      |
| <b>Total Operating Revenues</b>   | <b>40,377</b>                 | 35,090                        | <b>5,287</b> | 15%      |

### Operating Expenses

Operating expenses for the First Quarter 2010 totalled \$36.2 million, a \$4.5 million, or 14%, increase from \$31.7 million for the First Quarter 2009. The major contributing factors to this increase are higher power generation, depreciation and maintenance expenses which were partially offset by lower general and administration, and transmission and distribution ("T&D") expenses.

Operating expenses were as follows:

| Operating Expenses(\$ thousands)  | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 | Change       | % Change |
|-----------------------------------|-----------------------------------|-----------------------------------|--------------|----------|
| Power generation expenses         | 25,602                            | 21,049                            | 4,553        | 22%      |
| General and administration        | 2,080                             | 2,719                             | (639)        | -24%     |
| Consumer Service and promotion    | 410                               | 399                               | 11           | 3%       |
| Transmission and distribution     | 546                               | 753                               | (207)        | -27%     |
| Depreciation                      | 4,998                             | 4,852                             | 146          | 3%       |
| Maintenance                       | 2,468                             | 1,873                             | 595          | 32%      |
| Amortization of Intangible Assets | <u>117</u>                        | <u>50</u>                         | <b>67</b>    | 134%     |
| <b>Total operating expenses</b>   | <b>36,221</b>                     | 31,695                            | <b>4,526</b> | 14%      |

### Power Generation

Power generation costs for the First Quarter 2010 increased \$4.6 million, or 22%, to \$25.6 million when compared to \$21.0 million for the First Quarter 2009. The increase is a result of growth in kWh generated and an increase in the cost of fuel. The peak load for the First Quarter 2010 was 91.9 megaWatts ("MW"), an 8% increase over the peak load for the same period last year of 84.8 MW.

Power generation expenses were as follows:

| <b>Power Generation(\$ thousands)</b>     | <b>Three Months Ended March 31, 2010</b> | <b>Three Months ended March 31, 2009</b> | <b>Change</b> | <b>% Change</b> |
|---|--|--|---------------|-----------------|
| Fuel costs (net of deferred fuel charges) | 24,171                                   | 19,429                                   | 4,742         | 24%             |
| Lube costs (net of deferred lube charges) | 668                                      | 817                                      | (149)         | -18%            |
| Other generation expenses                 | 763                                      | 803                                      | (40)          | -5%             |
| <b>Total power generation expenses</b>    | <b>25,602</b>                            | <b>21,049</b>                            | <b>4,553</b>  | <b>22%</b>      |

### **Power Generation continued**

The Company's average price per imperial gallon ("IG") of fuel for the First Quarter 2010 increased 28% to \$3.15, compared to \$2.46 for the First Quarter 2009. The Company's average price per IG of lube for the First Quarter 2010 decreased 32% to \$10.52, compared to \$15.58 for the First Quarter 2009.

The Fuel Tracker Account (see Note 5 of the Notes to Interim Financial Statements) is comprised of total diesel fuel and lube oil costs to be recovered from consumers.

Other generation expenses for the First Quarter 2010 totalled \$0.8 million comparable with \$0.8 million for the First Quarter 2009.

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

G&A expenses for the First Quarter 2010 totalled \$2.1 million, a decrease of \$0.6 million, or 22% when compared to \$2.7 million for the First Quarter 2009. This decrease is partially attributable to increased General Expenses Capitalised ("GEC") in accordance with the Company's employee level of capital activity (refer to Note 1 of the Notes to Interim Financial Statements for further details regarding GEC) and decreased consultancy and payroll costs. The Company implemented a hiring, salary and bonus freeze in 2009 that remains in effect.

### **Consumer Services and Promotion ("C&P")**

C&P expenses for the First Quarter 2010 totalled \$0.41 million, an increase of \$0.01 million or 3% when compared to \$0.40 million for the First Quarter 2009. This is comparable to the 3% quarter-over-quarter increase in customer numbers. The Company continues to seek improved efficiencies in this area through the use of technology, while providing higher levels of customer service.

### **Transmission and Distribution ("T&D")**

T&D expenses for the First Quarter 2010 totalled \$0.5 million, a \$0.3 million, or 38% decrease compared to \$0.8 million for the First Quarter 2009. This decrease was partially due to increased capitalised labour as the T&D Division focused on capital projects.

### Depreciation

Depreciation expenses for the First Quarter 2010 totalled \$5.0 million, an increase of \$0.1 million, or 2%, from \$4.9 million for the First Quarter 2009. This increase is primarily the result of growth-related additions to fixed assets in prior periods including the 16 MW generating unit commissioned in September 2009.

### Maintenance

Maintenance expenses for the First Quarter 2010 totalled \$2.5 million, an increase of \$0.6 million from \$1.9 million for the First Quarter 2009. The first quarter of 2009 saw delays in the Company's scheduled maintenance programme, which resulted in lower than usual generator maintenance expenses for that period. Maintenance expenses for the First Quarter 2010 were in-line with the Company's expectations for the period.

### Amortization

Amortization of intangible assets for the First Quarter 2010 totalled \$0.12 million, an increase of \$0.07 million, or 134% when compared to \$0.05 million for the First Quarter 2009. This increase relates to an additional reclassification of computer software from property, plant and equipment ("PP&E") during the Third Quarter 2009. Amortization represents the monthly recognition of the expense associated with software purchases as well as other intangible assets such as the costs associated with the license negotiations.

### Other Income and Expenses

Net Other Expenses for the First Quarter 2010 totalled \$1.7 million, an increase of \$0.7 million from \$1.0 million for the First Quarter 2009.

| <i>(\$ thousands)</i>           | Three Months<br>ended March 31,<br>2010 | Three Months<br>ended March 31,<br>2009 | Change       | % Change   |
|---------------------------------|---|---|--------------|------------|
| Total interest costs            | (3,142)                                 | (2,665)                                 | (477)        | 18%        |
| AFUDC                           | 764                                     | 1,017                                   | (253)        | -25%       |
| Total finance charges           | (2,378)                                 | (1,648)                                 | (730)        | 44%        |
| Foreign exchange gain           | 386                                     | 449                                     | (63)         | -14%       |
| Other income                    | <u>292</u>                              | <u>239</u>                              | 53           | 22%        |
| <b>Total net other expenses</b> | <b>(1,700)</b>                          | <b>(960)</b>                            | <b>(740)</b> | <b>77%</b> |

Finance charges for the First Quarter 2010 totalled \$2.4 million, a \$0.7 million, or 44% increase from \$1.7 million for the First Quarter 2009. This increase is attributable to interest costs on the \$40 million 7.5% senior secured notes issued in May and June 2009 and a decrease in the Allowance for Funds Used during Construction ("AFUDC") in the first quarter of 2010.

Under the T&D Licence there is a provision for an AFUDC. This capitalisation of the Financing Cost is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for 2010 is 8.75% as agreed with the ERA, in accordance with the T&D Licence, and will be reviewed annually. The cost of capital rate for 2009 was 10%. The AFUDC amount for the First Quarter 2010 totalled \$0.8 million, a \$0.2 million decrease when compared to \$1.0 million for the First Quarter 2009.

Foreign exchange gains for the First Quarter 2010 totalled \$0.4 million, comparable to foreign exchange gains for the First Quarter 2009.

Other income totalled \$0.3 million for the First Quarter 2010 an increase of \$0.1 million when compared to \$0.2 million for the First Quarter 2009. This increase is mainly attributable to higher material sales in 2010.

### **The Economy**

The Cayman Islands is recognised as one of the top 10 international financial centres in the world, with over 40 of the top 50 banks holding licences here. A reputation of sensible regulation comparable to other international financial centers coupled with a competent workforce of lawyers, bankers, and accountants, provides the base on which Cayman continues to build its clientele. Licensees in the banking sector represent 45 countries from across the globe. The fundamentals of the banking sector remain sound and the industry in general has been relatively resilient in a very challenging market environment. Banks continue to consolidate and restructure in search of cost efficiencies, and improvements in operational risk management and governance.

The Cayman Islands is also the leading jurisdiction for healthcare captives. As at December 2009 this sector continues to be the largest primary class of business with 269 companies, with workers' compensation as the second largest with 162 companies. The Cayman Islands captive insurance industry is comprised mainly of companies insuring risks in North America. The next most important geographical source is the Caribbean and Latin American region.

Some of the key indicators for the Financial Services industry are shown in the table below:

|                             | As at<br>March<br>2010 | As at<br>December<br>2009 | As at<br>December<br>2008 | As at<br>December<br>2007 | As at<br>December<br>2006 |
|-----------------------------|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Bank Licences               | 269                    | 266                       | 278                       | 281                       | 291                       |
| Registered Companies        | 92,755                 | 92,867                    | 93,693                    | 87,109                    | 83,532                    |
| Mutual Funds                | 9,378                  | 9,523                     | 9,870                     | 9,413                     | 8,134                     |
| Mutual Fund Administrators  | 133                    | 141                       | 155                       | 152                       | 153                       |
| Captive Insurance Companies | 764                    | 780                       | 777                       | 765                       | 740                       |

In 2009, 79% of air arrivals to the country were citizens of the United States ("US"). As such the US's economy largely impacts that of the Cayman Islands. For the first quarter of 2010 air arrivals were 8% higher and cruise arrivals were 1% higher, when compared to the same period in 2009.

Despite this increase in tourist arrivals for the first quarter of 2010, the Company expects that the current state of the global economy will continue to have an adverse impact on tourist arrivals to the Cayman Islands. Air arrivals have a direct impact on the Company's sales growth as these visitors are stay-over visitors who occupy the hotels. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

## Caribbean Utilities Company, Ltd.

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The following table presents statistics for tourist arrivals in the Cayman Islands for the quarter ending March 31:

| Arrivals | 2010    | 2009    | 2008    | 2007    | 2006    |
|----------|---------|---------|---------|---------|---------|
| By Air   | 87,841  | 81,080  | 94,650  | 86,819  | 76,660  |
| By Sea   | 472,036 | 465,884 | 553,993 | 646,304 | 646,178 |
| Total    | 559,877 | 546,964 | 648,643 | 733,123 | 722,838 |

Government released the 2009 Consumer Price Index ("CPI") report in April 2010 showing that the Cayman Islands went into a deflationary phase in 2009. This is the first year on record for the country, as the average inflation rate for 2009 reached negative 1.3%. The report also indicated that the general negative price movements in the Cayman Islands may be associated with the downward movement in US prices where the annual inflation rate in 2009 averaged negative 0.4%. The deflation in 2009 may also be associated with the dampened demand for goods and services arising from the economic recession and projected decline in the local population.

In 2009 the Foreign & Commonwealth Office (FCO) of the United Kingdom Government, stated that in order for the Cayman Islands to borrow funds, additional revenue measures had to be introduced. The introduction of these revenue measures are expected to have a positive impact to Government's financial situation overall, but there are expected to be some negative repercussions to the local economy.

Government appointed an independent commission, now known as the Miller Commission, in October 2009 in response to an FCO recommendation. The Commission's major focus was to complete a professional assessment of options for new revenue sources to diversify and broaden Government's revenue base. The Commission has completed its report, which is published on the Government's website. Generally, the FCO has accepted that a key issue for the Government in securing fiscal sustainability is to reduce and control its expenditures and its borrowing levels. Government is in the process of finalizing a three-year plan to set out their primary medium-term economic and fiscal strategies based upon the following key strategies: expenditure reduction; broadening the revenue base; limiting borrowing to minimal levels; and engaging in more private finance initiatives (PFI's).

*All data is sourced from the Cayman Islands Government, General Registry of the Cayman Islands, Cayman Islands Economics & Statistics Office, Cayman Islands Monetary Authority and Cayman Islands Department of Tourism websites; [www.gov.ky](http://www.gov.ky) [www.ESO.ky](http://www.ESO.ky) [www.cimoney.com.ky](http://www.cimoney.com.ky) and [www.caymanislands.ky](http://www.caymanislands.ky).*

**Liquidity and Capital Resources**

The following table outlines the summary of cash flow:

| <i>(\$ thousands)</i>       | Three Months<br>Ended March<br>31, 2010 | Three Months<br>Ended March<br>31, 2009 | Change       | % Change    |
|-----------------------------|---|---|--------------|-------------|
| Beginning cash              | 4,927                                   | 1,431                                   | 3,496        | 244%        |
| Cash provided by/(used in): |   |   |              |             |
| Operating activities        | 13,513                                  | 11,819                                  | 1,694        | 14%         |
| Investing activities        | (6,280)                                 | (9,185)                                 | 2,905        | -32%        |
| Financing activities        | <u>(4,346)</u>                          | <u>(2,535)</u>                          | (1,811)      | 71%         |
| <b>Ending cash</b>          | <b>7,814</b>                            | <b>1,530</b>                            | <b>6,284</b> | <b>411%</b> |

*Operating Activities:*

Cash flow provided by operations, after working capital adjustments, for the First Quarter 2010, was \$13.5 million, an increase of \$1.7 million, or 14%, from \$11.8 million for the First Quarter 2009. This increase is mostly attributable to an increase in regulatory deferrals of \$1.8 million.

*Investing Activities:*

Cash used in investing activities for the First Quarter 2010 totalled \$6.3 million, a decrease of \$2.9 million, or 32%, from \$9.2 million for the First Quarter 2009. This decrease is attributable to decreased capital related expenditures.

*Financing Activities:*

Cash used in financing activities for the First Quarter 2010 totalled \$4.3 million, a \$1.8 million, or 72% increase from \$2.5 million for the First Quarter 2009. This increase in cash used is mainly attributable to an increase in bank overdraft balances of \$2.1 million during the first quarter of 2009.

**Transactions with Related Parties**

Miscellaneous receivables from Fortis Turks & Caicos totalling \$0.02 million were outstanding at March 31, 2010 (2009:\$0.01 million). Miscellaneous payables to Fortis Inc. totalling \$0.01 million and Fortis Turks & Caicos totalling \$0.01 million were outstanding at March 31, 2010 (2009:\$0 million).

**Contractual Obligations**

The contractual obligations of the Company over the next five years and periods thereafter, as at March 31, 2010, are outlined in the following table:

| <i>(\$ millions)</i>    | <b>Total</b> | <b>&lt; 1 year</b> | <b>1 to 3 years</b> | <b>4 to 5 years</b> | <b>&gt; 5 years</b> |
|-------------------------|--------------|--------------------|---------------------|---------------------|---------------------|
| Total debt              | 200.2        | 22.0               | 30.7                | 36.3                | 111.2               |
| Defined benefit pension | 0.4          | 0.4                |                     |                     |                     |
| <b>Total</b>            | <b>200.6</b> | <b>22.4</b>        | <b>30.7</b>         | <b>36.3</b>         | <b>111.2</b>        |

The Company has a primary fuel supply contract with Esso Standard Oil S.A. (“Esso”) and is committed to purchase 80% of the Company’s diesel fuel requirements for its Power Plant from Esso. The contract is for three years terminating in April 2010. The contract contains an automatic renewal clause for the years 2010 through to 2012. Should any party choose to terminate within that two-year period notice must be given a minimum of one year in advance of the desired termination date. No such termination notice has been given by either party to date. The approximate quantities per the contract in millions of IGs: 2010 – 25.3.

**Financial Position**

The following table is a summary of significant changes to the Company’s balance sheet from December 31, 2009 to March 31, 2010:

| <b>Significant changes in Balance Sheets between December 31, 2009 and March 31, 2010</b> | <b>Increase (Decrease)</b> | <b>Explanation</b>   |
|---|----------------------------|--|
| <i>(\$ millions)</i>  |                            |  |
| Cash  | 2.9                        | Increase due to cash provided by operating activities of \$13.5 million partially offset by cash used in investing activities of \$6.3 million and cash used in financing activities of \$4.3 million. |
| Accounts receivable - Trade   | (2.2)                      | Decrease due to lower sales and lower billings during the first quarter of 2010 as compared the fourth quarter of 2009.  |
| Regulatory Assets   | (1.7)                      | This amount represents fuel costs incurred by the Company that are recoverable from the customer.  |
| Property, Plant and Equipment   | 1.1                        | Net increase is comprised of capital expenditures of \$6.1 million and depreciation expenses of \$5.0 million.   |
| Accounts Payable & Accrued Expenses   | 0.7                        | Change mainly attributable to increase in accrued interest.  |
| Retained Earnings   | (2.3)                      | Decrease due to net earnings for the period of \$2.5 million offset by Class A dividends of \$4.7 million and Class B dividends of \$0.1 million.  |



## **Capital Resources**

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

To help ensure access to capital, the Company targets a long-term capital structure containing 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 rights offering that occurred in 2008.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65% of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at March 31, 2010, the Company was in compliance with all debt covenants.

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

| <b>Capital structure</b> | <b>March<br/>31, 2010<br/>(\$ millions)</b> | <b>%</b>   | <b>December<br/>31, 2009<br/>(\$ millions)</b> | <b>%</b>   |
|--------------------------|---|------------|--|------------|
| Total debt               | 200.2                                       | 54         | 200.2  | 54         |
| Shareholder's equity     | <u>170.1</u>                                | <u>46</u>  | <u>171.9</u>                                   | <u>46</u>  |
| <b>Total</b>             | <b>370.3</b>                                | <b>100</b> | <b>372.1</b>                                   | <b>100</b> |

The Company's capital structure at March 31, 2010 is comparable to the capital structure at December 31, 2009.

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

S&P    A/Negative  
DBRS   A (low)

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

In November 2009 S&P affirmed the Company's 'A' credit rating but revised its outlook from stable to negative. The outlook revision reflects the pressures facing the Cayman economy and S&P's concern that it could create a more difficult operating environment for CUC in the next few years. S&P stated that if the Cayman economy continues to demonstrate subdued or negative growth the rating could be lowered. Conversely, the outlook could be revised to stable if the economy quickly improves.

**Credit Facilities**

The Company has \$32.9 million of unsecured credit financing facilities with the Royal Bank of Canada ("RBC") comprised of:

| Credit Facilities   | (\$ millions) |
|---|---------------|
| Corporate Credit Card Line                                    | \$0.3         |
| Letters of Credit   | \$0.6         |
| Operating, Revolving Line of Credit                           | \$7.5         |
| Catastrophe Standby Loan                                      | \$7.5         |
| Demand Loan Facility- Interim Funding of Capital Expenditures | \$17.0        |
| <b>Total</b>  | <b>\$32.9</b> |

Of the total above, \$24.0 million was available at March 31, 2010.

**Capital Expenditures**

Capital expenditures for the First Quarter 2010 totalled \$6.1 million, a \$3.1 million, or 34% decrease from \$9.2 million for the First Quarter 2009. This decrease is primarily attributable to the expenditures incurred in 2009 for the 16 MW generating unit that was commissioned in September 2009. The capital expenditures for the First Quarter 2010 primarily relate to:

- Distribution system extension and upgrades - \$2.8 million.
- Transmission system expansion and upgrades – 69 kiloVolt ("kV") line extension to close loops to West Bay and Frank Sound - \$1.2 million.
- Generating Unit #36 Piston & Liner Upgrade - \$1.0 million
- Information Technology hardware and software - \$0.2 million

AFUDC of \$0.8 million was capitalized in the First Quarter 2010 (see "Other Income and Expenses" section).

The Company's approved CIP for 2010 is \$20.9 million.

| Capital expenditures<br>(\$ Millions) | Three Months Ended<br>March 31, 2010 | Three Months Ended<br>March 31, 2009 |
|---------------------------------------|--------------------------------------|--------------------------------------|
| Transmission                          | 1.2                                  | 0.3                                  |
| Distribution                          | 2.7                                  | 2.1                                  |
| Generation                            | 2.2                                  | 6.5                                  |
| Other                                 | <u>0.2</u>                           | <u>0.3</u>                           |
| <b>Total</b>                          | <b>6.3</b>                           | <b>9.2</b>                           |

**Off Balance-Sheet Arrangements**

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially effect liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at March 31, 2010.

## **Business Risks**

The following is a summary of the Company's significant business risks:

### *Economic Conditions*

The general economic condition of CUC's service area, Grand Cayman, influences electricity sales as with most utility companies. Changes in consumer income, employment and housing are all factors in the amount of sales generated. As the Company supplies electricity to all hotels and large properties, its sales are therefore partially based on tourism and related industry fluctuations.

### *Weather*

CUC's facilities are subject to the effects of severe weather conditions principally during the hurricane season months of June through November. Despite preparations for disasters such as hurricanes, adverse conditions will always remain a risk. In order to mitigate some of this risk, the Company maintains insurance coverage which Management believes is proper and consistent with insurance policies obtained by similar companies.

### *Environmental Matters*

CUC's operations are subject to local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters, land use activities, and the handling, storage, processing, use, emission and disposal of materials and waste products.

In 2004, CUC was initially registered to the ISO 14001 which is the international standard for Environmental Management System ("EMS"). The Company continuously adheres with the standard and anticipates the renewal of the registration in May 2010. In March 2007, the Kyoto Protocol was signed by the Cayman Islands; this framework aims to reduce Greenhouse Gas ("GHG") emissions produced by certain industries. Specific details on the regulations have yet to be released by the Government and are required to assess the financial impact of compliance by the Company with the framework.

Through the EMS, CUC has determined that its exposure to environmental risks is not significant and does not have an impact on CUC's financial reporting including the recording of any Asset Retirement Obligations ("ARO's").

### *Regulation*

The Company operates within a regulated environment. As such the operations of the Company are subject to the normal uncertainties faced by regulated companies. Such uncertainties include approval by the ERA of billing rates that allow a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on rate base assets. The Company's capital expenditure plan requires regulatory approval. There is no assurance that capital projects perceived as required by the management of the Company will be approved.

*Insurance – Terms and Coverage*

The Company renewed its insurance policy as at July 1, 2009 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include \$100 million in property and machinery breakdown insurance and business interruption insurance per annum with a 24-month indemnity period and a 45-day deductible. All T&D assets outside of 1,000 feet from the boundaries of the main Power Plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each “loss occurrence” is subject to a deductible of \$0.5 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1 million and maximum deductible of \$4 million for all interests combined.

In addition to this coverage, the Company has also purchased an excess layer of an additional \$100.0 million limit on property and business interruption (excluding windstorm, earth movement and flood)

The Company’s insurance policy includes business interruption, which covers losses resulting from the necessary interruption of business caused by direct physical loss or damage to CUC’s covered property and loss of revenues resulting from damage to customers’ property.

The Company has begun discussions on the renewal of its insurance coverage for the 2010/2011 period.

*Defined Benefit Pension Plan*

The Company maintains a defined benefit pension plan. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The assumed long-term rate of return on pension plan assets, for the purposes of estimating pension expense for 2010, is 5%. This compares to assumed long-term rates of return of 3% used during 2009. The loss on pension plan assets during 2009 was (5%).

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 2010 is 6% compared to the discount rate assumed during 2009 which was 6.5%.

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.

## **Future Accounting Pronouncements**

*International Financial Reporting Standards ("IFRS")*

### **Transition to IFRS**

A detailed discussion of the Company's transition to IFRS is provided in the MD&A for the year ended December 31, 2009. The Company is still unable to fully determine the impact in its future financial position and results of operations of the transition to IFRS, particularly as it relates to the accounting for rate-regulated activities. Completion of the International Accounting Standard Board's ("IASB") project on Rate-Regulated Activities has been delayed based on comments received in response to the IASB's July 2009 Exposure Draft on Rate-Regulated Activities and a decision by the IASB to conduct further research. The project direction and timeline remain uncertain and may not be known for several months. Once a decision is made by the IASB regarding the Rate-Regulated Activities project, the Company will be in a position to finalize and quantify the impact that the transition to IFRS is expected to have on its January 1, 2010 opening IFRS balance sheet, as well as on its future financial reporting.

During the First Quarter 2010, there were no significant changes in the Company's assessment of accounting for rate-regulated activities under IFRS or accounting policy decisions and impacts from that disclosed in the MD&A for the year ended December 31, 2009, except as described below.

### **Accounting Policy Decisions and Impacts**

PP&E and Intangibles: It is anticipated that during the second quarter of 2010, the IASB will issue a final amendment to IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS1"), to provide a transitional exemption for qualifying rate-regulated entities that will allow them to use the carrying value of PP&E and intangible assets under Canadian GAAP as deemed cost upon transition to IFRS. The Company is expected to avail of this transitional exemption.

### **Critical Accounting Estimates**

The preparation of the Company's financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from the current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known. The Company's critical accounting estimates relate to:

*Revenue Recognition*

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at March 31, 2010, the amount of unbilled revenue recorded in Electricity Sales was \$4.7 million (March 31, 2009: \$4.1 million).

*KiloWatt-hour Sales*

KiloWatt-hour sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. The kWh accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for electricity consumption will result in adjustments of kWh sales statistics in the periods they become known when actual results differ from the estimates. As at March 31, 2010, the amount of estimated kWh sales was 35.4 million kWh's (March 31, 2009: 30.4 million kWh's).

*Employee Future Benefits*

The Company's defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation. There are currently two participants in the Company's defined benefit pension plan. The main assumptions utilised by Management in determining pension expense and obligations were the discount rate for the accrued benefit obligation, pension commencement date, inflation and the expected rate of return on plan assets. As at March 31, 2010, the Company had an accrued benefit liability of \$0.1 million (December 31, 2009: \$0.1 million).

*Property, Plant and Equipment Depreciation*

Depreciation, by its very nature is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at March 31, 2010, the net book value of the Company's PP&E was \$354.5 million compared to \$353.4 million as at December 31, 2009, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the First Quarter 2010 was \$5.0 million and \$4.9 million for the First Quarter 2009. Due to the value of the Company's PP&E, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

**Quarterly Results**

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended July 31, 2008 through March 31, 2010. This information has been obtained from CUC's unaudited interim Financial Statements which, in the opinion of Management, have been prepared in accordance with Canadian 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<br>(\$ thousands, except<br>basic and diluted<br>earnings per ordinary<br>share) | Operating<br>Revenue | Net<br>earnings | Income<br>applicable to<br>ordinary shares | Earnings<br>per ordinary<br>share | Diluted earnings<br>per ordinary<br>share |
|--|----------------------|-----------------|--|-----------------------------------|---|
| March 31, 2010   | 40,377               | 2,456           | 2,346                                      | 0.08                              | 0.08                                      |
| December 31, 2009  | 43,851               | 6,005           | 5,638                                      | 0.20                              | 0.20                                      |
| September 30, 2009   | 44,166               | 6,644           | 6,051                                      | 0.21                              | 0.21                                      |
| June 30, 2009  | 35,703               | 5,042           | 4,929                                      | 0.18                              | 0.18                                      |
| March 31, 2009   | 35,090               | 2,435           | 2,322                                      | 0.08                              | 0.08                                      |
| December 31, 2008*   | 32,986               | 1,865           | 1,865                                      | 0.08                              | 0.08                                      |
| October 31, 2008   | 63,193               | 5,424           | 5,311                                      | 0.18                              | 0.18                                      |
| July 31, 2008  | 54,170               | 5,310           | 4,717                                      | 0.19                              | 0.19                                      |

\*Two-month period due to a change in year end effective January 1, 2009.

*March 2010/March 2009*

Net earnings for the First Quarter 2010 of \$2.46 million were comparable to net earnings of \$2.44 million for the First Quarter 2009 due to 3% kWh sales growth for the period and lower general and administration expenses, which were partially offset by higher maintenance, depreciation and financing costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2010 were \$2.3 million, or \$0.08 per Class A Ordinary Share, which were comparable to earnings on Class A Ordinary Shares for the First Quarter 2009.

*December 2009/December 2008*

Net earnings for the quarter ended December 31, 2009 were \$6.0 million, representing an increase of 216% or \$4.1 million from net earnings of \$1.9 million for the two months ended December 31, 2008. This increase is due to differing lengths of reporting periods and kWh sales growth for the period as compared to the two months ended December 31, 2008. November and December 2009 were both warmer than average. Also contributing to the increase in earnings is the 2.4% base rate increase in June 2009.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the quarter ended December 31, 2009 were \$5.6 million, or \$0.20 per Class A Ordinary Share, as compared to \$1.9 million, or \$0.08 per Class A Ordinary Share for the two months ended December 31, 2008. Additional payment was made to preference shareholders in 2009 of \$0.3 million in order to align dividend payments with the calendar year end, this additional payment affected the earnings on Class A Ordinary Shares.

*September 2009/October 2008*

Net earnings for the quarter ended September 30, 2009 were \$6.6 million, representing an increase of 22% or \$1.2 million from net earnings of \$5.4 million for the quarter ended

October 31, 2008. Contributing to this increase is positive sales growth for the period as compared to the quarter ended October 31, 2008. The average temperatures for the period August through October are historically lower than those for July through September. As such a portion of the difference is attributable to seasonality. Also contributing to the increase in earnings is the 2.4% base rate increase in June 2009 as well as reductions in consumer service and promotion, T&D and depreciation expenses. These factors were partially offset by the increase in maintenance expense.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the quarter ended September 30, 2009 were \$6.1 million, or \$0.21 per Class A Ordinary Share, as compared to \$5.3 million, or \$0.18 per Class A Ordinary Share for the quarter ended October 31, 2008.

#### *June 2009/July 2008*

Net earnings for the quarter ended June 30, 2009 were \$5.0 million, representing a decrease of 6% or \$0.3 million from net earnings of \$5.3 million for the quarter ended July 31, 2008. Contributing to this decrease is negative sales growth for the quarter ended June 30, 2009 and increased depreciation expense, these factors were partially offset by the 2.4% base rate increase in June as well as reductions in financing, consumer service and promotion, T&D and maintenance expenses.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the quarter ended June 30, 2009 were \$4.9 million, or \$0.18 per Class A Ordinary Share, as compared to \$4.7 million, or \$0.19 per Class A Ordinary Share for the quarter ended July 31, 2008.

#### **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 quarter ending March 31, 2010 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.

#### **Internal Controls over Financial Reporting ("ICFR")**

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

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). There was no material weakness relating to design existing as of March 31, 2010.

There has been no change in the Company's ICFR that occurred during the period beginning on January 1, 2010 and ended on March 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



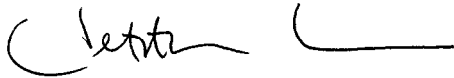
**Outlook**

The Company has an approved CIP for the 2010-2014 period totalling \$98 million. The plan has taken into consideration anticipated reductions in growth in the upcoming periods due to the impact of the weakening global economy on the tourism, financial and construction sectors of the Cayman Islands. The Company will continue to monitor growth indicators for future generation needs. The Company has shifted focus from responding to growth to controlling cost in light of the economic situation.

**Outstanding Share Data**

At April 27, 2010, the Company had issued and outstanding 28,327,778 Ordinary Shares and 250,000 9% cumulative Participating Class B Preference Shares.

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



Letitia T. Lawrence  
Vice President Finance & Chief Financial Officer

April 27, 2010

## Caribbean Utilities Company, Ltd.

### Balance Sheets

(expressed in thousands of United States Dollars)

| Unaudited   | Note | As At<br>March 31,<br>2010 | As At<br>31 December<br>09 |
|---|------|----------------------------|----------------------------|
| <b>Assets</b>                                     |      |                            |                            |
| <i>Current Assets</i>                             |      |                            |                            |
| Cash and cash equivalents                         |      | 7,814                      | 4,927                      |
| Accounts Receivable                               | 4    | 9,356                      | 11,571                     |
| Regulatory Assets                                 | 5    | 20,298                     | 21,996                     |
| Inventories                                       | 6    | 2,356                      | 2,702                      |
| Prepayments                                       |      | <u>1,270</u>               | <u>2,112</u>               |
|   |      | 41,094                     | 43,308                     |
| Property, Plant and Equipment                     | 7    | 354,481                    | 353,359                    |
| Other Assets                                      |      | 34                         | 36                         |
| Intangible Assets                                 | 8    | 2,886                      | 2,843                      |
| <b>Total Assets</b>                               |      | <u>398,495</u>             | <u>399,546</u>             |
| <b>Liabilities and Shareholders' Equity</b>       |      |                            |                            |
| <i>Current Liabilities</i>                        |      |                            |                            |
| Accounts Payable and Accrued Expenses             |      | 23,228                     | 22,510                     |
| Regulatory Liabilities                            | 5    | 928                        | 972                        |
| Short-Term Debt                                   | 9    | 8,000                      | 8,000                      |
| Current Portion of Long-Term Debt                 |      | 14,000                     | 14,000                     |
| Consumers' Deposits and Advances for Construction |      | <u>4,069</u>               | <u>3,963</u>               |
|   |      | <u>50,225</u>              | <u>49,445</u>              |
| Long-Term Debt                                    | 10   | <u>178,207</u>             | <u>178,159</u>             |
|   |      | 228,432                    | 227,604                    |
| <b>Shareholders' Equity</b>                       |      |                            |                            |
| Share Capital                                     | 11   | 1,936                      | 1,933                      |
| Share Premium                                     | 11   | 74,155                     | 73,729                     |
| Contributed Surplus                               | 12   | 336                        | 325                        |
| Retained Earnings                                 |      | <u>93,636</u>              | <u>95,955</u>              |
| <b>Total Shareholders' Equity</b>                 |      | 170,063                    | 171,942                    |
| <b>Total Liabilities and Shareholders' Equity</b> |      | <u>398,495</u>             | <u>399,546</u>             |

See accompanying Notes to Interim Financial Statements

**Statements of Earnings and Comprehensive Income**

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

| Unaudited   | Note | Three months<br>ended March<br>31, 2010 | Three months<br>ended March<br>31, 2009<br>Restated<br>Note 3 |
|---|------|---|---|
| <b>Operating Revenues</b>   |      |   |   |
| Electricity Sales   |      | 15,538                                  | 14,844  |
| Fuel Factor   |      | <u>24,839</u>                           | <u>20,246</u>   |
| <i>Total Operating Revenues</i>   |      | <b>40,377</b>                           | <b>35,090</b>   |
| <b>Operating Expenses</b>   |      |   |   |
| Power Generation  |      | 25,602                                  | 21,049  |
| General and Administration  |      | 2,080                                   | 2,719   |
| Consumer Service and Promotion  |      | 410                                     | 399   |
| Transmission and Distribution   |      | 546                                     | 753   |
| Depreciation  |      | 4,998                                   | 4,852   |
| Maintenance   |      | 2,468                                   | 1,873   |
| Amortization of Intangible Assets   |      | <u>117</u>                              | <u>50</u>   |
| <i>Total Operating Expenses</i>   |      | <b>36,221</b>                           | <b>31,695</b>   |
| <b>Operating Income</b>   |      | <b>4,156</b>                            | <b>3,395</b>  |
| <b>Other Income/(Expenses):</b>   |      |   |   |
| Finance Charges   | 16   | (2,378)                                 | (1,648)   |
| Foreign Exchange Gain   | 15   | 386                                     | 449   |
| Other Income  |      | <u>292</u>                              | <u>239</u>  |
| <i>Total Net Other (Expenses)/Income</i>  |      | (1,700)                                 | (960)   |
| <b>Earnings and Comprehensive Income for the Period</b>                                 |      | <b>2,456</b>                            | <b>2,435</b>  |
| <i>Preference Dividends Paid- Class B</i>   |      | <u>(110)</u>                            | <u>(113)</u>  |
| <i>Earnings on Class A Ordinary Shares</i>  |      | <b>2,346</b>                            | <b>2,322</b>  |
| Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands) | 13   | 28,315                                  | 28,123  |
| <i>Earnings per Class A Ordinary Share</i>  | 13   | 0.08                                    | 0.08  |
| Diluted Earnings per Class A Ordinary Share   | 13   | 0.08                                    | 0.08  |
| Dividends Declared per Class A Ordinary Share   |      | 0.165                                   | 0.165   |

**See accompanying Notes to Interim Financial Statements**

**Statements of Retained Earnings**  
*(expressed in thousands of United States Dollars)*

| Unaudited                             | Three months<br>ended March<br>31, 2010 | Three months<br>ended March<br>31, 2009 |
|---------------------------------------|---|---|
| <b>Balance at beginning of period</b> | 95,955                                  | 95,701                                  |
| Earnings for the period               | 2,456                                   | 2,435                                   |
| Dividends                             | <u>(4,775)</u>                          | <u>(4,749)</u>                          |
| <b>Balance at end of period</b>       | 93,636                                  | 93,387                                  |

*See accompanying Notes to Interim Financial Statements*

**Statements of Cash Flows**

*(expressed in thousands of United States Dollars)*

| Unaudited   | Three months<br>ended March 31,<br>2010 | Three months<br>ended March 31,<br>2009 |
|---|---|---|
| <b><i>Operating Activities</i></b>                                    |   |   |
| Earnings for the period   | 2,456                                   | 2,435                                   |
| Items not affecting cash:   |   |   |
| Depreciation  | 4,998                                   | 4,852                                   |
| Amortization of Intangible Assets                                     | 117                                     | 50                                      |
| Non-cash pension expenses   | 120                                     | 92                                      |
| Amortization of deferred financing costs                              | 48                                      | 43                                      |
| Stock-based compensation  | <u>12</u>                               | <u>10</u>                               |
|   | <b>7,751</b>                            | <b>7,482</b>                            |
| <br>  |   |   |
| Net change in non-cash working capital balances related to operations | 4,109                                   | 4,472                                   |
| Net Change in Regulatory Deferrals                                    | <u>1,653</u>                            | <u>(135)</u>                            |
| <i>Cash flow related to operating activities</i>                      | <b>13,513</b>                           | <b>11,819</b>                           |
| <br>  |   |   |
| <b><i>Investing Activities</i></b>                                    |   |   |
| Costs related to intangible assets                                    | (159)                                   | (4)                                     |
| Purchase of property, plant and equipment                             | <u>(6,121)</u>                          | <u>(9,181)</u>                          |
| <br>  |   |   |
| <i>Cash flow related to investing activities</i>                      | <b>(6,280)</b>                          | <b>(9,185)</b>                          |
| <br>  |   |   |
| <b><i>Financing Activities</i></b>                                    |   |   |
| Proceeds from debt financing  | -                                       | (266)                                   |
| Decrease in bank overdraft  | -                                       | 2,067                                   |
| Dividends paid  | (4,775)                                 | (4,749)                                 |
| Net proceeds from share issues  | <u>429</u>                              | <u>413</u>                              |
| <i>Cash flow related to financing activities</i>                      | <b>(4,346)</b>                          | <b>(2,535)</b>                          |
| <br>  |   |   |
| <b>Increase/(Decrease) in net cash</b>                                | <b>2,887</b>                            | <b>99</b>                               |
| Cash and cash equivalent - Beginning of period                        | <u>4,927</u>                            | <u>1,431</u>                            |
| <b>Cash and cash equivalent - End of period</b>                       | <b>7,814</b>                            | <b>1,530</b>                            |
| <br>  |   |   |
| <b>Supplemental disclosure of cash flow information:</b>              |   |   |
| Interest paid during the period                                       | 42                                      | 37                                      |

***See accompanying Notes to Interim Financial Statements***

**Notes to Interim Financial Statements**

*Unaudited – March 31, 2010 (expressed in thousands of United States dollars unless otherwise stated)*

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

These unaudited financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) for interim financial statements and reflect the decisions of the Electricity Regulatory Authority (“ERA”). These decisions affect the timing of the recognition of certain transactions resulting in the recognition of regulatory assets and liabilities, which Caribbean Utilities Company Ltd. (“CUC” or “the Company”) considers it is likely to recover or settle subsequently through the rate-setting process. These interim financial statements do not include all of the disclosures normally found in the Company’s annual financial statements and should be read in conjunction with the Company’s financial statements for the period ended December 31, 2009. Except as disclosed within Note 3, these interim financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual financial statements.

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 21.5 year Generation Licence (“the Licences”) with the Cayman Islands Government (“Government”), which expire in April 2028 and September 2029 respectively.

*Rate Regulated Operations*

The Company’s financial statements are prepared in accordance with Canadian GAAP including selected accounting treatments that differ from those used by entities not subject to rate regulation.

CUC’s base rates are designed to recover all non-fuel and regulatory costs and include per kiloWatt-hour (“kWh”) electricity charges and fixed facilities charges. Fuel 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 rate cap and adjustment mechanism (“RCAM”). In June 2009 the base rates were increased by 2.4%. All fuel and lubricating oil costs are passed through to customers without markup as a per kWh charge.

For regulatory purposes fixed assets comprise the Property, Plant and Equipment (“PP&E”) as reported in the Company’s financial statements and intangible assets acquired or constructed by the Company. The original book value of these fixed assets include an Allowance for Funds Used During Construction (“AFUDC”) (see Note 7) and an allowance for General Expenses Capitalised (“GEC”) (see Note 7). 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 sales. 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.

## **2. Summary of Significant Accounting Policies**

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

## **3. Changes in Accounting Policies**

### **Adopted in 2010**

In accordance with the T&D Licence, effective January 1, 2010, the Company included fuel revenues derived from dusk to dawn electricity sales as fuel factor revenue. Dusk to dawn fuel factor revenues were previously recognised under Electricity Sales.

The adoption of this practice resulted in a March 31, 2009 reclassification to Fuel Factor of \$0.3 million with a corresponding reduction in Electricity Sales.

## **4. Accounts Receivable**

|                              | <b>As at March 31, 2010</b> | <b>As at December 31, 2009</b> |
|------------------------------|-----------------------------|--------------------------------|
| Billings to consumers        | 3,830                       | 5,650                          |
| Unbilled revenues            | 4,711                       | 4,890                          |
| Other receivables            | 740                         | 956                            |
| Employee Share Purchase Plan | <u>75</u>                   | <u>75</u>                      |
| Total Accounts Receivable    | 9,356                       | 11,571                         |

### *Unbilled Revenues*

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates.

### *Other receivables*

Other receivables relate to amounts due outside of the normal course of operations. Items in other accounts receivable include sale of inventory, machine break-down costs covered by warranties and amounts due from related parties (see Note 18).

### *Employee Share Purchase Plan*

The Company provides interest-free advances to employees to purchase Class A Ordinary Shares, with such advances recovered through payroll deductions over the next twelve months. The maximum semi-annual participation is 1,000 Class A Ordinary Shares per employee. The plan is non-compensatory as shares purchased by the employee are obtained at the prevailing market value at the time of purchase.

**5. Regulatory Assets and Liabilities**

| <b>Asset/Liability</b> | <b>Description</b>                          | <b>As at<br/>March 31,<br/>2010</b> | <b>As at<br/>December 31,<br/>2009</b> |
|------------------------|---|-------------------------------------|--|
| Regulatory Assets      | Fuel Tracker Account (a)                    | 20,298                              | 21,996                                 |
| Regulatory Liabilities | Government & Regulatory Tracker Account (b) | (928)                               | (972)                                  |

- a) Fuel Tracker Account – The 2008 T&D Licence establishes 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 costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from or reimbursed to the consumers. 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. On a quarterly basis, an adjustment is made to the fuel charge billed to consumers to reflect the net position of the receivable and payable accounts. In the absence of rate regulation and governmental controls the balance in the fuel tracker account would have been expensed as opposed to deferred for two months to allow for regulatory review and earnings for the quarter ended March 31, 2010 would have been \$1.7 million higher.
- b) Government and Regulatory Tracker Account - A licence fee of 1%, payable to the Government, is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge. In addition to the licence fee, a regulatory fee of ½ of 1% is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The tracker account is the actual fee incurred less the amount of funds received from consumers. The per kWh charge is then adjusted quarterly for the balance of this account.

**6. Inventories**

| <b>(\$ Thousands)</b> | <b>As at<br/>March 31, 2010</b> | <b>As at<br/>December 31, 2009</b> |
|-----------------------|---------------------------------|------------------------------------|
| Fuel                  | 2,190                           | 2,356                              |
| Line spares           | 98                              | 100                                |
| Other                 | <u>68</u>                       | <u>246</u>                         |
| <b>Total</b>          | <b>2,356</b>                    | <b>2,702</b>                       |

The inventory amounts expensed for the quarter ended March 31, 2010 totalled \$23.2 million, which includes \$23.0 million in fuel and lube costs, \$0.1 million in vehicle fuel and \$0.1 million in line inventory. The inventory amounts expensed for the three month period ending March 31, 2009 totalled \$17.8 million, which includes \$17.7 million in fuel and lube costs and \$0.1 million in line inventory.



**7. Property, Plant and Equipment ("PP&E")**

| Property, Plant and Equipment           | Cost           | Accumulated Depreciation | Net Book Value March 31, 2010    |
|---|----------------|--------------------------|----------------------------------|
| Transmission & Distribution (T&D)       | 230,653        | 64,511                   | 166,142                          |
| Generation                              | 245,834        | 81,869                   | 163,965                          |
| Other:                                  |                |                          |                                  |
| Land                                    | 5,304          | -                        | 5,304                            |
| Buildings                               | 19,929         | 7,652                    | 12,277                           |
| Equipment, motor vehicles and computers | 18,319         | 11,526                   | 6,793                            |
| <i>Total Other</i>                      | <u>43,552</u>  | <u>19,178</u>            | <u>24,374</u>                    |
| <b>Property, plant and equipment</b>    | <b>520,039</b> | <b>165,558</b>           | <b>354,481</b>                   |
| Property, Plant and Equipment           | Cost           | Accumulated Depreciation | Net Book Value December 31, 2009 |
| Transmission & Distribution (T&D)       | 224,800        | 62,498                   | 162,302                          |
| Generation                              | 247,196        | 80,146                   | 167,050                          |
| Other:                                  |                |                          |                                  |
| Land                                    | 5,304          | -                        | 5,304                            |
| Buildings                               | 19,077         | 8,651                    | 10,426                           |
| Equipment, motor vehicles and computers | 18,292         | 10,015                   | 8,277                            |
| <i>Total Other</i>                      | <u>42,673</u>  | <u>18,666</u>            | <u>24,007</u>                    |
| <b>Property, plant and equipment</b>    | <b>514,669</b> | <b>161,310</b>           | <b>353,359</b>                   |

Included in PP&E are a number of capital projects in progress with a total cost to date of \$23.3 million (December 31, 2009: \$22.6 million). These projects primarily relate to various improvements to the Distribution System.

Also included in Generation and T&D is freehold land with a cost of \$4.7 million (December 31, 2009: \$4.7 million). In addition, engine spares with a net book value of \$14.6 million (December 31, 2009: \$14.0 million) are included in Generation.

The T&D Licence includes a provision for an AFUDC. This capitalisation of the 'Financing Cost' is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for 2010 is 8.75% (2009: 10%) and will be adjusted annually. As a result, during the three month period ended March 31, 2010, the Company recognised \$0.8 million in AFUDC. The Company recognised an amount of \$1.0 million for the quarter ended March 31, 2009 under the provision for AFUDC.

The Company capitalised an amount of \$0.5 million (March 31, 2009: \$0.2 million) for the quarter ended March 31, 2010 under the provision for GEC (see Note 1).

**8. Intangible Assets**

| <b>Intangible Assets</b>            | <b>Cost</b>  | <b>Accumulated Depreciation</b> | <b>Net Book Value March 31, 2010</b>    |
|-------------------------------------|--------------|---------------------------------|---|
| Deferred licence renewal costs      | 1,890        | 178                             | 1,712                                   |
| Computer Software                   | 3,955        | 2,992                           | 963                                     |
| Other Intangible Assets in progress | <u>211</u>   | -                               | <u>211</u>                              |
| <b>Total</b>                        | <b>6,056</b> | <b>3,170</b>                    | <b>2,886</b>                            |
| <b>Intangible Assets</b>            | <b>Cost</b>  | <b>Accumulated Depreciation</b> | <b>Net Book Value December 31, 2009</b> |
| Deferred licence renewal costs      | 1,890        | 154                             | 1,736                                   |
| Computer Software                   | 3,795        | 2,899                           | 896                                     |
| Other Intangible Assets in progress | <u>211</u>   | -                               | <u>211</u>                              |
| <b>Total</b>                        | <b>5,896</b> | <b>3,053</b>                    | <b>2,843</b>                            |

Deferred licence renewal costs relate to extensive negotiations with the Government for licences for the Company. Amortization of deferred licence renewal costs commenced upon conclusion of licence negotiations in April 2008 and extends over the life of the licences.

**9. Short-Term Financing**

The Royal Bank of Canada ("RBC") credit facility agreement provides for \$32.9 million and the total available was \$24.0 million at March 31, 2010.

| <b>Credit Facilities</b>                                      | <b>Total Credit Financing Facilities March 31, 2010</b> | <b>Total Utilised March 31, 2010</b> | <b>Total Available March 31, 2010</b> |
|---|---|--------------------------------------|---------------------------------------|
| Corporate Credit Card Line*                                   | 300   | 300                                  | -                                     |
| Letters of Credit   | 595   | 595                                  | -                                     |
| Operating, Revolving Line of Credit                           | 7,500   | -                                    | 7,500                                 |
| Catastrophe Standby Loan                                      | 7,500   | -                                    | 7,500                                 |
| Demand Loan Facility- Interim Funding of Capital Expenditures | <u>17,000</u>   | <u>8,000</u>                         | <u>9,000</u>                          |
| <b>Total</b>  | <b>32,895</b>   | <b>8,895</b>                         | <b>24,000</b>                         |

\* Included in Accounts payable and accrued expenses

## **10. Capital Management**

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

To help ensure access to capital, the Company targets a long-term capital structure containing approximately 45% equity, including preference shares, and 55% debt, as well as 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. The capital managed by the Company is composed of debt (short-term debt, long-term debt and bank overdraft) and shareholders' equity (including: capital stock, share premium, contributed surplus and retained earnings).

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65% of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at March 31, 2010, the Company was in compliance with all debt covenants.

The Company's capital structure is shown below:

| <b>Capital structure</b> | <b>March 31,<br/>2010</b> | <b>%</b>   | <b>December 31,<br/>2009</b> | <b>%</b>   |
|--------------------------|---------------------------|------------|------------------------------|------------|
|                          | <i>(\$ thousands)</i>     |            | <i>(\$ thousands)</i>        |            |
| Total debt               | 200,207                   | 54         | 200,159                      | 54         |
| Shareholder's equity     | <u>170,063</u>            | <u>46</u>  | <u>171,942</u>               | <u>46</u>  |
| <b>Total</b>             | <b>370,270</b>            | <b>100</b> | <b>372,101</b>               | <b>100</b> |

The Company's capital structure at March 31, 2010 is comparable to the capital structure at December 31, 2009.

## **11. Capital Stock**

Authorised:

- 60,000,000 (December 31, 2009: 60,000,000) Class A Ordinary Shares of CI\$0.05 each
- 250,000 (December 31, 2009: 250,000) 9% Cumulative, Participating Class B Preference Shares of \$1.00 each (non voting)
- 1 Cumulative, Participating, Class D Preference Share of CI\$0.56 (non voting)

Class A Ordinary Shares were issued during the period for cash as follows (shares as follows fully stated, not in thousands):

| Class A Ordinary Share Issue  | Three months ended March 31, 2010 | Three months ended March 31, 2010 | Twelve months ended December 31, 2009 | Twelve months ended December 31, 2009 |
|---|-----------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|
|   | Number of shares                  | Amount (\$ Thousands)             | Number of shares                      | Amount (\$ Thousands)                 |
| Balance, beginning of period  | 28,277,139                        | 1,683                             | 28,087,313                            | 1,672                                 |
| Consumer Share Purchase and Dividend Reinvestment Plans                               | 44,989                            | 3                                 | 171,976                               | 10                                    |
| Employee Share Purchase, Employee Long Service Bonus Plans and Employee Stock Options | <u>5,650</u>                      | -                                 | <u>17,850</u>                         | <u>1</u>                              |
| <b>Class A Ordinary Shares issued &amp; outstanding</b>                               | <b>28,327,778</b>                 | <b>1,686</b>                      | <b>28,277,139</b>                     | <b>1,683</b>                          |
| 9% Cumulative, Participating Class B  | <u>250,000</u>                    | <u>250</u>                        | <u>250,000</u>                        | <u>250</u>                            |
| <b>Total</b>  |                                   | <b>1,936</b>                      |                                       | <b>1,933</b>                          |

Share premium increased by \$0.4 million in the first quarter of 2010 due to common stock issuances.

## 12. Share Options

The shareholders of the Company approved an Executive Stock Option Plan on October 24, 1991, under which certain employees, officers and directors 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 1,216,919. 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, 2010<br>Number of options | Three months ended March 31, 2010<br>Weighted average exercise price per share | Twelve months ended December 31, 2009<br>Number of options | Twelve months ended December 31, 2009<br>Weighted average exercise price per share |
|------------------------------------|--|--|--|--|
| Outstanding at beginning of period | 904,903  | 11.59  | 770,603  | 12.19  |
| Granted                            | -  | -  | 161,300  | 8.76   |
| Exercised                          | -  | -  | -  | -  |
| Forfeited                          | -  | -  | <u>(27,000)</u>  | <u>(12.34)</u>   |
| Outstanding at end of period       | <u>904,903</u>   | <u>11.59</u>   | <u>904,903</u>   | <u>11.59</u>   |

## Caribbean Utilities Company, Ltd.

The position with respect to outstanding unexercised options as at March 31, 2010 was as follows:

| Share Options   | Number of Class A Ordinary Shares under option | Exercise Price (\$) | Term of option |
|---|--|---------------------|----------------|
| <u>Date of grant:</u>                                   |  |                     |                |
| 18-Jul-01   | 420,803  | 11.46               | 10 years       |
| 22-Sep-03   | 181,100  | 13.78               | 10 years       |
| 11-Apr-08   | 149,700  | 12.22               | 10 years       |
| 27-Feb-09   | 153,300  | 8.76                | 10 years       |
| <b>Outstanding at end of period &amp; Weighted Avg.</b> | <b>904,903</b>                                 | <b>11.59</b>        |                |

The Company has a policy of recording compensation expense upon the issuance of stock options. Using the fair value method, the compensation expense is amortized over the four-year vesting period of the options. Upon exercise, the proceeds of the option are credited to capital stock at CI\$0.05 and the difference from the exercise price to share premium. Therefore an exercise of options below the current market price has a dilutive effect on capital stock and shareholders equity. Under the fair value method, the compensation expense was \$0.01 million for the quarter ended March 31, 2010 (March 31, 2009: \$0.01 million), resulting in a corresponding increase of the contributed surplus.

### 13. Earnings per Share

The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average Class A Ordinary Shares outstanding were 28,315,118 and 28,123,297 for the quarter ended March 31, 2010 and March 31, 2009 respectively.

As at March 31, 2010 the outstanding options are not dilutive as the market price of common shares is below exercise price.

|  | Earnings (in thousands) March 31, 2010 | Weighted average shares (in thousands) March 31, 2010 | Earnings per Common Shares March 31, 2010 |
|--|--|---|---|
| Net earnings applicable to common shares | 2,346                                  |   |   |
| Weighted Average share outstanding       |  | 28,315  |   |
| <b>Basic Earnings Per Common Share</b>   |  |   | <b>0.08</b>                               |
| Effect of potential dilutive securities: |  |   |   |
| Stock Options                            | =                                      | =   | =   |
| Diluted Earnings per Common Share        | 2,346                                  | 28,315  | 0.08                                      |
|  | Earnings (in thousands) March 31, 2009 | Weighted average shares (in thousands) March 31, 2009 | Earnings per Common Shares March 31, 2009 |
| Net earnings applicable to common shares | 2,322                                  |   |   |
| Weighted Average share outstanding       |  | 28,123  |   |
| <b>Basic Earnings Per Common Share</b>   |  |   | <b>0.08</b>                               |
| Effect of potential dilutive securities: |  |   |   |
| Stock Options                            | =                                      | =   | =   |
| Diluted Earnings per Common Share        | 2,322                                  | 28,123  | 0.08                                      |

#### 14. Financial Instruments

The Company's financial instruments and their designations are (i) held for trading: cash and cash equivalent; (ii) loans and receivables: accounts receivable; and (iii) other financial liabilities: accounts payable and accrued expenses, bank overdraft, short-term debt and long-term debt including current portion.

|  | March 31, 2010<br>Carrying Value | March 31, 2010<br>Estimated Fair<br>Value | December 31,<br>2009<br>Carrying Value | December 31,<br>2009<br>Estimated Fair<br>Value |
|--|----------------------------------|---|--|---|
| <b>Held for trading</b>                                |                                  |   |  |   |
| Cash and cash equivalents                              | <u>7,814</u>                     | <u>7,814</u>                              | <u>4,927</u>                           | <u>4,927</u>                                    |
|  | 7,814                            | 7,814                                     | 4,927                                  | 4,927   |
| <b>Loans and receivables</b>                           |                                  |   |  |   |
| Trade and other accounts receivable                    | 9,356                            | 9,356                                     | 11,571                                 | 11,571  |
| Other Assets <sup>1</sup>                              | <u>34</u>                        | <u>34</u>                                 | <u>36</u>                              | <u>36</u>                                       |
|  | 9,390                            | 9,390                                     | 11,607                                 | 11,607  |
| <b>Other financial liabilities</b>                     |                                  |   |  |   |
| Short-term borrowings                                  | 8,000                            | 8,000                                     | 8,000                                  | 8,000   |
| Trade and other accounts payable                       | 23,228                           | 23,228                                    | 22,510                                 | 22,510  |
| Customer deposits                                      | 4,069                            | 4,069                                     | 3,963                                  | 3,963   |
| Long-term debt, including current portion <sup>2</sup> | 192,207                          | 173,769                                   | 192,159                                | 172,856   |

1 Other receivables due from customers

2 Carrying value of long term debt includes deferred debt issue costs

#### Carrying values

Cash is carried at fair value. The carrying value of long-term debt, including current portion, is measured at amortized cost using the effective interest method and is net of unamortized debt issue costs. The carrying value of the remaining financial instruments is measured at amortized cost.

#### Fair Values

The fair value of long-term debt, including current portion, is calculated by discounting the future cash flows of each debt instrument at the estimated yield to maturity for the same or similar debt instruments at the balance sheet date. The fair value of long-term debt as at March 31, 2010 totalled \$173.8 million, (December 31, 2009: \$172.9 million). The fair value of the Company's remaining financial instruments approximates their carrying value, reflecting either their nature or short-term maturity.

*Credit Risk*

There is risk that CUC may not be able to collect all of its accounts receivable. This does not represent a significant concentration of risk. The requirements for security deposits for certain customers, which are advance cash collections from customers to guarantee payment of electricity billings; reduces the exposure to credit risk. CUC manages credit risk primarily by executing its credit collection policy, including the requirement for security deposits, through the resources of its customer service department.

| Trade and other accounts receivables                  | March 31, 2010 | December 31, 2009 |
|---|----------------|-------------------|
| Current   | 7,335          | 9,151             |
| Past due 31-60 days                                   | 473            | 822               |
| Past due 61-90 days                                   | 409            | 622               |
| Past due over 90 days                                 | <u>1,337</u>   | <u>1,171</u>      |
| <b>Total Accounts Receivables</b>                     | <b>9,554</b>   | <b>11,766</b>     |
| Less: allowance for doubtful accounts                 | (198)          | (195)             |
| Less: Consumer Deposits and Advances for Construction | <u>(4,069)</u> | <u>(3,963)</u>    |
| <b>Net Exposure</b>                                   | <b>5,287</b>   | <b>7,608</b>      |

*Liquidity Risk*

The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by the legal requirement per the Licences, which requires rates be set to enable the Company to achieve and maintain a sound credit rating in the financial markets of the world.

| (\$millions)                                      | Total | 2010 | 2011-2012 | 2013-2014 | 2015<br>Onward |
|---|-------|------|-----------|-----------|----------------|
| Accounts payable and accrued expenses             | 23.2  | 23.2 | -         | -         | -              |
| Consumer's Deposits and Advances for Construction | 4.1   | 4.1  | -         | -         | -              |
| Short term debt                                   | 8.0   | 8.0  | -         | -         | -              |
| Letter of credit                                  | 0.6   | 0.6  | -         | -         | -              |
| Long-term debt interest                           | 81.5  | 11.7 | 20.8      | 16.5      | 32.5           |
| Total debt  | 193.5 | 14.0 | 31.0      | 36.5      | 112.0          |
| Total   | 310.9 | 61.6 | 51.8      | 53.0      | 144.5          |

*Interest Rate Risk*

Long-term debt is issued at fixed interest rates, thereby minimising cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings totals \$8.0 million.

### **15. Foreign Exchange**

The closing rate of exchange on March 31, 2010 as reported by the Bank of Canada for the conversion of US dollars into Canadian (Cdn) dollars was Cdn\$1.0158 per US\$1.00. The official exchange rate for the conversion of Cayman Islands (CI) dollars into US 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, 2010 for conversion of CI dollars into Canadian dollars was Cdn\$1.21896 per CI\$1.00.

### **16. Finance Charges**

The composition of finance charges were as follows:

| <b>Finance Charges<br/>(\$ thousands)</b> | <b>Three months ended<br/>March 31,<br/>2010</b> | <b>Three months<br/>ended March 31,<br/>2009</b> |
|---|--|--|
| Interest costs - long-term debt           | 3,050  | 2,557  |
| Other interest costs                      | 92   | 108  |
| AFUDC *                                   | <u>(764)</u>                                     | <u>(1,017)</u>                                   |
| <b>Total</b>                              | <b>2,378</b>                                     | <b>1,648</b>                                     |

\*Refer to PP&E (Note 7) with regards to AFUDC methodology

### **17. Pension Plan**

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. As at March 31, 2010, the Company had an accrued benefit liability of \$0.1 million (December 31, 2009: \$0.1 million). During the quarter ended March 31, 2010, the Company recorded net compensation expense in relation to its defined benefit plan of \$0.1 million (March 31, 2009: \$0.1 million).

During the first quarter of 2010, the Company recorded net compensation expense in relation to its defined contribution plan of \$0.2 million (March 31, 2009: \$0.2 million).

### **18. Transactions with Related Parties**

Miscellaneous receivables from Fortis Turks & Caicos totalling \$0.02 million were outstanding at March 31, 2010 (2009:\$0.01 million). Miscellaneous payables to Fortis Inc. totalling \$0.01 million and Fortis Turks & Caicos totalling \$0.01 million were outstanding at March 31, 2010 (2009: \$0 million).

### **19. Comparative Figures**

Certain comparative figures have been reclassified to conform with current year disclosure.



## **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 Corporate 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.

### **Shareholder Information**

#### Duplicate Quarterly Reports

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

Our Registrar and Transfer Agents are as follows:

#### **CIBC Mellon Trust Company**

P.O. Box 7010  
Adelaide St. Postal Station  
Toronto, Ontario M5C 2W9, Canada  
Tel: (416) 643-5500  
Fax: (416) 643-5501  
E-mail: [inquiries@cibcmellon.ca](mailto:inquiries@cibcmellon.ca)

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

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

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

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

Douglas H. Murray  
Corporate Secretary  
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Grand Cayman KY1-1101  
CAYMAN ISLANDS  
Tel: (345) 949-5200  
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