


Caribbean Utilities Company, Ltd.

2012 First Quarter Report

March 31, 2012

You've got the power

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 151.230 megawatts (MW) and a record peak load of 102.086 MW was experienced on June 3, 2010.

CUC is committed to providing a safe and reliable supply of electricity to over 26,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's development for over 45 years.

The Company's registered office address is 457 North Sound Road, P.O Box 38, Grand Cayman KY1-1101 and employs 185 employees.

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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Fellow Shareholders

Dear Shareholder,

Net earnings for the three months ended March 31, 2012 ("First Quarter 2012") were $1.9 million, a decrease of $1.2 million, or 39%, when compared to $3.1 million for the three months ended March 31, 2011 ("First Quarter 2011"). A 1% increase in kilowatt-hour ("kWh") sales and lower maintenance costs were offset by an increase in general and administration, financing and depreciation costs for the First Quarter 2012 when compared to the First Quarter 2011.

These lower earnings for the First Quarter 2012 relative to the First Quarter 2011 were in-line with the Company's expectations. Earnings for the First Quarter 2011 were positively impacted by $0.2 million for the temporary cessation of depreciation expenses on a damaged generating unit which has since been returned to service. In mid-2011 the Company closed on $40 million of long-term financing resulting in higher interest costs of approximately $0.3 million for the First Quarter 2012 when compared to the First Quarter 2011.

As part of ongoing efforts to reduce costs and improve efficiencies, during the First Quarter 2012 the Company conducted a comprehensive review of its organizational structure. This review resulted in redundancy and retirement packages being offered to four employees and a one-time charge of $0.3 million to general and administration expenses which negatively impacted First Quarter 2012 earnings, but will be positive to future earnings. We estimate that this organizational streamlining exercise will provide savings of approximately $0.3 million on an ongoing annualized basis beginning in 2013.

First Quarter 2012 earnings were also negatively impacted by an increase in the defined benefit pension plan expense. This expense is determined by actuarial valuation utilising multiple factors such as the performance of the plan assets. The increased expense, $0.1 million per quarter, will continue to negatively impact earnings through 2012.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2012 were $1.7 million, or $0.06 per Class A Ordinary Share, a decrease of $1.4 million when compared to $3.1 million, or $0.11 per Class A Ordinary Share for the First Quarter 2011.

Positive indicators for the First Quarter 2012 included a 2% increase in the number of connected customers, and an increase in sales of 1.2 million kWh, or 1%, in comparison to First Quarter 2011 despite slightly cooler weather. First Quarter 2012 was positively impacted by an additional leap year sales day in February. Excluding the impact of this additional day, the Company's kWh sales were flat, quarter-over-quarter.

Total customers as at March 31, 2012 were 26,755, an increase of 494 customers, or 2%, compared to 26,261 customers as at March 31, 2011. The Company had a net increase of 119 customers for the First Quarter 2012.

Electricity sales revenues increased $0.1 million, or 1%, to $15.9 million for the First Quarter 2012, from $15.8 million for the First Quarter 2011. Electricity sales revenues increased as a result of a 1% kWh sales increase experienced quarter-over-quarter.

Rising fuel costs continue to impact our customers with the average Fuel Cost Charge for the First Quarter 2012 of $0.27 per kWh, a 17% increase from $0.23 per kWh for the First Quarter 2011. CUC passes through fuel costs to consumers on a two-month lag basis with no mark-up, however the increasing costs could negatively impact sales as consumers curtail electricity use.

The Company continues to move forward with its initiative to connect renewable energy sources to the grid. The Company's request for Expression of Interest and Preliminary Proposal for the financing, construction, ownership and operation of up to 13 megawatts ("MW") of renewable energy generation facilities issued in August 2011 attracted many viable proposals.

During the first three months of 2012, the Company completed the review of proposals received in response to its request for Expression of Interest and Preliminary Proposal for the financing, construction, ownership and operation of up to 13 MW of renewable energy generation facilities. Discussions are ongoing with the prospective alternative energy providers.

During the period under review DataLink, Ltd. ("DataLink"), the wholly owned subsidiary of CUC, received its licence from the Information and Communications Technology Authority ("ICTA") which permits DataLink to provide fibre optic infrastructure and other information and communication technology (ICT) services to the ICT industry.

The ICTA licence will now allow DataLink to assume full responsibility for the existing Pole Attachment Agreements and Optical Fibre Lease Agreement currently held by the Company with third party ICT service providers and to extend this type of offering to other ICT service providers on commercial terms.

In March 2012 Standard & Poor's ("S&P") affirmed the Company's rating of A- with stable outlook. This rating reflects the S&P's positive view of the Company's monopoly position, regulatory support and stable cash flows offset by the economic uncertainty and the limited history of the regulator. The stable outlook reflects S&P's expectation of predictable cash flows and credit metrics in a stabilizing environment.

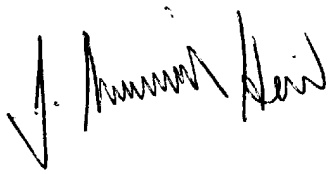
Also in March 2012 Dominion Bond Rating Service affirmed the Company's 'A' credit rating while maintaining the categorisation of low with a Stable trend. Considerations for the rating

were a supportive regulatory framework, solid credit metrics and a good economic area with stable load growth. Impacting the rating were such factors as hurricane event risk and small size of customer base.

In March 2012 the Electricity Regulatory Authority ("ERA") solicited Request for Proposals (RFP) for additional generation capacity from six Qualified Bidders (including CUC). The deadline for proposals is July 16, 2012. This competitive solicitation process is in response to the certificate of need issued by the Company in November 2011, driven primarily by the upcoming retirements of some of the Company's generating units. The projected date for 18 MW of additional generation capacity is July 2014, with a second increment of 18 MW of capacity required up to three years later in 2017 with timing dependent on economic growth and development of the Grand Cayman economy and the related growth in demand for electricity.

The Company has submitted the calculation of a base rate increase of 0.7% to the ERA for verification, as prescribed by the Rate Cap and Adjustment Mechanism (RCAM) of CUC's Transmission & Distribution Licence. The increase would be effective for bills rendered from June 2012. CUC's base rates have not changed since June 2009.

Finally, the Company is proud to once again report that in March 2012 we were named a Top Employer by the Cayman Islands Society of Human Resources Professionals. Being a Top Employer in Grand Cayman means that the Company focuses on the attraction and retention of talented employees, demonstrates high levels of commitment to staff development, is involved in Cayman's community and is a place where employees "trust the people they work for, take pride in what they do and enjoy the people they work with".



J.F. Richard Hew
President & Chief Executive Officer

April 30, 2012

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"): (i) interim unaudited financial statements and notes thereto for the three months ended March 31, 2012 prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"); (ii) audited financial statements and notes thereto for the year ended December 31, 2011, with 2010 comparatives, prepared in accordance with US GAAP and voluntarily filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") on March 19, 2012; (iii) "Supplemental Interim Financial Statements for the Year Ended December 31, 2011 (Unaudited)" contained in the above-noted voluntary filing which provides a detailed reconciliation between the Company's interim unaudited 2011 Canadian GAAP and interim unaudited 2011 US GAAP financial statements; and (iv) the MD&A for the year ended December 31, 2011 included in the Company's 2011 Annual Report. 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 US GAAP, including certain accounting practices unique to rate-regulated entities. These accounting practices, which are disclosed in the notes to the Company's 2011 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.

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements concerning anticipated future events, results, circumstances, performance or expectations with respect to the Company and its operations, including its strategy and financial performance and condition. Forward looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "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 operational, general economic, market and business conditions, regulatory developments and weather. CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

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

Financial and Operational Highlights

($ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Change	% Change
Electricity Sales	**15,921**	15,778	**143**	1%
Fuel Factor Revenues	**35,732**	28,189	**7,543**	27%
Operating Revenues	**51,653**	43,967	**7,686**	17%
Fuel and Lube Costs	**35,732**	28,189	**7,543**	27%
Other Operating Expenses	**12,393**	11,210	**1,183**	11%
Total Operating Expenses	**48,125**	39,399	**8,726**	22%
Earnings for the Period	**1,907**	3,131	**(1,224)**	-39%
Basic Earnings per Class A Ordinary Share	**0.06**	0.11	**(0.05)**	-45%
Dividends paid per Class A Ordinary Share	**0.165**	0.165	**-**	0%
Peak Load Gross (MW)	**84.3**	87.3	**(3.0)**	-3%
Net Generation (millions of kWh)	**135.4**	134.3	**1.1**	1%
Kilowatt-Hour Sales (millions of kWh)	**126.4**	125.2	**1.2**	1%
Total Customers	**26,755**	26,261	**494**	2%
Customer per Employee (#)	**145**	135	**10**	7%
Sales per employee (millions of kWh)	**0.68**	0.65	**0.03**	1%

Corporate and Regulatory Overview

The principal activity of the Company is to generate, transmit and distribute electricity in its licence area of Grand Cayman, Cayman Islands pursuant to a 20-year exclusive Transmission & Distribution ("T&D") Licence and a 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.

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 2011 was 7.6% (2010: 7.9%). CUC's RORB for 2012 is targeted in the 7.25% to 9.25% range (2011: 7.75% to 9.75%).

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel 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 March 2012 the Company requested that the Electricity Regulatory Authority ("ERA") verify its calculations that the RCAM yielded a rate

adjustment for June 2012 of 0.7% as a result of the 2011 RORB and the slight increase in the applicable United States and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2011. All fuel and lubricating oil costs are passed through to customers without mark-up as a per kWh charge.

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

The 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 2010, the Company submitted the 2011-2015 CIP totalling approximately $219 million. In March 2011, the ERA approved the $134 million of proposed non-generation installation expenditures in the 2011-2015 CIP. CUC submitted its 2012-2016 CIP, totalling approximately $192 million, during the fourth quarter of 2011 for ERA approval. $131.0 million of the submission is proposed non-generation installation expenditures. Generation needs are subject to competitive bid process. The 2012- 2016 CIP has been prepared in line with the Certificate of Need that was filed with the ERA in November 2011 for 18 megawatts ("MW") of new generating capacity to be installed in either 2015 or 2016, contingent on growth over the next two years.

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. A Z Factor is the amount, expressed in cents per kWh, approved by the ERA to recover the costs of items deemed to be outside of the constraints of the RCAM.

Earnings

Net earnings for the three months ended March 31, 2012 ("First Quarter 2012") totalled $1.9 million, a decrease of $1.2 million, or 39%, when compared to $3.1 million for the three months ended March 31, 2011 ("First Quarter 2011"). A 1% increase in kWh sales and lower maintenance costs were offset by an increase in general and administration, financing and depreciation costs for the First Quarter 2012 when compared to the First Quarter 2011.

Net earnings in the First Quarter 2011 were positively impacted by the temporary cessation of depreciation expenses on a damaged generating unit which has since been returned to service (see "Depreciation" section of this MD&A for further details). General and administration expenses for the First Quarter 2012 included a one-time charge of $0.3 million related to restructuring costs incurred to further streamline the Company's organizational structure (see

"General and Administrative" section of this MD&A for further details). In mid-2011, the Company closed on $40 million of long-term financing resulting in higher interest costs for the First Quarter of 2012 when compared to the First Quarter 2011 (see "Other Income and Expenses" section of this MD&A for further details).

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2012 were $1.8 million, or $0.06 per Class A Ordinary Share, a decrease of $1.3 million when compared to $3.1 million, or $0.11 per Class A Ordinary Share for the First Quarter 2011.

Sales

Sales for the First Quarter 2012 totalled 126.4 million kWh, an increase of 1.2 million kWh, or 1%, in comparison to 125.2 million kWh for the First Quarter 2011. The average temperature for the First Quarter 2012 was 79.07 degrees Fahrenheit ("°F") as compared to an average temperature of 79.33 degrees for the same period last year. The average monthly rainfall for the First Quarter 2012 was 2.15 inches as compared to average monthly rainfall of 0.51 inches for First Quarter 2011. Weather is one of multiple factors that affect kWh sales (see "The Economy" section of this MD&A for greater detail).

First Quarter 2012 were positively impacted by an additional leap year sales day in February. Excluding the impact of this additional day, the Company's kWh sales were flat, quarter-over-quarter.

Total customers as at March 31, 2012 were 26,755, an increase of 494 customers, or 2%, compared to 26,261 customers as at March 31, 2011. The Company had a net increase of 119 customers for the First Quarter 2012, comprising 163 residential connections and a decrease of 44 commercial connections. The decrease in commercial customers mainly related to one customer consolidating its multiple meters to one meter.

The following tables present sales and customer highlights:

Customers (#)	March 31, 2012	March 31, 2011	Change %
Residential	22,894	22,451	2%
Commercial	3,861	3,810	1%
Total Customers	**26,755**	**26,261**	2%

Sales and customer highlights continued:

Sales (thousands kWh)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	% Change
Residential	55,898	54,998	1.6%
Commercial	68,893	68,701	0.3%
Other (street lighting, etc.)	1,574	1,545	1.9%
Total Sales	126,365	125,244	0.9%

Operating Revenues

Operating revenues increased $7.7 million, or 17%, to $51.7 million for the First Quarter 2012, from $44.0 million for the First Quarter 2011, due to 27% higher fuel factor revenues.

Electricity sales revenues increased $0.1 million, or 1%, to $15.9 million for the First Quarter 2012, from $15.8 million for the First Quarter 2011. Electricity sales revenues increased as a result of a 1% kWh sales increase experienced quarter-over-quarter.

Fuel factor revenues for the First Quarter 2012 totalled $35.7 million, a $7.5 million, or 27%, increase from the $28.2 million in fuel factor revenues for the First Quarter 2011. Fuel factor revenues increased due to an increase in the cost of fuel (see "Power Generation" section of this MD&A for further detail). The average fuel cost charge for the First Quarter 2012 was $0.27 per kWh, a 17% increase from $0.23 per kWh for the First Quarter 2011. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

Total operating revenues were as follows:

Revenues (thousands $)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Change	% Change
Residential	**7,333**	7,212	**121**	2%
Commercial	**8,478**	8,460	**18**	0%
Other (street lighting, etc.)	**110**	106	**4**	4%
Electricity Sales Revenues	**15,921**	15,778	**143**	1%
Fuel Factor Revenues	**35,732**	28,189	**7,543**	27%
Total Operating Revenues	**51,653**	43,967	**7,686**	17%

Operating Expenses

Operating expenses for the First Quarter 2012 totalled $48.1 million, an $8.7 million, or 22%, increase from $39.4 million for the First Quarter 2011. The major contributing factors to this increase are higher power generation, general and administration and transmission and distribution expenses which were partially offset by lower maintenance expenses.

Total operating expenses were as follows:

Operating Expenses ($ thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Change	% Change
Power Generation Expenses	**36,644**	28,938	**7,706**	27%
General and Administration	**2,777**	2,117	**660**	31%
Consumer Service	**385**	427	**(42)**	-10%
Transmission and Distribution	**615**	407	**208**	51%
Depreciation	**5,678**	5,221	**457**	9%
Maintenance	**1,927**	2,217	**(290)**	-13%
Amortization of Intangible Assets	**99**	72	**27**	38%
Total Operating Expenses	**48,125**	39,399	**8,726**	22%

Power Generation

Power generation costs for the First Quarter 2012 increased $7.7 million, or 27%, to $36.6 million when compared to $28.9 million for the First Quarter 2011. The change is a result of an increase in the cost of fuel. The peak load for the First Quarter 2012 was 84.3 MW, a 3% decrease when compared to the peak load for the First Quarter 2011 of 87.3 MW. The record peak load of 102.1 MW was experienced in June 2010. June 2010 registered an above average temperature at 86.0 °F, the highest June temperature experienced in over five years.

Total power generation expenses were as follows:

Power Generation Expenses ($ thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Change	% Change
Fuel costs (net of deferred fuel charges)	**34,954**	27,600	**7,354**	27%
Lubricating oil costs (net of deferred lubricating oil charges)	**778**	589	**189**	32%
Other generation expenses	**912**	749	**163**	22%
Total power generation expenses	**36,644**	28,938	**7,706**	27%

The Company's average price per imperial gallon ("IG") of fuel for the First Quarter 2012 increased 12% to $4.76, compared to $4.26 for the First Quarter 2011.

The Company's average price per IG of lubricating oil for the First Quarter 2012 increased 6% to $13.94, compared to $13.10 for the First Quarter 2011.

The Fuel Tracker Account (see Note 6 of the "Notes to Interim Financial Statements" for further details) is comprised of total diesel fuel and lubricating oil costs to be recovered from consumers.

In March 2011 the ERA approved the Fuel Price Volatility Management Programme. The objective of the programme is to reduce the impact of volatility in the fuel cost charge paid by the Company's customers for the fuel that the Company must purchase in order to provide electric service. The programme initially utilised call options creating a ceiling price for fuel costs at pre-determined contract premiums for 40% of expected fuel consumption. The call options were purchased in an effort to assist consumers and promote certainty in pricing, as such the monthly hedging costs and returns are also included within the Fuel Tracker Account. These contracts expired on March 31, 2012. Options will be renewed if approved by the ERA.

Other generation expenses for the First Quarter 2012 totalled $0.91 million a 21% increase when compared to $0.75 million for the First Quarter 2011. This increase is attributable to additional costs related to the disposal of lubricating oils.

General and Administration ("G&A")

G&A expenses for the First Quarter 2012 totalled $2.8 million, an increase of $0.7 million or 33% when compared to G&A expenses of $2.1 million for the First Quarter 2011. The increase was the result of higher payroll, pension and insurance expenses. The increased payroll costs are temporary in nature and relate to redundancy and early retirement payments to four employees. From time to time the Company will review its organizational structure and reorganize and streamline it to meet the demands of stakeholders in a more efficient and effective manner.

The Company established a defined benefit pension plan for the retired Chairman during 2003 and in May 2005, CUC's Board of Directors approved the establishment of a defined benefit pension plan for the retired President and Chief Executive Officer. The pension costs of the defined benefit pension plans are actuarially determined using the projected benefits method. A defined pension expense of $0.24 million has been recorded for the First Quarter 2012, an increase of $0.14 million when compared to $0.1 million for First Quarter 2011.

Fortis Inc. owns a controlling interest in CUC. The increase in insurance costs is tempered by the benefits of purchasing insurance collectively with the Fortis group of companies, which leads to efficiency and more competitive rates (See the "Insurance" section of this MD&A for further discussion of insurance terms and coverage).

These increases were partially offset by an increase in General Expenses Capitalised ("GEC") (see Note 1 of the "Notes to Interim Financial Statements"). GEC totalled $0.8 million for the First Quarter 2012, $0.2 million higher than $0.6 million for the First Quarter 2011.

Transmission and Distribution ("T&D")

T&D expenses for the First Quarter 2012 totalled $0.6 million, a $0.2 million, or 50% increase compared to $0.4 million for the First Quarter 2011. In the First Quarter 2012, the T&D Division focused on maintenance projects and as a result the amount of capitalised labour decreased as compared to the same period last year.

Depreciation

Depreciation expenses for the First Quarter 2012 totalled $5.7 million, an increase of $0.5 million, or 10% when compared to $5.2 million for the First Quarter 2011.

In October 2010 the temporary cessation of depreciation on a 16 MW unit began and the temporary cessation of depreciation on a 7.59 MW unit began in March 2011. The 16 MW unit was taken out of service due to an overspeed failure and placed back in service in July 2011. The 7.59 MW unit was taken out of service due to a major mechanical failure. The cost of the refurbishment for the 16 MW unit was covered by the Company's insurance policy subject to

the deductible (see 'Insurance - Terms & Coverage' in the "Business Risks" section of the MD&A for greater detail).

In accordance with the Licences when an asset is impaired or disposed of, within the original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with rate regulated accounting and differs from the accounting principles generally accepted in the United States ("US GAAP") treatment of a loss being recognized on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. Proceeds can be funds received for sale of the asset, sale of parts or insurance proceeds. The amount within accumulated depreciation will be depreciated over the remaining life of the asset once the unit is returned to service.

In the case of the 16 MW unit, as required by the Licences, insurance proceeds have been applied to accumulated depreciation the costs associated with the refurbishment of the asset were capitalized. The Company analyzed the cost effectiveness of refurbishing the damaged 7.59 MW unit. The analysis, which was completed in February 2012, concluded that refurbishment would not be cost effective. The ERA has been provided with the results of the Company's assessment in order to approve the retirement of the unit (see Note 5 of the "Notes to Interim Financial Statements" for further detail).

Maintenance

Maintenance expenses for the First Quarter 2012 totalled $1.9 million, a decrease of $0.3 million or 14% when compared to $2.2 million for the First Quarter 2011.

Maintenance expenses for the First Quarter 2012 were expected to be lower than those seen in 2011 due to various capital projects scheduled in 2012. Certain upgrades to generating units are considered capital in nature as the upgrades extend the life or increase the output of the unit.

The Company currently has an installed generating capacity of 151.23 MW. In the first quarter of 2012 the Company purchased an additional 3 MW of mobile generation capacity to facilitate on-going planned generator maintenance and repairs. The purchase of these units ensures that the Company is in compliance with capacity requirements.

Amortization

Amortization of intangible assets for the First Quarter 2012 totalled $0.10 million, an increase of $0.03 million or 38% when compared to $0.07 million for the First Quarter 2011.

Amortization represents the monthly recognition of the expense associated with software purchases as well as other intangible assets such as the costs associated with the licence negotiations. The licence negotiations ceased in 2008 and the costs associated with the negotiations are being amortized over 20 years on a straight-line basis.

Other Income and Expenses

Net Other Expenses for the First Quarter 2012 totalled $1.6 million, an increase of $0.2 million or 13% when compared to $1.4 million for the First Quarter 2011.

Other Income & Expenses ($ thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Change	% Change
Total interest costs	**(3,190)**	(2,927)	**(263)**	9%
AFUDC	**745**	772	**(27)**	-3%
Total finance charges	**(2,445)**	(2,155)	**(290)**	13%
Foreign exchange gain	**500**	401	**99**	25%
Other income	**324**	317	**7**	2%
Total Net Other Expense	**(1,621)**	(1,437)	**(184)**	13%

Finance charges for the First Quarter 2012 totalled $2.4 million, a $0.3 million, or 13% increase from $2.2 million for the First Quarter 2011.Finance charges increased as a result of additional debt financing in June and July 2011 (see "Financing Activities").

Under the T&D Licence there is a provision for an Allowance for Funds Used During Construction ("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 2012 is 8.25% as agreed with the ERA, in accordance with the T&D Licence, and will be reviewed annually. The cost of capital rate for 2011 was 8.75%. The AFUDC amount for the First Quarter 2012 totalled $0.7 million, a $0.1 million decrease when compared to AFUDC of $0.8 million for the First Quarter 2011.

Foreign exchange gains and losses are the result of monetary assets and liabilities denominated in foreign currencies that are translated into United States dollars at the exchange rate prevailing on the Balance Sheet date. Revenue and expense items denominated in foreign currencies are translated into United States dollars at the exchange rate prevailing on the transaction date. Foreign exchange gains for the First Quarter 2012 totalled $0.5 million, a $0.1 million, or 25% increase when compared to foreign exchange gains of $0.4 million for the First Quarter 2011.

Other income is comprised of pole rental fees, income from pipeline operations, sale of meter sockets, sale of recyclable materials and other miscellaneous income. Other income totalled $0.3 million for the First Quarter 2012 comparable to $0.3 million for the First Quarter 2011.

In March 2012 the ERA approved the creation of CUC's wholly owned subsidiary; DataLink, Ltd. ("DataLink"). Subsequently the Information and Communications Technology Authority ("ICTA") granted to Datalink a licence to provide fibre optic infrastructure in Grand Cayman.

CUC and DataLink have entered into management, maintenance, pole attachment and fibre optic agreements, all agreements have been approved by the ERA. The ICTA licence will now allow DataLink to assume full responsibility for the existing Pole Attachment Agreements and Optical Fibre Lease Agreement currently held by CUC with third party information and communications technology service providers.

The Economy

The Cayman Islands have two main industries; financial services and tourism. These sectors were not immune to the effect of the recent recession experienced worldwide. The recession that began to impact the Cayman Islands in 2009 continued in 2010. A fall in Gross Domestic Product ("GDP") occurred in 2010 (2010 Cayman Islands' Annual Economic Report; released July 2011) a decrease of 4.0% as compared to a decrease of 7.5% in 2009. The 2011 Third Quarter Economic Report was released by the Government in late February 2012 and reported that the Cayman Islands' real GDP grew by an estimated annualised rate of 1.2% for the first nine months of 2011.

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

	As at March 2012	As at December 2011	As at December 2010	As at December 2009	As at December 2008
Bank Licences	233	234	245	266	278
Mutual Funds	9,990	9,258	9,438	9,523	9,870
Mutual Fund Administrators	127	129	134	141	155
Captive Insurance Companies	755	739	738	780	777

The tourist demographic is largely comprised of visitors from the United States of America ("US"). In 2011 79% of air arrivals to the country were citizens of the US. As such the US economy largely impacts that of the Cayman Islands. First Quarter 2012 air arrivals were up 3% when compared to First Quarter 2011 and cruise arrivals were up 8% when compared to First Quarter 2011. 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.

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

Arrivals	2012	2011	2010	2009	2008
By Air	96,187	93,822	87,841	81,080	94,650
By Sea	553,347	510,648	472,036	465,884	553,993
Total	649,534	604,470	559,877	546,964	648,643

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

Liquidity and Capital Resources

The following table outlines the summary of cash flows:

Cash Flows ($ thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Change	% Change
Beginning cash	**424**	2,363	**(1,939)**	-82%
Cash provided by/(used in):				
Operating activities	**10,213**	10,635	**(422)**	-4%
Investing activities	**(5,930)**	(6,754)	**824**	-12%
Financing activities	**(3,109)**	(4,881)	**1,772**	-36%
Ending cash	**1,598**	1,363	**235**	17%

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for the First Quarter 2012, was $10.2 million, a decrease of $0.4 million from $10.6 million for the First Quarter 2011. This decrease is attributable to the movement in trade receivables and inventory, both a direct result of higher fuel costs.

Investing Activities:

Cash used in investing activities for the First Quarter 2012 totalled $5.9 million, a decrease of $0.9 million from $6.8 million for the First Quarter 2011. This decrease is attributable to decreased capital expenditures.

Financing Activities:

Cash utilized in financing activities for the First Quarter 2012 totalled $3.1 million a decrease of $1.8 million when compared to cash utilized in financing activities of $4.9 million for the First Quarter 2011. This decrease is attributable to funds received in First Quarter 2012 of $1.7 million from the Company's operating line of credit.

Transactions with Related Parties

Miscellaneous receivables from FortisTCI, also a subsidiary of Fortis Inc. totalling $0.01 million were outstanding at March 31, 2012 ($0.01 million December 31, 2011) for engineering assistance and are included within Accounts Receivable on the Balance Sheet.

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at March 31, 2012, are outlined in the following table:

Contractual Obligations ($ millions)	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	210.0	21.5	36.5	28.0	124.0
Defined benefit pension	0.7	0.7	-	-	-
Total	**210.7**	**22.4**	**36.5**	**28.0**	**124.0**

The Company has a primary fuel supply contract with Esso Standard Oil S.A. ("Esso") and is committed to purchase approximately 80% of the Company's diesel fuel requirements for its generating plant from Esso. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2012 – 10.1. The contract contains an automatic renewal clause for the years 2010 through to 2012. The Company has renewed the contract until May 2012 and is in the process of negotiating terms of a new contract.

Financial Position

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2011 to March 31, 2012:

Significant changes in Balance Sheets between December 31, 2011 and March 31, 2012 *($ millions)*	Increase (Decrease)	Explanation
Cash and Cash Equivalents	1.2	Increase due to cash provided by operating activities of $10.2 million and offset by cash used in financing activities of $3.1 million and by cash used in investing activities of $5.9 million.
Accounts Receivable	(0.2)	Decrease due to lower fuel rate in March 2012 when compared to December 2011.
Other Receivable - Insurance	(0.4)	Decrease due to insurance funds received in relation to overspeed failure on a 16 MW unit.
Inventories	0.6	Increase in value of fuel inventory.
Prepayments	(1.2)	Decrease due to recognition of insurance expense related to the Company's prepaid insurance plan.
Property, Plant and Equipment	0.5	Net increase is comprised of capital expenditures of (1) $6.9 million (2) depreciation expense of $5.7 million and (3) $0.7 million of insurance and asset sale proceeds.
Share Premium	0.5	The Company issued 50,444 shares through its share purchase plans.

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 and through the Company's Share Purchas Plans.

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, 2012, the Company was in compliance with all debt covenants.

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

Capital structure	March 31, 2012 *($ millions)*	%	December 31, 2011 *($ millions)*	%
Total debt	210.0	55	210.0	55
Shareholder's equity	171.1	45	173.3	45
Total	**381.1**	**100**	**383.3**	**100**

The Company's credit ratings are as follows:

S&P A-/Stable
DBRS A (low)

The Standard & Poor's ("S&P") rating is in relation to long-term corporate credit and unsecured debt while the Dominion Bond rating System ("DBRS") rating relates to senior unsecured debt.

In March 2012 S&P affirmed the Company's 'A negative' rating and 'Stable' outlook. This rating reflects the S&P's positive view of the Company's monopoly position, regulatory support and stable cash flows offset by the economic uncertainty and the limited history of the regulator. The stable outlook reflects S&P's expectation of predictable cash flows and credit metrics in a stabilizing environment.

In March 2012 DBRS affirmed the Company's 'A' credit rating while maintaining the categorisation of low with a 'Stable' trend. Considerations for the rating were a supportive regulatory framework, solid credit metrics and a good economic area with stable load growth. Impacting the rating were such factors as hurricane event risk and small size of customer base.

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 allowances in the Licences for review of the RCAM by the ERA in order to enable the Company to maintain sound credit ratings

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
Total	**$32.9**

Of the total above, $23.2 million was available at March 31, 2012.

Capital Expenditures

Capital expenditures for the First Quarter 2012 were $6.9 million, a $1.7 million, or 20% decrease from $8.6 million in capital expenditures for the First Quarter 2011. The capital expenditures for the First Quarter 2012 primarily relate to:

- Distribution system extension and upgrades - $2.1 million.
- Purchase of two mobile generating units (utilizing insurance proceeds) to replace a damaged 7.59 MW unit - $2.3 million
- Generating Unit 33 - $0.2 million
- Purchase AMI Meters and meter equipment - $1.1 million
- Generation replacement cost - $0.5 million
- AFUDC of $0.7 million was capitalized in the First Quarter 2012

Capital expenditures *($ Millions)*	**Three Months Ended March 31, 2012**	**Three Months Ended March 31, 2011**
Transmission	**-**	-
Distribution	**2.6**	2.5
Generation	**3.8**	5.8
Other	**0.5**	0.3
Total	**6.9**	8.6

Off Balance-Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at March 31, 2012.

Business Risks

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

Operational Risks

Operational risks are those risks normally inherent in the operation of generating, transmission and distribution facilities. The Company's facilities are subject to the risk of equipment failure due to deterioration of the asset from use or age, latent defects and design or operator error, among other factors. These risks could lead to longer-than-forecast equipment downtimes for maintenance and repair, disruptions of power generation, customer service interruptions and could result in injury to employees and the public. Accordingly, to ensure the continued safe and efficient performance of the physical assets, the Company determines expenditures that must be made to maintain and replace the assets.

The Company continually develops capital expenditure, safety management and risk controls programs and assesses current and future operating and maintenance expenses that will be incurred in the ongoing operation of its systems. The Company also has an insurance programme that provides coverage for business interruption, liability and property damage, although the coverage offered by this programme is limited. (See "Insurance" for discussion of insurance terms and coverage). In the event of a large uninsurable loss, the Company would apply to the ERA for recovery of these costs through higher rates. However, there is no assurance that the ERA will approve any such application (See "Regulation" for discussion of regulatory risk).

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 and seasonal fluctuations.

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.

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 the renewal of the registration occurred in May 2010. The next scheduled renewal is 2013, renewals occur every three years. 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 financial reporting including the recording of any Asset Retirement Obligations ("ARO's").

Insurance – Terms and Coverage

The Company renewed its insurance policy as at July 1, 2011 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 waiting period on Non-Named Wind, Quake and Flood of 60-days. Any named Wind, Quake and Flood deductible has a 45-day waiting period. 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 $1.0 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 $1.0 million and maximum deductible of $4.0 million for all interests combined.

In accordance with the Licences when an asset is impaired or disposed of, within the original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with rate regulated accounting and differs from the GAAP treatment of a loss being recognized on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. Insurance proceeds are included within the criteria.

In addition to the coverage discussed above, the Company has also purchased an excess layer of an additional $100 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.

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 2012, is 5%. This compares to assumed long-term rates of return of 5% used during 2011. The loss on pension plan assets during 2011 was 6% (2010: gain of 22%).

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 2012 is 4.5% compared to the discount rate assumed during 2011 which was 5.5%.

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.

CHANGES IN ACCOUNTING POLICIES

Transition to US GAAP: Effective January 1, 2012, CUC retroactively adopted US GAAP with the restatement of comparative reporting periods. The areas of most significant financial statement impacts upon adopting US GAAP relates to the recognition of the funded status of the defined benefit plan on the balance sheet.

The above-noted item does not represent the only difference between US GAAP and Canadian GAAP. Other less significant differences have also been identified and accounted for. A detailed description of the differences and a detailed reconciliation between the Company's annual audited Canadian GAAP and annual audited US GAAP financial statements for 2011 is disclosed in Note 27 to the Company's voluntarily filed annual audited US GAAP financial statements with accompanying notes thereto for the year ended December 31, 2011, with 2010 comparatives. A detailed reconciliation between the Company's interim unaudited 2011 Canadian GAAP and interim unaudited 2011 US GAAP financial statements is provided in the above-noted voluntarily filed document under the section "2011 Supplemental Interim Financial Statement Reconciliations" (Unaudited).

The audited quantification and reconciliation of the Company's balance sheet as at December 31, 2011, prepared in accordance with US GAAP versus Canadian GAAP, may be summarized as follows.

> Liabilities as of December 31, 2011 increased by $2.8 million. The increase is due to the increase in the pension liability in accordance with US GAAP.
>
> Shareholders' equity as of December 31, 2011 decreased by $2.8 million. The decrease is due to the recognition of the past service costs and net actuarial losses related to the defined benefit plan in accordance with US GAAP.
>
> Other assets as of December 31, 2011 increased by $1.6 million. The increase is due to the reclassification of deferred debt costs in accordance with US GAAP.
>
> Long-term debt as of December 31, 2011 increased by $1.6 million. The increase is due to the reclassification of deferred debt costs in accordance with US GAAP.

There were no adjustments to the Company's 2011 earnings under US GAAP due to the Company's continued ability to apply rate-regulated accounting policies.

New US GAAP Accounting Pronouncements: The following new US GAAP accounting pronouncements that are applicable to, and were adopted by, CUC effective beginning January 1, 2012 are described as follows:

Presentation of Comprehensive Income
The Company retroactively adopted the amendments to Accounting Standards Codification ("ASC") Topic 220, *Comprehensive Income.* The amended standard requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. CUC continues to report the components of comprehensive income in a separate but consecutive statement.

Fair Value Measurement
The Company retroactively adopted the amendments to ASC Topic 820, *Fair Value Measurements and Disclosures.* The amended standard improves comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP. The amendment does not change what items are measured at fair value but

instead makes various changes to the guidance pertaining to how fair value is measured. The above-noted changes did not materially impact the Company's financial statements for the three months ended March 31, 2012.

Critical Accounting Estimates

The preparation of the Company's financial statements in accordance with US 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, 2012, the amount of unbilled revenue recorded in Electricity Sales was $4.5 million (March 31, 2011: $5.1 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, 2012, the amount of estimated kWh sales was 27.9 million kWh (March 31, 2011: 37.4 million kWh).

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 utilized 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, 2012, the Company had a long-term liability of $2.8 million (December 31, 2011: $2.8 million).

Property, Plant and Equipment (PP&E) 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, 2012, the net book value of the Company's PP&E was $370.3 million compared to $369.8 million as at December 31, 2011, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the three months ended March 31, 2012 was $5.7

million ($5.2 million March 31, 2011). Due to the value of the Company's property, plant and equipment, 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 June 30, 2010 through March 31, 2012. This information has been obtained from CUC's unaudited interim Financial Statements which, in the opinion of Management, have been prepared in accordance with US GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarterly results *($ thousands, except basic and diluted earnings per ordinary share)*	Operating Revenue	Net earnings	Income applicable to ordinary shares	Earnings per ordinary share	Diluted earnings per ordinary share
March 31, 2012	51,653	1,907	1,794	0.06	0.06
December 31, 2011	57,733	5,082	4,489	0.15	0.15
September 30, 2011	62,453	6,253	6,140	0.22	0.22
June 30, 2011	53,945	5,924	5,811	0.20	0.20
March 31, 2011	43,967	3,131	3,044	0.11	0.11
December 31, 2010	47,442	4,666	4,048	0.15	0.15
September 30, 2010	49,095	6,568	6,455	0.23	0.23
June 30, 2010	43,182	6,188	6,075	0.21	0.21

March 2012/March 2011

Net earnings for the First Quarter 2012 totalled $1.9 million, a decrease of $1.2 million, or 39%, when compared to $3.1 million for the First Quarter 2011. A 1% increase in kWh sales and lower maintenance costs were offset by an increase in general and administration, financing and depreciation costs for the First Quarter 2012 when compared to the First Quarter 2011.

Net earnings in the First Quarter 2011 were positively impacted by the temporary cessation of depreciation expenses on a damaged generating unit which has since been returned to service (see "Depreciation" section of this MD&A for further details). General and administration expenses for the First Quarter 2012 included a one-time charge of $0.3 million related to restructuring costs incurred to further streamline the Company's organizational structure (see "General and Administrative" section of this MD&A for further details). In mid-2011, the Company closed on $40 million of long-term financing resulting in higher interest costs for the First Quarter of 2012 when compared to the First Quarter 2011 (see "Other Income and Expenses" section of this MD&A for further details).

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2012 were $1.8 million, or $0.06 per Class A Ordinary Share, a decrease of $1.3 million when compared to $3.1 million, or $0.11 per Class A Ordinary Share for the First Quarter 2011.

December 2011/December 2010

Net earnings for three months ended December 31, 2011 ("Fourth Quarter 2011") were $5.1 million, a 9% or $0.4 million increase when compared to $4.7 million for the three months eneded December 31, 2010 ("Fourth Quarter 2010"). Operating Income for the Fourth Quarter 2011 decreased when compared to Fourth Quarter 2010 due to increased General and Administrative (G&A) and Depreciation costs partially offset by increased Electricity Sales.

This change in Operating Income was offset by a decrease in Finance Charges and an increase in Other Income resulting in an overall increase in earnings quarter over quarter.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2011 were $4.5 million, or $0.15 per Class A Ordinary Share, as compared to $4.0 million, or $0.15 per Class A Ordinary Share for the Fourth Quarter 2010. 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 28,523,127 and 28,351,734 for the years ended December 31, 2011 and December 31, 2010, respectively.

September 2011/September 2010

Net earnings for three months ended September 30, 2011 ("Third Quarter 2011") totalled $6.3 million, a decrease of $0.3 million, or 5%, when compared to $6.6 million for the three months ended September 30, 2010 ("Third Quarter 2010"). A 1% decline in kWh sales and higher general and administration, transmission and distribution and finance costs were partially offset by a decrease in consumer service and maintenance costs for the Third Quarter 2011 when compared to the Third Quarter 2010.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2011 were $6.1 million, or $0.22 per Class A Ordinary Share, a decrease of $0.4 million when compared to $6.5 million, or $0.23 per Class A Ordinary Share for the Third Quarter 2010.

June 2011/June 2010

Net earnings for the three months ended June 30, 2011 totalled $5.9 million, a decrease of $0.3 million, or 5%, when compared to $6.2 million for the three months ended June 30, 2010. A 3% decline in kWh sales and higher general and administration, consumer service and transmission and distribution costs were partially offset by an increase in other income and lower finance charges for the Second Quarter 2011 when compared to the Second Quarter 2010.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2011 were $5.8 million, or $0.20 per Class A Ordinary Share, a decrease of $0.3 million when compared to $6.1 million, or $0.21 per Class A Ordinary Share for the Second Quarter 2010.

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, 2012 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 US GAAP.

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated 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, 2012.

There has been no change in the Company's ICFR that occurred during the period beginning on January 1, 2012 and ended on March 31, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

In April 2012 the ERA provided approval of $122 million of proposed non-generation installation expenditures in the CIP. The remaining $62 million of the CIP relates to new generation installation which would be subject to a competitive solicitation process with the next generating unit scheduled for installation in 2014. With the continued impact of recessionary conditions on the local economy and electricity sales, the Company continues to focus on controlling discretionary expenditures.

Outstanding Share Data

At March 31, 2012 the Company had issued and outstanding 28,675,121 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* and on the Company's website at *www.cuc-cayman.com*.

Letitia T. Lawrence
Vice President Finance & Chief Financial Officer

April 30, 2012

Balance Sheets
(expressed in thousands of United States Dollars)

Unaudited	Note	As at March 31, 2012	As at December 31, 2011
Assets			
Current Assets			
Cash and Cash Equivalents		1,598	424
Accounts Receivable	4	15,699	15,910
Other Receivable - Insurance	5	-	438
Regulatory Assets	6	25,782	25,759
Inventories	7	4,421	3,807
Prepayments		1,403	2,636
		48,903	48,974
Property, Plant and Equipment	8	370,297	369,832
Other Assets	9	1,645	1,714
Intangible Assets	10	2,857	2,819
Total Assets		**423,702**	**423,339**
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank Overdraft	13	2,773	1,059
Accounts Payable and Accrued Expenses	11	31,330	31,576
Regulatory Liabilities	6	265	281
Short-Term Debt	13	6,000	6,000
Current Portion of Long-Term Debt		15,500	15,500
Consumers' Deposits and Advances for Construction		4,415	4,357
Insurance Advances	12	1,031	-
		61,314	58,773
Defined Benefit Pension Liability		2,836	2,811
Long-Term Debt		188,500	188,500
Total Liabilities		**252,650**	**250,084**
Shareholders' Equity			
Share Capital (Authorised: 60,000,000 Class A Ordinary Shares of CI$0.05 each)		1,957	1,954
Share Premium		77,297	76,806
Additional Paid in Capital	14	427	415
Retained Earnings		93,900	96,827
Accumulated Other Comprehensive Income		(2,529)	(2,747)
Total Shareholders' Equity		**171,052**	**173,255**
Total Liabilities and Shareholders' Equity		**423,702**	**423,339**

See accompanying Notes to Interim Financial Statements

Statements of Earnings and Comprehensive Income
(expressed in thousands of United States dollars except Basic and Diluted Class A Ordinary Shares and the Weighted Average of Class A Ordinary Shares issued and fully paid)

Unaudited	Note	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Operating Revenues			
Electricity Sales		15,921	15,778
Fuel Factor		35,732	28,189
Total Operating Revenues		**51,653**	**43,967**
Operating Expenses			
Power Generation		36,644	28,938
General and Administration		2,777	2,117
Consumer Services		385	427
Transmission and Distribution		615	407
Depreciation		5,678	5,221
Maintenance		1,927	2,217
Amortization of Intangible Assets		99	72
Total Operating Expenses		**48,125**	**39,399**
Operating Income		**3,528**	**4,568**
Other (Expenses)/Income:			
Finance Charges	18	(2,445)	(2,155)
Foreign Exchange Gain	20	500	401
Other Income		324	317
Total Net Other (Expenses)/Income		**(1,621)**	**(1,437)**
Net Income for the Period		**1,907**	**3,131**
Preference Dividends Paid- Class B		(113)	(87)
Income Available to Class A Ordinary Shares		**1,794**	**3,044**
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid	15	28,625	28,497
Basic Earnings per Class A Ordinary Share	15	0.06	0.11
Diluted Earnings per Class A Ordinary Share	15	0.06	0.11
Dividends Declared per Class A Ordinary Share		0.165	0.165

See accompanying Notes to Interim Financial Statements

Statements of Comprehensive Income
(expressed in thousands of United States Dollars)

Comprehensive Income (Loss):	Note	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net Income for the Period		**1,907**	**3,131**
Amounts arising during the period			
Defined Benefit Pension plans:			
Reclassifications to net income:			
Amortization of prior service costs		62	62
Amortization of net actuarial loss	19	156	10
Total Other Comprehensive Income		**218**	**72**
Comprehensive Income		**2,125**	**3,203**

See accompanying Notes to Interim Financial Statements

Statements of Shareholders' Equity
(expressed in thousands of United States Dollars except Common Shares)

Unaudited	Class A Ordinary Shares	Common Shares Value ($)	Preference Shares ($)	Share premium ($)	Additional paid-in capital ($)	Accumulated Other Comprehensive Loss ($)	Retained Earnings ($)	Total Equity ($)
As At January 1, 2012	**28,625**	**1,704**	**250**	**76,806**	**415**	**(2,747)**	**96,827**	**173,255**
Net Earnings							1,907	1,907
Common Share Issuance & stock options plans	48	3		491	12			506
Defined benefit plans						218		218
Dividends on common shares							(4,721)	(4,721)
Dividends on preference shares							(113)	(113)
As At March 31, 2012	**28,673**	**1,707**	**250**	**77,297**	**427**	**(2,529)**	**93,900**	**171,052**
As At January 1, 2011	**28,465**	**1,694**	**250**	**75,281**	**372**	**(1,551)**	**96,170**	**172,216**
Net Earnings							3,131	3,131
Common Share Issuance & stock options plans	42	3		406	12			421
Defined benefit plans						72		72
Dividends on common shares							(4,697)	(4,697)
Dividends on preference shares							(87)	(87)
As At March 31, 2011	**28,507**	**1,697**	**250**	**75,687**	**384**	**(1,479)**	**94,517**	**171,056**

See accompanying Notes to Interim Financial Statements

Statements of Cash Flows

(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Operating Activities		
Earnings for the period	1,907	3,131
Items not affecting cash:		
Depreciation	5,678	5,221
Amortisation of Intangible Assets	99	72
Non-cash Pension Expenses	242	-
Amortisation of Deferred Financing Costs	51	43
Stock-based compensation	12	12
	7,989	**8,479**
Net change in non-cash working capital balances related to operations	2,263	6,703
Net Change in Regulatory Deferrals	(39)	(4,547)
Cash flow related to operating activities	**10,213**	**10,635**
Investing Activities		
Purchase of property, plant and equipment	(6,902)	(8,588)
Costs related to intangible assets	(80)	(99)
Insurance funds received	1,052	1,930
Proceeds on sale of property, plant and equipment	-	3
Cash flow related to investing activities	**(5,930)**	**(6,754)**
Financing Activities		
Increase in bank overdraft	1,714	-
Dividends paid	(5,316)	(5,290)
Net proceeds from share issues	494	409
Cash flow related to financing activities	**(3,109)**	**(4,881)**
Increase/(Decrease) in net cash	**1,174**	**(1,000)**
Cash and cash equivalent - Beginning of period	424	2,363
Cash and cash equivalent - End of period	**1,598**	**1,363**
Supplemental disclosure of cash flow information:		
Interest paid during the period	70	84

See accompanying Notes to Interim Financial Statements

Notes to Interim Financial Statements
(expressed in thousands of United States dollars unless otherwise stated)

1. Nature of Operations and Financial Statement Presentation

These financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP") 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 probable to recover or settle subsequently through the rate-setting process.

The principal activity of the Company is to generate and distribute electricity in its licence area of Grand Cayman, Cayman Islands, pursuant to a 20-year exclusive Transmission & Distribution ("T&D") Licence and a 21.5 year non–exclusive Generation Licence (collectively the "Licences") with the Cayman Islands Government ("Government"), which expire in April 2028 and September 2029 respectively. 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 (i) audited financial statements and notes thereto for the year ended December 31, 2011, with 2010 comparatives, prepared in accordance with US GAAP and voluntarily filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") on March 19, 2012; (ii) "Supplemental Interim Financial Statements for the Year Ended December 31, 2011 (Unaudited)" contained in the above noted voluntary filing which provides a detailed reconciliation between the Company's interim unaudited 2011 Canadian GAAP and interim unaudited 2011 US GAAP financial statements; and (iii) the MD&A for the year ended December 31, 2011 included in the Company's 2011 Annual Report.

Rate Regulated Operations

CUC's base rates are designed to recover and earn a return on all non-fuel and regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel cost charges and licence 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 March 2012 the Company requested that the ERA verify its calculations that the RCAM yielded a rate adjustment for June 2012 of 0.7% as a result of the 2011 RORB and the slight increase in the applicable United States and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2011. All fuel and lubricating oil costs are passed through to customers without mark up as a per kWh charge.

For regulatory purposes fixed assets comprise the completed Property, Plant and Equipment ("PP&E") and intangible assets acquired or constructed by the Company as reported in the Company's financial statements (see Note 2) The original book value of these fixed assets include an Allowance for Funds Used During Construction ("AFUDC") (Note 8) and an allowance for General Expenses Capitalised ("GEC") (Note 8). 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 US GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Changes in Accounting Policies

The following new US GAAP accounting pronouncements that are applicable to, and were adopted by, CUC effective beginning January 1, 2012 are described as follows:

Presentation of Comprehensive Income
The Company retroactively adopted the amendments to Accounting Standards Codification ("ASC") Topic 220, *Comprehensive Income.* The amended standard requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. CUC continues to report the components of comprehensive income in a separate but consecutive statement.

Fair Value Measurement
The Company retroactively adopted the amendments to ASC Topic 820, *Fair Value Measurements and Disclosures.* The amended standard improves comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP and IFRS. The amendment does not change what items are measured at fair value but instead makes various changes to the guidance pertaining to how fair value is measured.

The above-noted changes did not materially impact the Company's financial statements for the three months ended March 31, 2012.

4. Accounts Receivable

	As at March 31, 2012	As at December 31, 2011
Billings to consumers	9,250	9,275
Unbilled revenues	4,495	4,602
Other receivables	2,114	2,189
Allowance for doubtful accounts	(160)	(156)
Total Accounts Receivable	15,699	15,910

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. Consumers are billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue.

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.

5. Other Receivable - Insurance

Other Receivable - Insurance	March 31, 2012	December 31, 2011
Unit 1 claim	-	250
Other Insurance claims	-	188
Total	**-**	**438**

On January 28, 2011, equipment associated with a MaK 9 megawatt ("MW") diesel generating unit (Unit 1) was damaged due to an explosion during a start process. The costs of the repairs are covered by the Company's insurance policy subject to a deductible of $0.5 million.

6. Regulatory Assets and Liabilities

Asset/Liability	Description	As at March 31, 2012	As at December 31, 2011
Regulatory Assets	Fuel Tracker Account (a)	24,535	24,369
Regulatory Assets	Derivative contract (b)	-	468
Regulatory Assets	Miscellaneous Regulatory Assets (c)	426	440
Regulatory Assets	Government & Regulatory Tracker Account (d)	821	482
Total Regulatory Assets		**25,782**	**25,759**
Regulatory Liabilities	Miscellaneous Regulatory Liabilities (e)	(265)	(281)
Total Regulatory Liabilities		**(265)**	**(281)**

a) Fuel Tracker Account – The 2008 T&D Licence established a fuel tracker mechanism to ensure the Company and the consumers neither gain nor lose from the pass through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel 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.

b) Derivative contract - The Company's purpose of hedging is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers in the face of price volatility for the fuel that the Company must purchase in order to provide electric service. This account represents the fair value adjustments for the call options. The Company's call option contracts all expired on March 31, 2012.

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

d) Government and Regulatory Tracker Account - A licence fee of 1% of gross revenues applies to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per kWh basis. Additionally, 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 government and regulatory 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.

e) Miscellaneous regulatory liabilities represent costs owed by the Company, other than licence and regulatory fees, to be recovered through the Company's base rates on terms as agreed with the ERA.

7. Inventories

The composition of inventories is shown in the table below:

Inventories	As at March 31, 2012	As at December 31, 2011
Fuel	3,680	3,055
Line spares	339	104
Other	402	648
Total	**4,421**	**3,807**

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

Property, Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value March 31, 2012
Transmission & Distribution (T&D)	261,733	81,625	180,108
Generation	273,030	104,600	168,430
Other:			
Land	5,304	-	5,304
Buildings	19,894	8,978	10,916
Equipment, motor vehicles and computers	19,048	13,509	5,539
Total Other	**44,246**	**22,487**	**21,759**
Property, plant and equipment	**579,009**	**208,712**	**370,297**

Property, Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value December 31, 2011
Transmission & Distribution (T&D)	256,752	79,346	177,406
Generation	271,069	100,854	170,215
Other:			
Land	5,304	-	5,304
Buildings	19,913	8,812	11,101
Equipment, motor vehicles and computers	19,136	13,330	5,806
Total Other	**44,353**	**22,142**	**22,211**
Property, plant and equipment	**572,174**	**202,342**	**369,832**

Included in PP&E are a number of capital projects in progress with a total cost to date of $18.9 million (December 31, 2011: $20.4 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 $5.0 million (December 31, 2011: $5.0 million). In addition, line inventory with a cost of $5.0 million (December 31, 2011: $5.6 million) is included in T&D. Engine spares with a net book value of $16.2 million (December 31, 2011: $16.3 million) are included in Generation.

The capitalisation of 'Financing Costs' 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 fiscal 2012 is 8.25% (2011: 8.75%) and will be adjusted annually. As a result, during the period ended March 31, 2012, the Company recognised $0.7 million in AFUDC. The Company recognised an amount of $0.8 million for the period ended March 31, 2011 under the provision for AFUDC.

In accordance with the Licences when an asset is impaired or disposed of, before the original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with rate regulated accounting and differs from the GAAP treatment of a loss being recognized on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. This amount within accumulated depreciation is to be depreciated as per the remaining life of the asset when the unit is placed into service.

9. Other Assets

Other Assets	March 31, 2012	December 31, 2011
Deferred debt issue costs	1,502	1,552
Other assets	143	162
Total	**1,645**	**1,714**

Deferred debt issue costs relate to transaction costs incurred in respect of financial liabilities. These costs are deferred on the balance sheet and are being amortized over the life of the related note using the effective-interest rate method.

10. Intangible Assets

Intangible Assets	Cost	Accumulated Depreciation	Net Book Value March 31, 2012
Deferred licence renewal costs	1,890	368	1,522
Computer Software	4,397	3,430	967
Other Intangible Assets in progress	293	-	293
Trademark Costs	75	-	75
Total	**6,655**	**3,798**	**2,857**

Intangible Assets	Cost	Accumulated Depreciation	Net Book Value December 31, 2011
Deferred licence renewal costs	1,890	344	1,546
Computer Software	4,263	3,354	909
Other Intangible Assets in progress	289	-	289
Trademark Costs	75	-	75
Total	**6,517**	**3,698**	**2,819**

Deferred licence renewal costs relate to 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.

11. Accounts Payable and Accrued Expenses

	As at March 31, 2012	As at December 31, 2011
Fuel Cost Payable	23,143	23,382
Trade Accounts Payable & Accrued expenses	3,476	5,983
Accrued Interest	4,028	951
Dividends Payable	111	593
Other Accounts Payable	572	667
Total Accounts Payable	**31,330**	**31,576**

Included in Other Accounts Payable is an amount related to fuel option contracts *(*see Note 15*)* nil at March 31, 2012 ($0.5 million at December 31, 2011).

12. Insurance Advances

Insurance Advances	March 31, 2012	December 31, 2011
Other Insurance claims	1,031	-

Insurance advances are amounts related to ongoing insurance claims associated with the generating unit failures (See Note 5).

13. Short-Term Financing

The Royal Bank of Canada ("RBC") credit facility agreement provides for $33.0 million and the total available was $23.2 million at March 31, 2012 ($24.9 million at December 31, 2011).

Credit Facilities	Total Credit Financing Facilities March 31, 2012	Total Utilised March 31, 2012	Total Available March 31, 2012
Corporate Credit Card Line*	400	400	-
Letters of Credit	595	595	-
Operating, Revolving Line of Credit	7,500	2,773	4,727
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	17,000	6,000	11,000
Total	**32,995**	**9,768**	**23,227**

*. Included in Accounts payable and accrued expenses
1. A stand-by fee of 1/5 of 1% per annum in arrears will apply on the unused portion of the facility
2. An annual review fee of 1/8 of 1% per annum in arrears of the total credit facilities will apply

14. 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 1,220,100. Options are forfeited if they are not exercised prior to their respective expiry date or upon termination of employment prior to the completion of the vesting period.

Share Options	31-Mar-12	31-Mar-12		
	Number of options	Weighted average exercise price per share	Weighted Average Remaining Contractual Term *(Years)*	Aggregate Intrinsic Value *($ millions)*
Outstanding at beginning of period	462,600	11.74	-	-
Granted	187,000	9.66	-	-
Exercised	(5,800)	8.76	-	-
Forfeited/Cancelled	(22,500)	11.07	-	-
Outstanding, end of the period	621,300	11.16	6.20	1.00
Vested, end of the period	394,600	11.93	6.20	1.77

On March 9, 2012; 187,000 options were granted under the Executive Stock Option Plan at an exercise price of $9.66. The options vest on the basis of one quarter of the grant on each of the first through fourth anniversaries of the dates of the grant and bear a term of 10 years from the date of grant, thereby expiring on March 9, 2022. The fair value of each option granted was calculated to be $0.02 per option. The fair value was estimated on the date of the grant using the Black-Scholes fair value option pricing model and the following assumptions:

Dividend Yield (%):	7.00
Expected Volatility (%):	5.50
Risk-free interest rate (%):	2.00
Expected life (years):	7.00

Under the fair value method, the compensation expense was $0.01 million for the three month period ended March 31, 2012 (March 31, 2011: $0.01 million), resulting in a corresponding increase of Additional Paid in Capital.

15. 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 28,624,677 and 28,496,530 for the three month period ended March 31, 2012 and March 31, 2011 respectively. The weighted average of Class A Ordinary Shares used for determining diluted earnings were 28,638,678 and 28,496,530 for the three month period ended March 31,

2012 and March 31, 2011 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

	Earnings (in thousands) March 31, 2012	Weighted average shares (in thousands) March 31, 2012	Earnings per Common Shares March 31, 2012
Net earnings applicable to common shares	1,794		
Weighted Average share outstanding		28,625	
Basic Earnings Per Common Share			0.06
Effect of potential dilutive securities:			
Stock Options	-	14	-
Diluted Earnings per Common Share	1,794	28,639	0.06

	Earnings (in thousands) March 31, 2011	Weighted average shares (in thousands) March 31, 2011	Earnings per Common Shares March 31, 2011
Net earnings applicable to common shares	3,044		
Weighted Average share outstanding		28,497	
Basic Earnings Per Common Share			0.11
Effect of potential dilutive securities:			
Stock Options	-	-	-
Diluted Earnings per Common Share	3,044	28,497	0.11

16. Fair Value Measurement

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

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

Level 1: Fair value determined using unadjusted quoted prices in active markets.

Level 2: Fair value determined using pricing inputs that are observable.

Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

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

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

	As at March 31, 2012		As at December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long term debt, including current portion	204,000	226,395	204,000	233,231
Fuel Option Contracts[1]	-	-	468	468

1 Carrying value of fuel option contracts included in Accounts Payable and Accrued expenses

The fair value of long-term debt is determined by discounting the future cash flows of each debt instrument at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

The Company measures the fair value of commodity contracts on a daily basis using the closing values observed on commodities exchanges and in over-the-counter markets, or through the use of industry-standard valuation techniques, such as option modelling or discounted cash flow methods, incorporating observable valuation inputs. The resulting measurements are the best estimate of fair value as represented by the transfer of the asset or liability through an orderly transaction in the marketplace at the measurement date.

The fair value of the fuel option contract reflects only the value of the heating oil derivative and not the offsetting change in the value of the underlying future purchases of heating oil. The derivatives' fair value shown in the below table reflects the estimated amount the Company would pay to terminate the contract at the stated date. The fair value has been determined using published market prices for heating oil commodities. The Company's option contracts all expired on March 31, 2012.

The derivatives entered into by the Company relate to regulated operations and any resulting gains or losses and changes to fair value are recorded in the regulatory asset/regulatory liability accounts, subject to regulatory approval and passed through to customers in future rates.

The following table summarizes the fair value measurements of the Company's long-term debt and fuel derivative contracts based on the three levels that distinguish the level of pricing observability utilized in measuring fair value.

Financial Liability	March 31, 2012 Total Fair Value	Level 1 - Quoted Prices in active markets for identical assets	Level 2 - Significant Other inputs	Level 3 - Significant unobservable inputs
Long term debt, including current portion	226,395	-	226,395	
Option Contracts[1]	-	-	-	-

1 Carrying value of fuel option contracts included in Accounts Payable and Accrued expenses

17. Financial Risk Management

The Company is primarily exposed to credit risk, liquidity risk and interest rate risk as a result of holding financial instruments in the normal course of business.

Credit Risk

The Company is exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments which include fuel option contracts. If a counterparty fails to perform on its contractual obligation to deliver payment when the market price of fuel is greater than the strike price, the Company may find it necessary to purchase diesel at the market price, which will be higher than the contract price. The Company manages this credit risk associated with counterparties by conducting business with high credit-quality institutions. The Company does not expect any counterparties to fail to meet their obligations.

There is risk that CUC may not be able to collect all of its accounts receivable and other assets. 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.

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	2012	2013-2014	2015-2016	2017 Onward
Bank Overdraft	**2.8**	2.8			
Accounts payable and accrued expenses	**31.3**	31.3	-	-	-
Consumer's Deposits and Advances for Construction	**4.4**	4.4	-	-	-
Short term debt	**6.0**	6.0	-	-	-
Letter of credit	**0.6**	0.6	-	-	-
Total debt	**204.0**	15.5	36.5	28.0	124.0
Long term debt interest	**85.8**	11.9	20.5	16.8	36.6
Total	**334.9**	**72.5**	**57.0**	**44.8**	**160.6**

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 is $6.0 million.

18. Finance Charges

The composition of finance charges were as follows:

($ thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Interest costs - long-term debt	3,077	2,798
Other interest costs	113	129
AFUDC *	(745)	(772)
Total	2,445	2,155

*Refer to PP&E with regards to AFUDC (Note 8) methodology.

19. Defined Benefit Pension Plan

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. Compensation expense of $0.24 million was recognised for the three months ended March 31, 2012 ($0.10 million March 31, 2011).

The composition of the expense was as follows:

($ thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Interest cost	80	80
Expected return on plan assets	(56)	(55)
Amortisation of past service costs	62	62
Amortisation of actuarial losses	156	10
Total	**242**	**97**

20. Foreign Exchange

The closing rate of exchange on March 31, 2012 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn $0.998 per US$1.00. The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by the Cayman Islands Monetary Authority is fixed at CI$1.00 per US$1.20. Thus, the rate of exchange as of March 31, 2012 for conversion of Cayman Islands dollars into Canadian dollars was Cdn $1.198 per CI$1.00 (December 31 2011: Cdn 1.220).

21. Taxation

Under current laws of the Cayman Islands, there are no income, estate, corporate, capital gains or other taxes payable by the Company.

The Company is levied custom duties of $0.85 per IG of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports.

22. Commitments

In June 2007, the Company renewed its Primary Fuel Supply Contract with Esso Cayman Limited ("Esso"). As a condition of the new contract, the point of delivery for fuel billing purposes has moved from the Company's plant compound to the Esso terminal. CUC also assumed responsibility for the management of the fuel pipeline (fuel suppliers will continue to pay the regular throughput fee) and ownership of bulk fuel inventory at the North Sound Plant. The Company is committed to purchase 80% of the Company's fuel requirements for the running of the Power Plant from Esso, the contract was for three years terminating in April 2010. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2012 – 10.1. The contract contains an automatic renewal clause for the years 2010 through to 2012. The Company has renewed the contract until May 2012 and is in the process of negotiating terms of a new contract.

As a result of the Company's bulk fuel inventory, the value of CUC's closing stock of fuel at March 31, 2012 was $3.7 million (December 31, 2011: $3.1 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Road Power Plant.

23. Subsequent Events

In April 2012 the ERA provided approval of $122 million of proposed non-generation installation expenditures in the 2012-2016 Capital Investment Plan ("CIP"). The remaining $62 million of the CIP relates to new generation installation which would be subject to a competitive solicitation process with the next generating unit scheduled for installation in 2014.

24. 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 Assistant to the Company Secretary if you would like to receive information about the plan or obtain an enrolment form.

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

Shareholder Information

Duplicate Annual Reports

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

Our Registrar and Transfer Agents are as follows:

CIBC Mellon Trust Company
P.O. Box 4202
Postal Station A
Toronto, Ontario M5W 0E4, Canada
Tel: (416) 682-3825-5500
Fax: (888) 249-6189
E-mail: *inquiries@canstockta.com*

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

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

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

INVESTORS IN PEOPLE

CUC
You've got the power

Certified System
North Sound Road Site
ISO 14001
QMI-SAI Global

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