



Caribbean Utilities Company, Ltd.

2009 First Quarter Report

March 31, 2009



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 136.6 megaWatts (MW), and a new record peak load of 93.8 MW was experienced in September 2008. CUC is committed to providing a safe and reliable supply of electricity to over 24,500 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman’s rapid development for over 40 years.

About the Cayman Islands

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 54,000, are comprised of three islands: Grand Cayman, Cayman Brac and Little Cayman. Located approximately 150 miles south of Cuba, 460 miles south of Miami and 167 miles northwest of Jamaica, the largest island is Grand Cayman with an area of 76 square miles.

A Governor, presently His Excellency Mr. Stuart Jack, 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’s Discussion and Analysis section, concerning the use of forward-looking statements, which applies to the entirety of this Quarterly Report.

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To Our Shareholders

Dear Shareholder,

This interim report to shareholders marks the first reporting period aligned with the calendar year following our announcement in August 2008 that we would change our year end to December 31. The first quarter of fiscal 2009 ("First Quarter 2009") results are compared to the three months ended April 30, 2008, the closest previously reported period in the prior year.

Electricity sales revenues for the First Quarter 2009 were \$15.1 million down 6% compared to the three months ended April 30, 2008 at \$16.1 million. Sales were negatively affected by unusually cool weather throughout the First Quarter 2009 with total kiloWatt-hour ("kWh") sales at 120.1 million kWh, down 7% from the three months ended April 30, 2008 at 128.7 million kWh. Historically, the months January through March are three of the coolest months of the year, accordingly the results of the first quarter represent the lowest annual electricity consumption. A peak load of 84.8 megaWatts ("MW") was recorded compared to 85.1 MW for the three months ended April 30, 2008.

While weather significantly influenced sales during the First Quarter 2009, the Company experienced continued growth in new accounts. There were 328 residential customers connected during the period while the number of commercial customers remained stable. At March 31, 2009, there were 21,175 residential customers, an increase of 4% compared to March 31, 2008, and 3,671 commercial customers, an increase of 1% compared to March 31, 2008.

We are encouraged by this evidence of growth and stability in view of other indicators that the worldwide economic circumstances are being felt in Grand Cayman. Cruise arrivals were down 20% and air arrivals down 11% compared to the first two months of 2008.

Net earnings for the First Quarter 2009 were \$2.4 million, reflecting a decrease of 45% compared to \$4.4 million for the three months ended April 30, 2008. After adjusting for dividends on Class B Preference Shares, earnings on Class A Ordinary Shares for the First Quarter 2009 were \$2.3 million or \$0.08 per Class A Ordinary Share compared to \$4.3 million or \$0.17 per Class A Ordinary Share for the three months ended April 30, 2008. Earnings results for the three months ended April 30, 2008 were impacted by a favourable fuel cost recovery of \$2.5 million during that period. The introduction of a fuel tracker mechanism in the Company's 2008 Transmission and Distribution ("T&D") Licence has eliminated such timing differences in the financial reporting quarters since April 2008.

A Class A Ordinary Share dividend of \$0.165 per share was paid on March 15, 2009 as planned. Due to the seasonal nature of the Company's sales, the period January through March represents the lowest forecasted earnings period for the year.

Fuel prices have declined significantly driving the corresponding customer fuel cost factor down to \$0.13 per kWh since the peak of \$0.32 per kWh in September, 2008. Customers have received the total benefit of the price declines as fuel costs are a full pass through. The fuel cost is further offset by the Cayman Islands Government ("the Government") fuel duty rebate of \$0.24 per imperial gallon which is applied to residential consumption below 1,500 kWh per month.

Under the Rate Cap and Adjustment Mechanism ("RCAM") in the T&D Licence, CUC is entitled to an increase equivalent to 80% of movement in the 2008 Price Level Index, which is comprised of 60% of the Cayman Islands Consumer Price Index ("CPI") and 40% of the United States ("U.S.") CPI, both adjusted to remove the effect of food and fuel. In April 2009, the Company submitted its calculations to the Electricity Regulatory Authority ("ERA") indicating an increase in consumer rates of 2.4% which, upon verification by the ERA would be effective June 1, 2009.

In addition to the 2.4% average rate increase arising from the movement in the Price Level Index, the Company anticipates that some relative adjustment between customer rate classes may take place as a result of recommendations arising from a Cost of Service Study that was also submitted to the ERA in April 2009 for consideration.

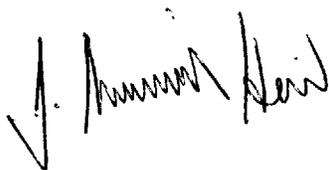
The Company continued to invest through the First Quarter 2009 with capital expenditures totalling \$9.2 million. During the period progress was made on the 16 MW MAN Diesel generator expansion scheduled for completion in September 2009 as well as the 69 kV Rum Point to Frank Sound transmission loop which will bring improved reliability to the eastern districts of Grand Cayman ("the Island"). The ERA agreed during the period to a one year delay in the additional 32 MW generation expansion of which 16 MW is now scheduled to be online on each of May 1, 2012 and 2013. In view of the ongoing economic uncertainty, the Company continues to critically examine all capital expenditures, deferring projects where feasible. At the same time CUC recognizes that continued capital investment is required to maintain the high degree of reliability required to serve the Island's well-developed financial services industry and high quality tourism facilities.

The Consumer Owned Renewable Energy ("CORE") programme was launched in January 2009 and in late March the first customer agreement was signed. CORE offers the opportunity for customers to reduce generation impact on the environment through renewable energy generation, with the added benefit of firm supply from CUC's T&D grid backed up with diesel generation.

The Company is in the final stages of advancing its wind generation initiative to a request for proposal stage. The initiative seeks installations to a cumulative total of 10 MW from qualified developers. Although current low fuel prices adversely impact the economics of the project, the Company believes that the current softening in demand for renewable generation equipment coupled with the environmental opportunity warrant pursuing this renewable option. It is hoped that equipment advances and other factors have improved in favour of the viability of wind generation in contrast to findings of a study completed in 2003 which concluded that it was not viable at that time. Investments in renewable options reflect the Company's long term vision and commitment to the Island which must include reducing dependence on fossil fuels to the extent feasible.

The Company achieved an important goal during the period with its recertification under the Investors in People (IIP) programme. This programme measures human resource initiatives and management against international standards. This achievement demonstrates the Company's commitment and dedication to its most valuable resource, the people.

Although world economic circumstances will undoubtedly present challenges for the Company as 2009 unfolds, CUC remains optimistic that the Company is operating from a position of financial and technical strength with a tested and reliable infrastructure and will exercise the good judgement and flexibility required to meet these challenges.



J.F. Richard Hew
President & Chief Executive Officer

April 28, 2009

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or "the Company") unaudited financial statements for the three months ended March 31, 2009 and audited financial statements for the eight months ended December 31, 2008. Effective January 1, 2009 the Company changed its fiscal year end date from April 30 to December 31. The unaudited financial statements for the three months ended March 31, 2009 are compared to the unaudited results for the three months ended April 30, 2008. The material has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to Management's Discussion and Analysis.

Additional information in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, and their impact, which are disclosed in the notes to the Company's 2008 Transitional Period financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation the amount and timing of the recovery or refund would not be subject to regulatory approval.

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

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

The principal activity of the Company is to generate, transmit and distribute electricity in its licence area of Grand Cayman, Cayman Islands pursuant to a 20-year exclusive Transmission & Distribution ("T&D") Licence and a 21.5 year non-exclusive Generation Licence ("the Licences") granted by the Cayman Islands Government ("the Government"), which expire in April 2028 and September 2029 respectively.

Financial and Operational Highlights

| <i>(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)</i> | Three Months Ended March 31, 2009 | Three Months Ended April 30, 2008 | Change | % Change |
|--|-----------------------------------|-----------------------------------|---------|----------|
| Electricity Sales | 15,142 | 16,110 | (968) | -6% |
| Fuel Factor Revenues | 19,948 | 28,109 | (8,161) | -29% |
| Operating Revenues | 35,090 | 44,219 | (9,129) | -21% |
| Total Operating Expenses | 31,695 | 37,918 | (6,223) | -16% |
| Earnings for the Period | 2,435 | 4,413 | (1,978) | -45% |
| Basic Earnings per Class A Ordinary Share | 0.083 | 0.169 | (0.086) | -51% |
| Dividends paid per Class A Ordinary Share | 0.165 | 0.165 | - | 0% |
| Peak Load Gross (MW) | 84.8 | 85.1 | (0.3) | 0% |
| Net Generation (millions of kWh) | 129 | 139 | (10) | -7% |
| Kilowatt-Hour Sales (millions of kWh) | 120 | 129 | (9) | -7% |
| Total Customers | 24,846 | 24,041 | 805 | 3% |

Corporate and Regulatory Overview

CUC, a vertically integrated utility, operates the only electric utility on Grand Cayman, Cayman Islands, pursuant to a 20-year exclusive T&D Licence and a 21.5 year non-exclusive Generation Licence granted by the Government, which expire in April 2028 and September 2029 respectively. The Licences contain the provision for a rate cap and adjustment mechanism ("RCAM") based on published consumer price indices. CUC's rate-of-return-on-rate base ("RORB") is targeted in the 9% to 11% range.

CUC's base rates are designed to recover all non-fuel and regulatory costs and include per kWh electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. The last base rate change occurred in January 2008 whereby CUC and the Government reached an Agreement In Principle ("AIP") which, among other things, called for a 3.25% rate reduction, and a rate freeze through May 31, 2009. Base rates are subject to an annual review and adjustment each June through the RCAM. 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 Electricity Regulatory Authority ("ERA") has the overall responsibility of regulating the electricity industry in the Cayman Islands in accordance with the ERA Law as amended in January 2008. 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"). The Company has submitted a CIP for the 2009 to 2013 period totalling \$246 million, including approximately \$72 million related to new generation that is expected to be solicited externally. In March 2009 the ERA approved CUC's 2009 CIP totalling \$47.7 million. The proposed CIP for 2010 to 2013 is still under review.

The ERA has issued a Request For Proposal ("RFP") to solicit proposals for the development and operation of 16 megaWatts ("MW") of power generation on Grand Cayman, to begin providing regular service no later than May 1, 2011 and another 16 MW no later than May 1, 2012 each for up to a period not exceeding 25 years. Four qualified bidders have been identified by the ERA, including CUC. In March 2009 based upon the Company's lower growth forecast, the ERA agreed to delay the on-line dates by one year to May 2012 and May 2013. The deadline for proposal submissions is now April 2009.

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 kiloWatt-hours ("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.

Results of Operations

The Company changed its year end from April 30 to December 31. Beginning January 1, 2009 each 12 month period will conclude on December 31. This change led to what is referred to as the 2008 Transitional Period spanning May 1, 2008 to December 31, 2008. The following analysis of the results of operations for the three months ended March 31, 2009 includes comparisons to the three month period ended April 30, 2008. The previously reported three month period ended April 30, 2008 is the period closest to that of the three months ended March 31, 2009.

Earnings

Net earnings for the three months ended March 31, 2009 were \$2.4 million, representing a 45% or \$2.0 million decrease from net earnings of \$4.4 million for the three months ended April 30, 2008. Contributing to this decrease is negative sales growth in 2009 and the favourable fuel cost recovery of \$2.5 million for the three months ended April 30, 2008. The introduction of a fuel tracker mechanism in the Company's 2008 T&D Licence has eliminated favourable or adverse timing differences in fuel cost recovery for the financial reporting quarters subsequent to April 2008. The above factors were partially offset by lower maintenance and finance costs in 2009.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the three months ended March 31, 2009 were \$2.3 million, or \$0.08 per Class A Ordinary Share, as compared to \$4.3 million, or \$0.169 per Class A Ordinary Share for the three months ended April 30, 2008.

Sales

KiloWatt-hour sales for the three months ended March 31, 2009 totalled 120.1 million in comparison to 128.8 million for the three months ended April 30, 2008; a decrease of 7%. Sales were negatively impacted by conservation by users and lower than average temperatures throughout the first quarter of 2009. Also affecting the sales variance is the comparison of two differing periods; the average temperatures for the period February through April are historically higher than those for January through March, as such, a portion of the difference is attributable to seasonality.

Total customers as at March 31, 2009 were 24,846, an increase of 3% compared to 24,041 customers as at April 30, 2008. The Company connected 328 customers for the three month period ended March 31, 2009. All new customers were in the residential category and the commercial category remains stable.

Lower growth is expected for 2009. A weakened global economy which has negatively affected the tourism market, and increased conservation on the part of consumers have played a role in the lower sales for the first quarter of 2009. The Cayman Islands economy, in particular the tourism sector, is influenced by the U.S. economy as the majority of visitors originate from North America. It was anticipated that the effects of the downturn in the U.S. economy would affect the Cayman Islands tourism sector to a larger degree in 2009 than was seen in 2008 (see "The Economy" section for further details).

Operating Revenues

Operating revenues experienced a 21% decrease to \$35.1 million for the three months ended March 31, 2009 from \$44.2 million for the three months ended April 30, 2008.

Electricity sales revenue saw a decrease of \$1.0 million in the three months ended March 31, 2009 to \$15.1 million when compared to electricity sales revenues of \$16.1 million for the three months ended April 30, 2008. Electricity sales revenues were lower due to a decline in sales. Several factors led to conservation by consumers including concerns regarding the global economy as well as lower than average temperatures. The average temperature for the three months ended March 31, 2009 was 2.6° Fahrenheit lower than the average temperature experienced for the three months ended April 30, 2008 which significantly impacted air conditioning load.

Fuel factor revenues for the three months ended March 31, 2009 totalled \$19.9 million, an \$8.2 million decrease from the \$28.1 million in fuel factor revenues for the three months ended April 30, 2008. Fuel factor revenues decreased due to lower consumption and a significant decrease in the cost of fuel (see the "Power Generation" section for further details).

Operating Expenses

Total operating expenses for the three months ended March 31, 2009 decreased 16% to \$31.7 million from \$37.9 million for the three months ended April 30, 2008. The major contributing factor to the decrease in operating expenses is lower power generation expenses which are comprised predominantly of fuel costs.

Operating expenses were as follows:

| <i>(\$ thousands)</i> | Three Months Ended March 31, 2009 | Three Months Ended April 30, 2008 | Change | % Change |
|---------------------------------|---|---|---------------------|----------|
| Power generation expenses | 21,049 | 26,446 | (5,397) | -20% |
| General and administration | 2,719 | 2,839 | (120) | -4% |
| Consumer Service and promotion | 399 | 571 | (172) | -30% |
| Transmission and distribution | 753 | 959 | (206) | -21% |
| Depreciation | 4,852 | 4,492 | 360 | 8% |
| Amortisation | 50 | 38 | 12 | 32% |
| Maintenance | <u>1,873</u> | <u>2,573</u> | <u>(700)</u> | -27% |
| Total operating expenses | 31,695 | 37,918 | (6,223) | -16% |

Power Generation

Power generation costs decreased 20% when compared to the three months ended April 30, 2008. The decrease is a reflection of declining fuel prices being experienced globally and lower production levels. The peak load for the three months ended March 31, 2009 was 84.8 MW and was achieved in March 2009, as compared to the peak load of 85.1 MW for the three months ended April 30, 2008, which was achieved in April 2008.

Power generation expenses were as follows:

| <i>(\$ thousands)</i> | Three Months Ended March 31, 2009 | Three Months Ended April 30, 2008 | Change | % Change |
|--|---|---|-----------------|----------|
| Fuel costs | 16,917 | 31,210 | (14,293) | -46% |
| Lube costs | 799 | 429 | 355 | 80% |
| Deferred fuel charges | 2,512 | (6,039) | 8,551 | -142% |
| Deferred lube charges | (80) | - | (80) | -100% |
| Other generation expenses | 901 | <u>846</u> | 70 | 8% |
| Total power generation expenses | 21,049 | 26,446 | (5,397) | -20% |

The Company's average price per imperial gallon ("IG") of fuel for the three months ended March 31, 2009 decreased to \$2.46, compared to \$4.01 for the three months ended April 30, 2008.

Fuel costs are recovered completely from consumers within the line items of fuel factor revenues and electricity sales. Dusk to dawn light rates include a fuel cost adjustment mechanism and revenues from this rate class are included in electricity sales. The fuel portion of these sales for the three months ended March 31, 2009 totalled \$0.3 million.

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

General and Administration ("G&A")

G&A expenses for the three months ended March 31, 2009 totalled \$2.7 million a decrease of \$0.1 million from \$2.8 million for the three months ended April 30, 2008. Contributing to this decrease was the capitalisation of general expenses, which became effective in May 2008. General expenses capitalised ("GEC") for the three months ended March 31, 2009 totalled \$0.2 million. Partially offsetting GEC were insurance costs which increased by \$0.1 million when compared to the three months ended April 30, 2008 (see Note 1 to the Interim Financial Statements for further details regarding GEC).

Consumer Services and Promotion ("C&P")

C&P expenses for the three months ended March 31, 2009 totalled \$0.4 million a decrease of \$0.2 million from \$0.6 million for the three months ended April 30, 2008. This decrease was primarily attributable to an additional provision for doubtful debt expenses of \$0.2 million following an assessment of aged receivables conducted during the three months ended April 30, 2008.

Transmission and Distribution ("T&D")

T&D expenses for the three months ended March 31, 2009 totalled \$0.8 million a decrease of \$0.2 million from \$1.0 million for the three months ended April 30, 2008. This decrease was partly attributable to decreased training costs.

Depreciation and Amortisation ("D&A")

D&A expenses for the three months ended March 31, 2009 totalled \$4.9 million an increase of \$0.4 million from \$4.5 million for the three months ended April 30, 2008. Growth-related capital expenditures are responsible for the trend in increasing costs. Based upon current capital expenditure projections, continued increases in D&A are expected.

Maintenance

Maintenance expenses for the three months ended March 31, 2009 totalled \$1.9 million a decrease of \$0.7 million from \$2.6 million for the three months ended April 30, 2008. Maintenance schedules are driven by the age of generating units as well as the levels of production. The decreased production levels seen in the three months ended March 31, 2009 have led to various maintenance plans being rescheduled.

Finance Charges

Finance charges for the three months ended March 31, 2009 totalled \$1.6 million a decrease of \$1.0 million from \$2.6 million for the three months ended April 30, 2008.

| <i>(\$ thousands)</i> | Three Months Ended March 31, 2009 | Three Months Ended April 30, 2008 | Change | % Change |
|---------------------------------|---|---|--------------|-------------|
| Total interest costs | (2,665) | (2,792) | 127 | -5% |
| Capitalized interest | - | 210 | (210) | -100% |
| AFUDC | <u>1,017</u> | - | <u>1,017</u> | 100% |
| Total finance charges | (1,648) | (2,582) | 934 | -36% |
| Foreign exchange gain | 449 | 407 | 42 | 10% |
| Other income | <u>239</u> | <u>287</u> | (48) | -17% |
| Total net other expenses | (960) | (1,888) | 928 | -49% |

The Company's policy prior to the licence signing was to capitalise interest on all significant construction projects, which is included as a cost in the appropriate capital assets account until the asset is available for service. Interest expense capitalised for the three months ended April 30, 2008 was \$0.2 million. This methodology was ceased in April 2008 as under the new 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 fiscal 2009 is 10% as agreed with the ERA in accordance with the T&D Licence and will be reviewed annually. The AFUDC amount for the three months ended March 31, 2009 totalled \$1.0 million.

Foreign exchange gains increased 10% for the three months ended March 31, 2009 when compared to the three months ended April 30, 2008. The increase is attributable to increased private currency exchanges at favourable rates.

Other income decreased 17% for the three months ended March 31, 2009 when compared to the three months ended April 30, 2008.

The Economy

According to the 2009/2010 Strategic Policy Statement of the Cayman Islands Government the prevailing outlook of continuous weakening in global economic performance in 2009 will lead to softer performances in local industries. It is Government's belief that unlike credit difficulties abroad, the retail banking sector in the Cayman Islands will maintain its robust supply of credit to businesses and households.

As at March 31, 2009 the Fiduciary Services Division of the Cayman Islands Monetary Authority ("CIMA") had supervisory responsibility for 163 active trust licences. This compares to 159 active trust licences, at March 31, 2008. The division also had supervisory responsibility for 81 active licences under the Companies Management Law (2003 Revision) as at March 31, 2009, which compared to 77 active licences as at March 31, 2008. As at March 31, 2009 the Investments and Securities Services Division of CIMA had supervisory responsibility for 9,068 registered mutual funds as compared to 9,018 registered mutual funds as at March 31, 2008. The division also had supervisory responsibility for 509 administered mutual funds as at March 31, 2009 a decrease from 540 at March 31, 2008. Full mutual fund administrators as at March 31, 2009 decreased to 98 from 100 and restricted mutual fund administrators decreased to 47 from 51 when compared to March 31, 2008.

The Government forecasted that stay over tourism would experience challenges due to the weak growth prospects for the U.S. and other advanced economies. Additionally, increasing competition from other markets such as Europe were expected to pose a challenge to the Cayman Islands Tourism sector, based on robust booking trends for European cruise packages by North American travellers.

The Company expects that the current global economy will continue to have an impact on tourist arrivals to the Cayman Islands. This belief is based on the current arrival figures as at March 31, 2009 (www.caymanislands.ky) whereby visitor arrivals are low when compared to prior years. As at the end of March 31, 2009, visitor air arrivals were reflecting forecasts of the Government and demonstrated a decrease of 19% while cruise arrivals fell by 16% when compared to the same period of the prior year. 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 Company anticipates that visitors to the Cayman Islands, especially stay over tourists, typically are of a high income bracket and are less affected by a recessionary environment. Declines when compared to 2008 are expected to be the predominant trend for 2009.

The Government has supported this belief as the Minister of Tourism announced in March 2009 that the plans for the redevelopment of the Owen Roberts International Airport on Grand Cayman are still going ahead. The plans for redevelopment include a 2,000-foot extension of the existing runway.

The following table presents statistics for tourist arrivals in the Cayman Islands for the 12 months ending December 31:

| Arrivals | 2008 | 2007 | 2006 | 2005 | 2004 |
|----------|-----------|-----------|-----------|-----------|-----------|
| By Air | 302,879 | 291,503 | 267,258 | 167,801 | 259,929 |
| By Sea | 1,553,053 | 1,715,666 | 1,923,597 | 1,798,999 | 1,693,293 |
| Total | 1,855,932 | 2,007,169 | 2,190,855 | 1,966,800 | 1,953,222 |

As at December 31, 2008, the Cayman Islands Consumer Price Index ("CPI") stood at 152.0, a 3.4% increase from the results as at December 31, 2007 and a 3.2% decline when compared to the September 2008 results.

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

Liquidity and Capital Resources

The following table outlines the summary of cash flow:

| (\$ thousands) | Three Months Ended March 31, 2009 | Three Months Ended April 30, 2008 | Change | % Change |
|-----------------------------|-----------------------------------|-----------------------------------|----------------|------------|
| Beginning cash | 1,431 | 1,324 | 107 | 8% |
| Cash provided by/(used in): | | | | |
| Operating activities | 11,819 | 12,173 | (354) | -3% |
| Investing activities | (9,185) | (11,692) | 2,507 | -21% |
| Financing activities | <u>(2,535)</u> | <u>(537)</u> | <u>(1,998)</u> | 372% |
| Ending cash | 1,530 | 1,268 | 262 | 21% |

Operating Activities:

Cash flow from operations, after working capital adjustments, for the three months ended March 31, 2009, was \$11.8 million, a decrease of \$0.4 million from \$12.2 million for the three months ended April 30, 2008. This decrease is attributable to a decrease in net earnings of \$2.0 million offset by the increase in non-cash working capital balances.

Investing Activities:

Cash used in investing activities decreased \$2.5 million to \$9.2 million for the three months ended March 31, 2009 from \$11.7 million for the three months ended April 30, 2008; this decrease is attributable to decreased capital related expenditures.

Financing Activities:

Cash used in financing activities increased \$2.0 million to \$2.5 million for the three months ended March 31, 2009 from \$0.5 million for the three months ended April 30, 2008. This increase in cash used is mainly attributed to dividends paid of \$4.7 million, partially offset by the increase in bank overdraft of \$2.3 million.

Liquidity

The Company plans to reduce short-term borrowings and usage of the overdraft facility through the issuance of long-term debt.

Transactions with Related Parties

Miscellaneous receivables from Fortis Inc. totalling \$0.05 million and Fortis Turks & Caicos totalling \$0.01 million remain outstanding at March 31, 2009.

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at March 31, 2009, are outlined in the following table:

| <i>(\$ millions)</i> | Total | < 1 year | 1 to 3 years | 4 to 5 years | > 5 years |
|---|--------------|--------------------|---------------------|---------------------|---------------------|
| Total debt | 174.6 | 22.1 | 29.2 | 34.8 | 88.5 |
| MAN Diesel SE generation expansion contract | 17.0 | 17.0 | - | - | - |
| Defined Benefit Pension | <u>0.5</u> | <u>0.5</u> | = | = | = |
| Total | 192.1 | 39.6 | 29.2 | 34.8 | 88.5 |

The Company has a primary fuel supply contract with Esso Standard Oil S.A. ("Esso") and is committed to purchase 80% of the Company's diesel fuel requirements for its Power Plant from Esso. The contract is for three years terminating in April 2010. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2009 – 27.2, 2010 – 9.3. The contract contains an automatic renewal clause for the years 2010 through to 2012. Should any party choose to terminate within that two year period notice must be given a minimum of one year in advance of the desired termination date.

Financial Position

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2008 to March 31, 2009.

| Significant changes in Balance Sheets between December 31, 2008 and March 31, 2009 | Increase (Decrease) | Explanation |
|--|---------------------|---|
| <i>(\$ millions)</i> | | |
| Accounts receivable - Trade | (6.4) | Decrease due to lower consumption and lower fuel factor billings as a result of decreasing fuel prices. |
| Property, Plant and Equipment | 4.3 | Net increase is comprised of capital expenditures of (1) \$9.2 million and (2) depreciation expense of \$4.9 million. |
| Intangible Assets | 2.2 | Due to CICA 3064 \$2.0 million of Other Assets and \$0.2 million of PP&E have been reclassified as Intangible Assets. |
| Bank Overdraft | 2.1 | Increase in bank overdraft. |
| Accounts Payable & Accrued Expenses | (2.7) | Change mainly attributable to reduction in accrued expenses. |
| Current Portion of Long Term Debt | (0.3) | Decrease due to repayment of European Investment Bank loan. |
| Share premium | 0.4 | Increase due to sale of shares. |
| Retained Earnings | (2.3) | Decrease due to net earnings for the period of \$2.4 million offset by Class A dividends of \$4.0 million and Class B dividends of \$0.7 million. |

Capital Resources

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

To help ensure access to capital, the Company targets a long-term capital structure containing approximately 45% equity, including preference shares, and 55% debt. The Company plans 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 the 2008 Transitional Period.

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, 2009, the Company was in compliance with all debt covenants.

Caribbean Utilities Company, Ltd.

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

| Capital structure | March 31, 2009 (\$ millions) | % | December 31, 2008 (\$ millions) | % |
|----------------------|------------------------------------|------------|---------------------------------------|------------|
| Total debt | 174.4 | 51 | 174.6 | 51 |
| Shareholder's equity | <u>168.1</u> | <u>49</u> | <u>170.0</u> | <u>49</u> |
| Total | 342.5 | 100 | 344.6 | 100 |

There is no change in the Company's capital structure between December 31, 2008 and March 31, 2009. Debt has decreased marginally due to the repayment of the European Investment Bank Loan in January. Shareholders equity has also decreased due to a reduction in retained earnings.

The Company's credit ratings are as follows:

Standard & Poor's (S&P) A/Stable
Dominion Bond Rating System (DBRS) A (low)

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

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 | <u>\$17.0</u> |
| Total | \$32.9 |

Of the total above, \$17.8 million was available at March 31, 2009.

Capital Expenditures

Capital expenditures for the three months ended March 31, 2009 were \$9.2 million, a \$2.5 million, or 21% decrease from \$11.7 million in capital expenditures for the three months ended April 30, 2008. The capital expenditures for the three months ended March 31, 2009 primarily relate to:

- Distribution system extension and upgrades - \$2.0 million.
- Transmission system expansion and upgrades – 69 kiloVolt ("kV") line extension to close loops to West Bay and Frank Sound - \$0.3 million.
- Generation system – 2009 Generation expansion - \$2.8 million

- Inventory that has met the criteria of Property, Plant and Equipment ("PP&E") in accordance with CICA 3031 has been added to work in progress and is included in capital expenditure. For the three months ended March 31 2009, a decrease of \$0.06 million was allocated to Transmission and a decrease of \$0.4 million was allocated to Distribution, totalling a decrease of \$0.5 million reallocated from inventories to capital work in progress. As at March 31, 2009, inventories totalling \$5.1 million were reclassified to PP&E from inventory on the balance sheet as they are held for the development, construction, maintenance and repair of other PP&E.
- AFUDC of \$1.0 million was capitalized in the three months ended March 31, 2009

| Capital expenditures (\$ Millions) | Three months ended March 31, 2009 | Three months ended April 30, 2008 | Eight Months Ended December 31, 2008 |
|---|--|--|---|
| Transmission | 0.3 | 1.1 | 4.3 |
| Distribution | 2.1 | 3.6 | 11.4 |
| Generation | 6.5 | 6.1 | 10.6 |
| Other | <u>0.3</u> | <u>0.9</u> | <u>1.5</u> |
| Total | 9.2 | 11.7 | 27.8 |

Off Balance-Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially effect liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at March 31, 2009.

Business Risks

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

Economic Conditions

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

Weather

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

Environmental Matters

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

CUC was initially registered to the ISO 14001 standard in 2004 and continuously maintains an Environmental Management System ("EMS"). In March 2007 the Kyoto Protocol was signed by the Cayman Islands; this framework aims to reduce greenhouse gas ("GHG") emissions produced by certain industries. Specific details on the regulations have yet to be released by the Government and are required to assess the financial impact of compliance by the Company with the framework.

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

Regulation

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

Insurance – Terms and Coverage

The Company renewed its insurance policy for fiscal 2009 as at July 1, 2008 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; \$70 million in Business Interruption ("BI") insurance per annum with a 24-month indemnity period and a 45-day deductible. All T&D assets outside of 1,000 feet from the boundaries of the main Power Plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$0.5 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1 million and maximum deductible of \$4 million for all interests combined.

In addition to this coverage, The Company has also purchased an excess layer of an additional \$100 million limit on property and BI (excluding windstorm, earth movement and flood)

The Company's insurance policy includes BI 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 2009, is 3%. This compares to assumed long-term rates of return of 5% used during the 2008 Transitional Period. The loss on pension plan assets during the 2008 Transitional Period was (12%).

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 2009 is 6.5% compared to the discount rate assumed during the 2008 Transitional Period which was 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

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the new CICA Handbook Section 3064 - *Goodwill and Intangible Assets*. This Section, which replaced Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions related to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard 38, *Intangible Assets*. The standard has resulted in an increase in intangible assets of \$2.2 million, with a corresponding reduction in utility capital assets of \$0.2 million and a reduction in other assets of \$2.0 million (see Note 3 and Note 8 to the Interim Financial Statements for further details).

Rate Regulated Operations

Effective January 1, 2009, with the removal of the temporary exemption in Section 1100, the Company must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under a primary source of Canadian GAAP that applies only to the particular circumstances described therein, including those arising under Section 1600, 3061, 3465, and 3475. All assets and liabilities arising from rate regulation described in Note 5 do not have specific guidance under a primary source of Canadian GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Section 1000, *Financial Statement Concepts*. These assets and liabilities qualify for recognition as assets and liabilities under Section 1000. For the removal of the temporary exemption in Section 1100 there is no effect on the Company's financial statements.

Future Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In March 2009, the AcSB issued a second IFRS Omnibus Exposure Draft confirming that publicly accountable

enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010.

The AcSB proposes that CICA Handbook Section - Accounting Changes, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to this Exposure Draft. CUC is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. Further, CUC anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process the information.

CUC commenced its IFRS conversion project in 2007 and has established a formal project governance structure. Regular reporting will occur to the Audit Committee of the Board of Directors where appropriate. An external expert advisor has been engaged to assist in the IFRS conversion project.

The CUC IFRS conversion project consists of three phases: scoping and diagnostic, analysis and development, and implementation and review. Phase One has been completed, which involved project planning and staffing and identification of differences between current Canadian GAAP and IFRS. Currently, the identified areas of accounting difference of highest potential impact to CUC are rate-regulated operations, property plant and equipment, intangible assets, employee benefits, and initial adoption of IFRS under the provisions of IFRS 1 - First-Time Adoption of IFRS.

Phase Two, currently in progress, involves completion of detailed diagnostics and evaluation of the financial impacts of various options and alternative methodologies provided for under IFRS; identification and design of operational and financial business processes; and development of required solutions to address identified issues.

It is anticipated that the adoption of IFRS will have an impact on current and future system requirements. The degree of this impact is not reasonably determinable at this stage of the project.

The Company will work with the ERA to identify transitional issues and suggest how those issues might be addressed.

CUC will continue to review all proposed and continuing projects of the International Accounting Standards Board, closely monitor any International Financial Reporting Interpretations Committee initiatives with the potential to impact rate-regulated accounting under IFRS, and will participate in any related processes, as appropriate. The International Accounting Standards Board is expected to issue an exposure draft addressing rate regulated activities during the second quarter of 2009.

Critical Accounting Estimates

The preparation of the Company's financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Estimates are based on historical experience, current conditions and various other

assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from the current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known. The Company's critical accounting estimates relate to:

Revenue Recognition

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at March 31, 2009, the amount of unbilled revenue recorded in Accounts Receivable - Trade was \$4.1 million (April 30, 2008: \$0.7 million). The unbilled revenue saw an increase due to the institution of a bill date change; beginning in December 2008 consumers are now billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue as compared to the one week in previous periods.

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, 2009, the amount of estimated kWh sales was 30.4 million kWh. Due to the institution of a bill date change in December 2008 it is necessary to accrue for kWh for accurate reporting.

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, 2009, the Company had an accrued benefit liability of \$0.2 million (April 30, 2008: \$0.09 million).

Property, Plant and Equipment Depreciation

Depreciation, by its very nature is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at March 31, 2009, the net book value of the Company's PP&E was \$334.9 million compared to \$314.7 million as at April 30, 2008, increasing as a result of the company's generation and T&D capital expenditures. Depreciation expense for the three months ended March 31, 2009 was \$4.9 million and \$4.5 million for the three months ended April 30, 2008. Due to the value of the Company's PP&E, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

Quarterly Results

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended July 31, 2007 through March 31, 2009. This information has been obtained from CUC's unaudited interim Financial Statements, which in the opinion of Management, have been prepared in accordance with Canadian GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

| Quarterly results (\$ 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, 2009 | 35,090 | 2,435 | 2,322 | 0.08 | 0.08 |
| December 31, 2008* | 32,986 | 1,865 | 1,865 | 0.08 | 0.08 |
| October 31, 2008 | 63,193 | 5,424 | 5,311 | 0.18 | 0.18 |
| July 31, 2008 | 54,170 | 5,310 | 4,717 | 0.19 | 0.19 |
| April 30, 2008 | 44,219 | 4,413 | 4,300 | 0.17 | 0.17 |
| January 31, 2008 | 42,768 | 5,262 | 5,149 | 0.20 | 0.20 |
| October 31, 2007 | 45,625 | 6,251 | 6,138 | 0.24 | 0.24 |
| July 31, 2007 | 43,371 | 7,834 | 7,241 | 0.29 | 0.29 |

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

April 2008/March 2009

Net earnings for the three months ended March 31, 2009 were \$2.4 million, representing a 45% or \$2.0 million decrease from net earnings of \$4.4 million for the three months ended April 30, 2008. Contributing to this decrease is negative sales growth in 2009 and the favourable fuel cost recovery of \$2.5 million for the three months ended April 30, 2008. The introduction of a fuel tracker mechanism in the Company's 2008 T&D Licence has eliminated favourable or adverse timing differences in fuel cost recovery for the financial reporting quarters subsequent to April 2008. The above factors were partially offset by lower maintenance and finance costs in 2009.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the three months ended March 31, 2009 were \$2.3 million, or \$0.08 per Class A Ordinary Share, as compared to \$4.3 million, or \$0.169 per Class A Ordinary Share for the three months ended April 30, 2008.

December 2008/January 2008

Net earnings for the two months ended December 31, 2008 were \$1.9 million, a \$3.4 million or 64% decrease from earnings of \$5.3 million for the three months ended January 31, 2008. Contributing to this decrease was lower than average temperatures and higher than average rainfall.

Net earnings for the 2008 Transitional Period ended December 31, 2008 were \$12.6 million, a \$6.7 million or 36% decrease from earnings of \$19.3 million for the nine months ended January 31, 2008. This decrease in earnings is due to the base rate reductions, Hurricane Cost Recovery Surcharge ("CRS") removal and increased maintenance costs of \$0.8 million, partially offset by lower finance charges of \$5.2 million. Also contributing to this decrease were lower than average temperatures and higher rainfall in the 2008 Transitional Period which negatively impacted kWh sales growth.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the two months ended December 31, 2008 were \$1.9 million, or \$0.08 per Class A Ordinary Share, as compared to \$4.3 million, or \$0.17 per Class A Ordinary Share for the three months ended April 30, 2008.

Dividends paid on Class A Ordinary Shares as at December 31, 2008 were \$0.495 per share. The Company notes that dividends paid consists of the three distributions of \$0.165 per share that traditionally represented three full quarters of earnings, but due to the change in the reporting period dividends paid are compared to only eight months of earnings for the 2008 Transitional Period.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the 2008 Transitional Period were \$11.9 million, or \$0.45 per Class A Ordinary Share, as compared to \$18.5 million, or \$0.73 per Class A Ordinary share for the nine months ended January 31, 2008.

October 2008/October 2007

Net earnings for the three months ended October 31, 2008 were \$5.4 million, representing a 14% decrease from net earnings of \$6.3 million in the same period last year. The reasons for this decrease are the base rate reductions, CRS removal and increased maintenance costs of \$0.8 million, partially offset by lower finance charges of \$1.2 million and 4% kWh sales growth.

Net earnings for the six months ended October 31, 2008 were \$10.7 million, representing a 24% decrease from net earnings of \$14.0 million in the same period last year. The primary reasons for the difference in earnings for the six months ended October 31 when compared to the same period for the prior year are the removal of the CRS and base rate reductions in January 2008 under the terms of the AIP, and increased maintenance expenses.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the three months ended October 31, 2008 were \$5.3 million, or \$0.18 per Class A Ordinary Share, as compared to \$6.1 million, or \$0.24 per Class A Ordinary Share for the three months ended October 31, 2007. Earnings on Class A Ordinary Shares for the six months ended October 31, 2008 were \$10.0 million, or \$0.37 per Class A Ordinary Share, as compared to \$13.3 million, or \$0.53 per Class A Ordinary Share for the six months ended October 31, 2007.

July 2008/July 2007

Net earnings for the six months ended July 31 showed a 32% decrease quarter over quarter from \$7.8 million in fiscal 2008 to \$5.3 million in fiscal 2009. The main reasons for this difference are the removal of the CRS and the base rate reductions. In the first quarter of fiscal 2008 the CRS yielded \$1.3 million in revenues. The CRS, implemented in August 2005, ceased in January 2008 as opposed to the original anticipated date of August 2008. This cessation and the base rate reductions were the result of the licence negotiations. Other contributing factors to the decrease in net earnings were an increase in maintenance expense of \$0.3 million and a \$0.4 million increase in depreciation expense quarter-over-quarter.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the six months ended July 31, 2008 were \$4.7 million, or \$0.190 per Class A Ordinary Share, as compared to \$7.2 million, or \$0.290 per Class A Ordinary Share for the six months ended July 31, 2007.

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 three months ending March 31, 2009; and information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls over Financial Reporting ("ICFR")

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

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). There was no material weakness relating to design existing as of March 31, 2009.

There has been no change in the Company's ICFR that occurred during the period beginning on January 1, 2009 and ended on March 31, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

The Company has submitted a CIP for the 2009-2013 period totalling \$246 million, including approximately \$72 million related to new generation that is expected to be solicited externally. In March 2009 the ERA approved CUC's 2009 CIP totalling \$47.7 million. The proposed CIP for 2010-2013 is still under review. The submitted plan has been formatted to take into consideration anticipated reductions in growth in the upcoming periods due to the impact of the global financial crisis on the tourism, financial and construction sectors of the Cayman Islands.

Outstanding Share Data

At April 28, 2009, the Company had issued and outstanding 28,135,291 Class A 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 28, 2009

Caribbean Utilities Company, Ltd.

Balance Sheets

(expressed in thousands of United States Dollars)

| Unaudited | Note | As At March 31, 2009 | As At December 31, 2008 |
|---|------|----------------------------|-------------------------------|
| Assets | | | |
| <i>Current Assets</i> | | | |
| Cash and cash equivalent | | 1,530 | 1,431 |
| Accounts Receivable | 4 | 10,482 | 16,879 |
| Regulatory Assets | 5 | 18,358 | 18,493 |
| Inventories | 6 | 2,365 | 2,485 |
| Prepayments | | <u>1,206</u> | <u>1,914</u> |
| | | 33,941 | 41,202 |
| Property, Plant and Equipment | 7 | 334,888 | 330,560 |
| Other Assets | | 40 | 41 |
| Intangible Assets | 8 | <u>2,188</u> | <u>2,184</u> |
| Total Assets | | <u>371,057</u> | <u>373,987</u> |
| Liabilities and Shareholders' Equity | | | |
| <i>Current Liabilities</i> | | | |
| Bank Overdraft | 9 | 6,225 | 4,158 |
| Accounts Payable and Accrued Expenses | | 18,396 | 21,048 |
| Regulatory Liabilities | 5 | 89 | 359 |
| Short-Term Debt | 9 | 8,000 | 8,000 |
| Current Portion of Long-Term Debt | | 14,000 | 14,266 |
| Consumer's Deposits and Advances for Construction | | <u>3,825</u> | <u>3,785</u> |
| | | <u>50,535</u> | <u>51,616</u> |
| Long-Term Debt | | <u>152,419</u> | <u>152,377</u> |
| Total Liabilities | | 202,954 | 203,993 |
| Shareholders' Equity | | | |
| Share Capital | 11 | 1,925 | 1,922 |
| Share Premium | 11 | 72,502 | 72,092 |
| Contributed Surplus | 12 | 289 | 279 |
| Retained Earnings | | <u>93,387</u> | <u>95,701</u> |
| Total Shareholders' Equity | | 168,103 | 169,994 |
| Total Liabilities and Shareholders' Equity | | <u>371,057</u> | <u>373,987</u> |

See accompanying Notes to Interim financial statements

Statements of Earnings and Comprehensive Income

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

| Unaudited | Note | Three Months Ended March 31, 2009 | Three Months Ended April 30, 2008 |
|---|------|--|--|
| Operating Revenues | | | |
| Electricity Sales | | 15,142 | 16,110 |
| Fuel Factor | | <u>19,948</u> | <u>28,109</u> |
| <i>Total Operating Revenues</i> | | 35,090 | 44,219 |
| Operating Expenses | | | |
| Power Generation | | 21,049 | 26,446 |
| General and Administration | | 2,719 | 2,839 |
| Consumer Service and Promotion | | 399 | 571 |
| Transmission and Distribution | | 753 | 959 |
| Depreciation | | 4,852 | 4,492 |
| Amortisation of Intangible Assets | | 50 | 38 |
| Maintenance | | <u>1,873</u> | <u>2,573</u> |
| <i>Total Operating Expenses</i> | | 31,695 | 37,918 |
| Operating Income | | 3,395 | 6,301 |
| Other Income/(Expenses): | | | |
| Finance Charges | 16 | (1,648) | (2,582) |
| Foreign Exchange Gain | 15 | 449 | 407 |
| Other Income | | <u>239</u> | <u>287</u> |
| <i>Total Net Other (Expenses)/Income</i> | | (960) | (1,888) |
| Earnings and Comprehensive Income for the Period | | 2,435 | 4,413 |
| <i>Preference Dividends Paid- Class B</i> | | <u>(113)</u> | <u>(113)</u> |
| <i>Earnings on Class A Ordinary Shares</i> | | 2,322 | 4,300 |
| Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands) | 13 | 28,123 | 25,396 |
| <i>Earnings per Class A Ordinary Share</i> | 13 | 0.083 | 0.169 |
| Diluted Earnings per Class A Ordinary Share | 13 | 0.083 | 0.167 |
| Dividends Declared per Class A Ordinary Share | | 0.165 | 0.165 |

See accompanying Notes to Interim financial statements.

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

| Unaudited | Three Months Ended March 31, 2009 | Three Months Ended April 30, 2008 |
|---------------------------------------|--|--|
| Balance at beginning of period | 95,701 | 97,131 |
| Earnings for the period | 2,435 | 4,413 |
| Dividends | <u>(4,749)</u> | <u>(4,301)</u> |
| Balance at end of period | 93,387 | 97,243 |

See accompanying Notes to Interim financial statements.

Statements of Cash Flows

(expressed in thousands of United States Dollars)

| Unaudited | Three Months Ended March 31, 2009 | Three Months Ended April 30, 2008 |
|---|---|--|
| <i>Operating Activities</i> | | |
| Earnings for the period | 2,435 | 4,413 |
| Items not affecting cash: | | |
| Depreciation | 4,852 | 4,492 |
| Amortisation of Intangible Assets | 50 | 38 |
| Stock-based compensation | 10 | - |
| Loss on disposal of property, plant and equipment | = | <u>440</u> |
| | 7,347 | 9,383 |
| | | |
| Net change in non-cash working capital balances related to operations | | |
| | 4,607 | 2,790 |
| Net Change in Regulatory Deferrals | <u>(135)</u> | = |
| <i>Cash flow related to operating activities</i> | 11,819 | 12,173 |
| | | |
| <i>Investing Activities</i> | | |
| Proceeds on sale of property, plant and equipment | - | 67 |
| Additions to Intangible Assets | (4) | (34) |
| Additions to property, plant and equipment | <u>(9,181)</u> | <u>(11,725)</u> |
| <i>Cash flow related to investing activities</i> | (9,185) | (11,692) |
| | | |
| <i>Financing Activities</i> | | |
| Repayment of debt | (266) | - |
| Increase in bank overdraft | 2,067 | 3,429 |
| Dividends paid | (4,749) | (4,301) |
| Net proceeds from share issues | <u>413</u> | <u>335</u> |
| <i>Cash flow related to financing activities</i> | (2,535) | (537) |
| | | |
| Increase/(Decrease) in net cash and cash equivalents | 99 | (56) |
| Cash and cash equivalent - Beginning of period | <u>1,431</u> | <u>1,324</u> |
| Cash and cash equivalent - End of period | 1,530 | 1,268 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Interest paid during the period | 37 | 20 |

See accompanying Notes to Interim financial statements.

Notes to Interim Financial Statements

Unaudited – March 31, 2009 (expressed in thousands of United States dollars unless otherwise stated)

1. Nature of Operations and Financial Statement Presentation

These unaudited financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) for interim financial statements and reflect the decisions of the Electricity Regulatory Authority (“ERA”). These decisions affect the timing of the recognition of certain transactions in consolidated operations, resulting in the recognition of regulatory assets and liabilities, which Caribbean Utilities Company, Ltd. (“CUC” or “the Company”) considers it is likely to recover or settle subsequently through the rate-setting process. These interim financial statements do not include all of the disclosures normally found in the Company’s annual financial statements and should be read in conjunction with the Company’s financial statements for the period ended December 31, 2008. Except as disclosed in within this note and Note 3, these interim financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual financial statements.

The principal activity of the Company is to generate and distribute electricity in its licence area of Grand Cayman, Cayman Islands, pursuant to a 20-year exclusive Transmission & Distribution (“T&D”) Licence and a 21.5 year Generation Licence with the Cayman Islands Government (“the Government”), which expire in April 2028 and September 2029 respectively.

Rate Regulated Operations

In December 2007, CUC and the Government reached an Agreement in Principle (“AIP”). Under the terms of the AIP the Company will operate as a regulated electric utility under new licences which were formalised in April 2008. The Company’s financial statements are prepared in accordance with Canadian GAAP including selected accounting treatments that differ from those used by entities not subject to rate regulation.

In addition to the structural changes, the AIP called for an overall reduction in base rates of 3.25%, the elimination of the Cost Recovery Surcharge (“CRS”) and the implementation of a Government rebate of \$0.24 per Imperial Gallon (“IG”) of fuel used in generation to be applied to the first 1,500 kiloWatt-hours (“kWh”) of monthly residential consumption. A new rate class for large commercial customers and a new fuel and lube factor to provide for full pass-through charges for 100% of fuel and lubricating oil were also implemented.

For regulatory purposes fixed assets comprise the Property, Plant and Equipment (“PP&E”) as reported in the Company’s financial statements and intangible assets acquired or constructed by the Company. The original book value of these fixed assets will include an Allowance for Funds Used During Construction (“AFUDC”) (see Note 7 to the Interim Financial Statements) and an allowance for General Expenses Capitalised (“GEC”). GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity.

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.

Year End Change

The Company changed its year end from April 30 to December 31. Beginning January 1, 2009 each 12-month period will conclude on December 31. This change led to what is referred to as the 2008 Transitional Period spanning May 1, 2008 to December 31, 2008. The following analysis of the results of operations for the three months ended March 31, 2009 includes comparisons to the three month period ended April 30, 2008. The three month period ended April 30, 2008 is the period closest to that of the three months ended March 31, 2009 and the period most similar in seasonality.

2. Summary of Significant Accounting Policies

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

3. Changes in Accounting Policies *Adopted in 2009*

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the new CICA Handbook Section 3064 - *Goodwill and Intangible Assets*. This Section, which replaced Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions related to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard 38, *Intangible Assets*. The standard has resulted in a reclass of intangible assets of \$2.2 million, with a corresponding reduction in PP&E of \$0.2 million and a reduction in Other Assets of \$2.0 million (see Note 8 to the Interim Financial Statements for further details).

Rate Regulated Operations

Effective January 1 2009, the Accounting Standards Board (AcSB) amended CICA Handbook Section 1100, Generally Accepted Accounting principals removing the temporary exemption providing relief to entities subject to rate regulation.

Effective January 1 2009, with the removal of the temporary exemption Section 1100, the Company must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under a primary source of Canadian GAAP that applies only to the particular circumstances described therein, including those arising under section 1600, Consolidated Financial Statements, *Section 3061, Property, Plant and Equipment* and *Section 3475, Disposal of Long-Lived Assets and Discontinued Operations*.

The assets and liabilities arising from rate regulation do not have specific guidance under a primary source of Canadian GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Section 1000, *Financial Statement Concepts*. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that its regulatory assets and liabilities qualify for recognition under Canadian GAAP and this recognition is consistent with US Statement of Financial Accounting Standards No.71,

Accounting for the Effects of Certain Types of Regulation. Therefore, there was no effect on the Company's financial statements as at January 1, 2009 due to the removal of the temporary exemption in section 1100.

Future accounting changes

International Financial Reporting Standards ("IFRS")

In February 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable Canadian enterprises. In March 2009, the AcSB issued a second Omnibus Exposure Draft confirming that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010 and of the opening balance sheet as at January 1, 2010.

The AcSB proposes that CICA Handbook Section - Accounting Changes, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to this Exposure Draft. CUC is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. CUC does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required, as well as system changes that may be necessary to gather and process the information.

4. Accounts Receivable

| | As at March 31, 2009 | As at December 31, 2008 |
|------------------------------|-----------------------------|--------------------------------|
| Billings to consumers | 4,536 | 12,676 |
| Unbilled revenues | 4,113 | 2,105 |
| Other receivables | 1,755 | 1,988 |
| Employee Share Purchase Plan | <u>78</u> | <u>110</u> |
| Total Accounts Receivable | 10,482 | 16,879 |

Other Receivables

Other receivables are comprised mainly of services and goods provided outside the Company's normal course of business.

Employee Share Purchase Plan

The Company provides interest-free advances to employees to purchase Class A Ordinary Shares, with such advances recovered through payroll deductions over the next 12 months. The maximum semi-annual participation is 1,000 Class A Ordinary Shares per employee. The plan is non-compensatory as shares purchased by the employee are obtained at the prevailing market value at the time of purchase.

5. Regulatory Assets and Liabilities

The 2008 T&D Licence establishes a fuel tracker mechanism to ensure the Company and the consumers neither gain nor lose from the pass through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from or reimbursed to the consumers. The receivable or payable value represents a regulatory asset or liability. The net position of the fuel tracker accounts fluctuates monthly and is affected by fuel prices and electricity consumption. On a quarterly basis, an adjustment is made to the fuel charge billed to consumers to reflect the net position of the receivable and payable accounts.

The following table shows the position of regulatory assets and liabilities:

| Asset/Liability | Description | As at March 31, 2009 | As at December 31, 2008 |
|------------------------|---|-----------------------------|--------------------------------|
| Regulatory Assets | Fuel Tracker Account (a) | 18,358 | 18,493 |
| Regulatory Liabilities | Government & Regulatory Tracker Account (b) | (89) | (359) |

- a) Fuel Tracker Account – This account is actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from the consumer when billed on a two-month delay basis and the amount by which the revenues received exceed the costs incurred or the opposite. For both scenarios the per kWh rate is adjusted quarterly in order to reduce the payable or receivable position. In the absence of rate regulation and governmental controls the balance in the fuel tracker account would have been expensed as opposed to deferred for two months to allow for regulatory review and earnings for the three months ended March 31, 2009 would have been \$0.1 million lower.
- b) 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 applies only to customer billings with consumption over 1,000 kWh per month. The tracker account is the actual fee incurred less the amount of funds received from consumers. The per kWh charge is then adjusted quarterly for the balance of this account. In the absence of rate regulation and governmental controls, there would be no regulatory liability amount on the Balance Sheet as all funds received would be applicable to billed amounts. As such, liabilities would be reduced by \$0.1 million and earnings for the three months ended March 31, 2009 would have been \$0.1 million higher.

6. Inventories

| | As at March 31, 2009 | As at December 31, 2008 |
|--------------|-----------------------------|--------------------------------|
| Line spares | 109 | 118 |
| Fuel | 1,820 | 1,916 |
| Other | <u>436</u> | <u>451</u> |
| Total | 2,365 | 2,485 |

The inventory amounts expensed for the quarter totalled \$17.8 million which includes \$17.7 million in fuel and lube costs and \$0.01 million in line inventory.

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

| Property, Plant and Equipment | Cost | Accumulated Depreciation | Net Book Value March 31, 2009 |
|---|----------------|--------------------------|----------------------------------|
| Transmission & Distribution (T&D) | 215,382 | 56,706 | 158,676 |
| Generation | 223,521 | 72,977 | 150,544 |
| Other: | | | |
| Land | 5,304 | - | 5,304 |
| Buildings | 19,077 | 7,147 | 11,930 |
| Equipment, motor vehicles and computers | <u>20,464</u> | <u>12,030</u> | <u>8,434</u> |
| <i>Total Other</i> | 44,845 | 19,177 | 25,668 |
| Property, plant and equipment | 483,748 | 148,860 | 334,888 |
| Property, Plant and Equipment | Cost | Accumulated Depreciation | Net Book Value December 31, 2008 |
| Transmission & Distribution (T&D) | 211,392 | 54,806 | 156,586 |
| Generation | 212,559 | 71,241 | 141,318 |
| Other: | | | |
| Land | 11,399 | - | 11,399 |
| Buildings | 18,520 | 7,668 | 10,852 |
| Equipment, motor vehicles and computers | <u>21,275</u> | <u>10,870</u> | <u>10,405</u> |
| <i>Total Other</i> | 51,194 | 18,538 | 32,656 |
| Property, plant and equipment | 475,145 | 144,585 | 330,560 |

Included in PP&E are a number of capital projects in progress with a total cost to date of \$33.2 million (December 31, 2008: \$31.2 million). These projects primarily relate to various improvements to the distribution system and the 2009 Generation Expansion.

Also included in Generation and T&D is freehold land with a cost of \$4.7 million (December 31, 2008:\$4.7 million). In addition, engine spares with a net book value of \$14.2 million (December 31, 2008: \$13.5 million) are included in Generation.

The Company's policy had been to capitalise interest on all significant construction projects, which is included as a cost in the appropriate capital assets account until the asset is available for service. During the three month period ended April 30, 2008, the Company capitalised interest of \$0.2 million. This methodology was ceased in April 2008 as under the new T&D Licence 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 fiscal 2009 is 10% and will be adjusted annually. The Company capitalised an amount of \$1.0 million for the three months ended March 31, 2009 under the provision for AFUDC. In the absence of rate regulation, net income would have been \$0.8 million lower.

The Company capitalized an amount of \$0.2 million for the three months ended March 31, 2009 under the provision for general expenses capitalised ("GEC") (see Note 1 to the Interim Financial Statements). In the absence of rate regulation net income would have been \$0.2 million lower.

8. Intangible Assets

| | Cost | Accumulated Depreciation | Net Book Value March 31, 2009 |
|-------------------------------------|--------------|-------------------------------------|---|
| Deferred licence renewal costs | 1,890 | 82 | 1,808 |
| Computer Software | 839 | 649 | 190 |
| Other Intangible Assets in progress | 190 | - | 190 |
| Total | 2,919 | 731 | 2,188 |
| | Cost | Accumulated Depreciation | Net Book Value December 31, 2008 |
| Deferred licence renewal costs | 1,845 | 61 | 1,784 |
| Computer Software | 839 | 620 | 219 |
| Other Intangible Assets in progress | 181 | - | 181 |
| Total | 2,865 | 681 | 2,184 |

Effective January 1, 2009 in accordance with section 3064 the Company now separately recognises all intangible assets. Computer Software costs were previously recognised under PP&E and all other intangible assets were previously included with Other Assets.

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

9. Short-Term Financing

At December 31, 2008, the Company had \$13.3 million outstanding against the Royal Bank of Canada's ("RBC") credit facilities agreement. As at 31 March 2009, the Capital Expenditures Line of Credit of \$17.0 million had an available total of \$9.0 million.

| Credit Facilities | Total Credit Financing Facilities | Total Utilised March 31, 2009 | Total Available March 31, 2009 |
|--|--|--|---|
| Corporate Credit Card Line | 300 | 300 | - |
| Letters of Credit | 595 | 595 | - |
| Operating, Revolving Line of Credit | 7,500 | 6,225 | 1,275 |
| Catastrophe Standby Loan | 7,500 | - | 7,500 |
| Demand Loan Facility- Interim Funding of Capital Expenditures | <u>17,000</u> | <u>8,000</u> | <u>9,000</u> |
| Total | 32,895 | 15,120 | 17,775 |

10. Capital Management

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

Caribbean Utilities Company, Ltd.

To help ensure access to capital, the Company targets a long-term capital structure containing approximately 45% equity, including preference shares, and 55% debt, as well as investment-grade credit ratings.

The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the rights offering that occurred in the 2008 Transitional Period. The capital managed by the Company is composed of debt (short-term debt, long-term debt and bank indebtedness) and equity (including: capital stock, share premium, subscriptions to be issued, contributed surplus and retained earnings).

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65% of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at March 31, 2009, the Company was in compliance with all debt covenants.

The Company's capital structure is shown below:

| Capital structure | March 31, 2009 (\$ thousands) | % | December 31, 2008 (\$ thousands) | % |
|----------------------|----------------------------------|------------|-------------------------------------|------------|
| Total debt | 174,419 | 51 | 174,643 | 51 |
| Shareholder's equity | <u>168,103</u> | <u>49</u> | <u>169,994</u> | <u>49</u> |
| Total | 342,522 | 100 | 344,637 | 100 |

There is no change in the Company's capital structure between December 31, 2008 and March 31, 2009. Debt has decreased marginally due to the repayment of a bank loan in January; shareholders equity has also decreased due to dividends paid.

11. Capital Stock

Authorised:

- 60,000,000 (December 31, 2008: 60,000,000) Class A Ordinary Shares of CI\$0.05 each
- 250,000 (December 31, 2008: 250,000) 9% Cumulative, Participating Class B Preference Shares of \$1.00 each (non voting)
- 1 Cumulative, Participating, Class D Preference Share of CI\$0.56 (non voting)

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

| | Three months ended March 31, 2009 | Three months ended March 31, 2009 | Transitional Period ended December 31, 2008 | Transitional Period ended December 31, 2008 |
|---|-----------------------------------|-----------------------------------|---|---|
| Class A Ordinary Share Issue | Number of shares | Amount (\$ Thousands) | Number of shares | Amount (\$ Thousands) |
| Balance, beginning of period | 28,087,313 | 1,672 | 25,414,003 | 1,513 |
| Consumer Share Purchase and Dividend Reinvestment Plans | 43,028 | 2 | 112,317 | 7 |
| Employee Share Purchase, Employee Long Service Bonus Plans and Employee Stock Options | 4,950 | 1 | 16,475 | 1 |
| Rights Offering | = | = | 2,544,518 | 151 |
| Class A Ordinary Shares issued & outstanding | 28,135,291 | 1,675 | 28,087,313 | 1,672 |
| 9% Cumulative, Participating Class B | 250,000 | 250 | 250,000 | 250 |
| Total | | 1,925 | | 1,922 |

Share premium increased by \$0.4 million due to common stock issuances.

12. Share Options

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

The exercise price per share in respect of options is equal to the fair market value of the Class A Ordinary Shares on the date of grant. Each option is for a term not exceeding 10 years, and will become exercisable on a cumulative basis at the end of each year following the date of grant. The maximum number of Class A Ordinary Shares under option shall be fixed and approved by the shareholders of the Company from time to time and is currently set at 1,216,919. Options are forfeited if they are not exercised prior to their respective expiry date or upon termination of employment prior to the completion of the vesting period.

| Share Options | Three months ended March 31, 2009 Number of options | Three months ended March 31, 2009 Weighted average exercise price per share | Three months ended December 31, 2008 Number of options | Three months ended December 31, 2008 Weighted average exercise price per share |
|------------------------------------|--|--|---|---|
| Outstanding at beginning of period | 770,603 | 12.19 | 779,603 | 12.19 |
| Granted | 161,700 | 8.76 | - | - |
| Exercised | - | - | - | - |
| Forfeited | = | = | (9,000) | (13.09) |
| Outstanding at end of period | 932,303 | 11.60 | 779,603 | 12.19 |

Caribbean Utilities Company, Ltd.

The position with respect to outstanding unexercised options as at March 31, 2009 was as follows:

| Share Options | Number of Class A Ordinary Shares under option | Exercise Price (\$) | Term of option |
|--|--|---------------------|----------------|
| <u>Date of grant:</u> | | | |
| 18-Jul-01 | 419,803 | 11.46 | 10 years |
| 22-Sep-03 | 193,100 | 13.78 | 10 years |
| 11-Apr-08 | 157,700 | 12.22 | 10 years |
| 27-Feb-09 | 161,700 | 8.76 | 10 years |
| Outstanding at end of period & Weighted Avg. | 932,303 | 11.60 | |

On February 27, 2009; 161,700 options were granted under the Executive Stock Option Plan at an exercise price of \$8.76. 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 the grant, thereby expiring on February 27, 2019.

The Company has a policy of recording compensation expense upon the issuance of stock options. Under the fair value method, the compensation expense was \$0.01 million for the three months ended March 31, 2009 (December 31, 2008: \$0.03 million) resulting in a corresponding increase of the contributed surplus.

13. Earnings per Share

The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average Class A Ordinary Shares outstanding were 28,123,297 and 25,395,773 for the quarters ended March 31, 2009 and April 30, 2008 respectively. The weighted average Ordinary Shares outstanding were 26,721,894 and 25,383,764 for the years ended December 31, 2008 and for the year ended April 30, 2008 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

Caribbean Utilities Company, Ltd.

As at March 31, 2009 the outstanding options are not dilutive as the market price of common shares is below exercise price.

| | Earnings (in thousands) March 31, 2009 | Weighted average shares (in thousands) March 31, 2009 | Earnings per Common Share March 31, 2009 |
|--|--|---|--|
| Net earnings applicable to common shares | 2,322 | | |
| Weighted Average share outstanding | | 28,123 | |
| Basic Earnings Per Common Share | | | 0.083 |
| Effect of potential dilutive securities: | | | |
| Stock Options | - | = | - |
| Diluted Earnings per Common Share | 2,322 | 28,123 | 0.083 |

| | Earnings (in thousands) April 30, 2008 | Weighted average shares (in thousands) April 30, 2008 | Earnings per Common Shares April 30, 2008 |
|--|--|---|---|
| Net earnings applicable to common shares | 4,300 | | |
| Weighted Average share outstanding | | 25,396 | |
| Basic Earnings Per Common Share | | | 0.169 |
| Effect of potential dilutive securities: | | | |
| Stock Options | - | 353 | (0.002) |
| Diluted Earnings per Common Share | 4,300 | 25,749 | 0.167 |

14. Financial Instruments

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

| | March 31, 2009 Carrying Value | March 31, 2009 Estimated Fair Value | December 31, 2008 Carrying Value | December 31, 2008 Estimated Fair Value |
|--|----------------------------------|--|-------------------------------------|---|
| Held for trading | | | | |
| Cash and cash equivalents | 1,530 | 1,530 | 1,431 | 1,431 |
| Loans and receivables | | | | |
| Trade and other accounts receivable | 10,482 | 10,482 | 16,879 | 16,879 |
| Other financial liabilities | | | | |
| Short-term borrowings | 8,000 | 8,000 | 8,000 | 8,000 |
| Trade and other accounts payable | 18,396 | 18,396 | 21,048 | 21,048 |
| Customer deposits | 3,825 | 3,825 | 3,785 | 3,785 |
| Long term debt, including current portion* | 167,500 | 156,856 | 167,766 | 158,679 |

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

Carrying values

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

Fair Values

The fair value of long-term debt, including current portion, is calculated by discounting the future cash flows of each debt instrument at the estimated yield to maturity for the same or similar debt instruments at the balance sheet date. The fair value of long term debt as at March 31, 2009 totalled \$156.9 million, (December 31, 2008: \$158.7 million). The fair value of the Company's remaining financial instruments approximates their carrying value, reflecting either their nature or short-term maturity.

Credit Risk

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

| Trade Receivables | March 31, 2009 | December 31, 2009 |
|---------------------------------------|-----------------------|--------------------------|
| Current | 8,028 | 12,327 |
| Past due 31-60 days | 990 | 2,704 |
| Past due 61-90 days | 494 | 876 |
| Past due over 90 days | <u>1,195</u> | <u>1,188</u> |
| Total Accounts Receivables | 10,707 | 17,095 |
| Less: allowance for doubtful accounts | (225) | (216) |
| Less: Consumer Deposits | <u>(3,825)</u> | <u>(3,785)</u> |
| Net Exposure | 6,657 | 13,094 |

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.

Market Risk

Market driven changes in the performance of the Company's defined benefit pension plan assets can cause fluctuations in pension costs. Additionally, actual experienced returns on pension plan assets, on an annual basis, can cause fluctuations in pension expense as these actuarial gains and losses are amortised to income.

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.

15. Foreign Exchange

The closing rate of exchange on March 31, 2009 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn\$1.2613 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, 2009 for conversion of Cayman Islands dollars into Canadian dollars was Cdn\$1.5136 per CI\$1.00.

16. Finance Charges

The composition of finance charges were as follows:

| Finance Charges (\$ thousands) | Three months ended March 31, 2009 | Three months ended April 30, 2008 |
|---|--|--|
| Total interests costs | 2,665 | 2,792 |
| Capitalised interest* | | (210) |
| AFUDC* | <u>(1,017)</u> | = |
| Total | 1,648 | 2,582 |

*Refer to PP&E (Note 7) with regards to Capitalised Interest and AFUDC methodology

17. Pension Plan

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. As at March 31, 2009, the Company had an accrued benefit liability of \$0.2 million (December 31, 2008: \$0.05). During the three months ended March 31, 2009, the Company recorded net compensation expense in relation to its defined benefit plan of \$0.1 million (April 30, 2008:\$0.2 million).

During the first three months of 2009 the Company recorded net compensation expense in relation to its defined contribution plan of \$0.2 million (April 30, 2008: \$0.2 million).

18. Transactions with Related Parties

Miscellaneous receivables from Fortis Inc. totalling \$0.05 million and Fortis Turks & Caicos totalling \$0.01 million relating to travel costs, remains outstanding at March 31, 2009.

19. Subsequent Events

On April 30, 2009 the Company submitted its RCAM report to the ERA indicating an allowable average consumer base rate adjustment of 2.4% effective June 1, 2009 based upon the 2008 Price Level Index.

20. Comparative Figures

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

Shareholder Information

Shareholder Plans

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

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

Shareholder Information

Duplicate Quarterly Reports

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

Our Registrar and Transfer Agents are as follows:

CIBC Mellon Trust Company

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

Caribbean Utilities Company, Ltd.

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

This Quarterly Report highlights certain, but not all, events that may be of interest to you. 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.

Douglas H. Murray
Corporate Secretary
P.O. Box 38
Grand Cayman KY1-1101
CAYMAN ISLANDS
Tel: (345) 949-5200
Fax: (345) 949-4621
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