



Caribbean Utilities Company, Ltd.

2011 First Quarter Report

March 31, 2011



About the Company

Caribbean Utilities Company, Ltd., (“CUC” or “the Company”) commenced operations as the only electric utility in Grand Cayman on May 10, 1966. The Company currently has an installed generating capacity of 151.230 megaWatts (MW), and a record peak load of 102.086 MW was experienced on June 03, 2010. CUC is committed to providing a safe and reliable supply of electricity to over 26,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman’s rapid development for over 40 years.

The Company’s registered office address is 457 North Sound Road, P.O Box 38, Grand Cayman KY1-1101 and employs 194 employees.

About the Cayman Islands

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

A Governor, presently His Excellency Mr. Duncan Taylor, is appointed by her Majesty the Queen. A democratic society, the Cayman Islands have a Legislative Assembly comprised of representatives elected from each of Grand Cayman’s five districts as well as two representatives from the Sister Islands of Cayman Brac and Little Cayman.

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

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

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To Our Shareholders

Dear Shareholder,

We are pleased to report, that despite continuing weak economic conditions on Grand Cayman (the "Island"), during the three months ended March 31, 2011 ("First Quarter 2011") the Company continued its steady performance with marginal growth in sales and total customers, and an increase in net earnings compared to the three months ended March 31, 2010 ("First Quarter 2010").

Net earnings for the First Quarter 2011 increased by \$0.6 million, to \$3.1 million in comparison to \$2.5 million for the First Quarter 2010. This increase is due to the 1.5% kWh sales growth for the period and lower transmission and distribution and maintenance expenses. Maintenance expenses for the First Quarter 2011 were expected to be lower than those seen in 2010 due to various capital projects scheduled for 2011. These factors were partially offset by higher depreciation expense in the First Quarter of 2011.

Earnings on Class A Ordinary Shares for the First Quarter 2011, after adjustment for dividends on the Class B Preference Shares were \$3.0 million, or \$0.11 per Class A Ordinary Share, compared to \$2.3 million, or \$0.08 per Class A Ordinary Share for the First Quarter 2010.

KiloWatt-hour ("kWh") sales for the First Quarter 2011 totalled 125.2 million, an increase of 1.8 million kWh, or 1%, in comparison to 123.4 million for the First Quarter 2010. An increase in the total number of customers coupled with warmer, drier weather contributed to this growth.

The total number of customers stood at 26,261 at the end of the First Quarter 2011, an increase of 2% when compared to 25,676 at the end of the First Quarter 2010. Residential customers increased by 140 and commercial customers decreased by 30 during the quarter.

Electricity sales revenues increased \$0.3 million, or 2%, to \$15.8 million for the First Quarter 2011 compared to \$15.5 million for the First Quarter 2010. Electricity sales revenues increased due to the 1.5% kWh sales growth experienced quarter-over-quarter.

Capital expenditures for the First Quarter 2011 totalled \$10.5 million, a \$4.2 million, or 67% increase over \$6.3 million for the First Quarter 2010. The capital expenditures for the three months ended March 31, 2011 primarily relate to the distribution system extension and upgrades as well as generation upgrades.

The average price per imperial gallon ("IG") of fuel for the First Quarter 2011 was \$4.26, an increase of 35% when compared to \$3.15 for the same period in 2010. The Company's average price per IG of lube increased 25% to \$13.10 in the First Quarter 2011 compared to \$10.52 for the First Quarter 2010. The cost of fuel and its impact on customers and the economy continues to be a concern. The Company, with the approval of the Electricity Regulatory Authority (ERA), has recently entered into hedging transactions to effectively cap the price on a portion of its fuel purchases.

In March 2011 the ERA approved the Company's proposed 2011-2015 Capital Investment Plan in the amount of \$134 million for non-generation installation expenditures. The ERA also approved the Company's application to delay retirement of two generating units and any new generation installation until there is more certainty in growth forecasts. The next generating unit is currently scheduled for installation in 2014.

During the First Quarter 2011, the Company, with the approval of the ERA, introduced a Feed-in Tariff structure ("FIT") as part of the Consumer Owned Renewable Energy ("CORE") programme. FIT provides for CUC to purchase energy from CORE generators at a rate approximate to the true cost of the renewable energy and to pass this cost through in the fuel factor. The FIT programme, which started on February 1, 2011, will run initially as a pilot programme for one year or until the quota of 1 megawatt ("MW") of capacity has been filled. The introductory rate for the FIT programme is \$0.44 per kiloWatt hour ("kWh") for customers generating renewable energy which is fed into the grid.

The Company has long taken pride in providing customers with a highly reliable service and, in the last two years, has had an Average Service Availability Index above 99.96%. However, during the First Quarter 2011 the Company, having experienced failures on three of its large generating units, operated with tight reserve margins while arranging for temporary capacity to be shipped on island. As a result, power disruptions were experienced on the Island as the Company had to commence load shedding operations for 4 days in February and March when the peak load could not be met. In early April 2011 the Company received 15 MW of temporary mobile generators which have been fully commissioned. The Company remains committed to providing a world-class, reliable service and expects a return to normal generating capacity levels by early May 2011.

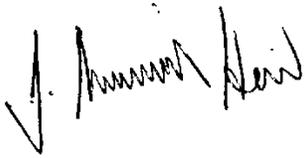
Safety remains our number one priority as our business carries with it an inherent high risk of injury to employees or the public if safety risks are not properly managed. The Company, its employees and the public have enjoyed 45 years of effective safety practices. On January 28, 2011 an explosion occurred at the Company's Power Plant, the cause of which is still under investigation. The explosion resulted in burn injuries to two employees, one of whom is

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currently recovering in the hospital. We wish him a full and speedy recovery and look forward to his return to the Company. Thankfully, the second employee made a swift recovery and was welcomed back to the Company in March 2011.

Finally, the Company is proud to report that we were named a Top Employer in Grand Cayman in the Cayman Islands Society of Human Resources survey in April 2011. The Company placed third in the large employer category. Being a Top Employer in Grand Cayman means that the Company focuses on the attraction and retention of talented employees, demonstrates high levels of commitment to staff development, is involved in Cayman's community and is a place where employees "trust the people they work for, take pride in what they do and enjoy the people they work with".

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



J.F. Richard Hew
President & Chief Executive Officer

May 2, 2011

Interim Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or the "Company") unaudited financial statements for the three months ended March 31, 2011 and audited financial statements for the twelve months ended December 31, 2010. The material has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to Management's Discussion and Analysis.

Additional information in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, and their impact, which are disclosed in the notes to the Company's 2010 annual financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation the amount and timing of the recovery or refund would not be subject to regulatory approval.

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

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

Financial and Operational Highlights

<i>(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)</i>	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Change	% Change
Electricity Sales	15,778	15,538	240	2%
Fuel Factor Revenues	28,189	24,839	3,350	13%
Operating Revenues	43,967	40,377	3,590	9%
Total Operating Expenses	39,399	36,221	3,178	9%
Earnings for the Period	3,131	2,456	675	27%
Basic Earnings per Class A Ordinary Share	0.11	0.08	0.03	38%
Dividends paid per Class A Ordinary Share	0.165	0.165	-	0%
Peak Load Gross (MW)	87.3	91.9	(4.6)	-5%
Net Generation (millions of kWh)	134.3	132.3	2.0	1.5%
Kilowatt-Hour Sales (millions of kWh)	125.2	123.4	1.8	1.5%
Total Customers	26,261	25,676	585	2%
Customers per Employee (#)	135	131	4	3%
Sales per employee (millions of kWh)	0.65	0.63	0.02	3%

Corporate and Regulatory Overview

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

The Licences contain the provision for a rate cap and adjustment mechanism ("RCAM") based on published consumer price indices. CUC's return on rate base ("RORB") for 2010 was 7.9% (2009: 7.8%). CUC's RORB for 2011 is targeted in the 7.75% to 9.75% range (2010: 7.75% to 9.75%).

CUC's base rates are designed to recover all non-fuel and regulatory costs and include per kWh electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. In March 2011, after the requisite review, the Company confirmed to the Electricity Regulatory Authority ("ERA") that the RCAM yielded no rate adjustment for June 2011 as the slight inflation in the applicable United States price index, adjusted to exclude food and fuel, was offset by deflation in the Cayman Islands consumer price index, also adjusted to exclude food and fuel, for calendar year 2010. All fuel and lubricating oil costs are passed through to customers without mark-up as a per kWh charge.

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

The ERA has the overall responsibility of regulating the electricity industry in the Cayman Islands in accordance with the ERA Law. The ERA oversees all licensees, establishes and enforces licence standards, enforces applicable environmental and performance standards, reviews the proposed RCAM and sets the rate adjustment factors as appropriate.

The ERA also annually reviews and approves CUC's capital investment plan ("CIP"). In November 2010, the Company filed its 2011-2015 Capital Investment Plan ("CIP") totalling approximately \$219 million. The 2011-2015 CIP has been prepared upon the basis of the Company's application to the Electricity Regulatory Authority for a delay in any new generation installation until there is more certainty in growth forecasts. In March 2011 the ERA approved the \$134 million of proposed non-generation installation expenditures in the CIP. The remaining \$85 million of the CIP relates to new generation installation which would be subject to a competitive solicitation process with the next generating unit currently scheduled for installation in 2014.

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

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

Earnings

Net earnings for the three months ended March 31, 2011 (the "First Quarter 2011") totalled \$3.1 million, an increase of \$0.6 million in comparison to \$2.5 million for the three months ended March 31, 2010 (the "First Quarter 2010"). This increase was due to kWh sales growth of 1.5% for the period and lower transmission and distribution and maintenance expenses, which were partially offset by higher depreciation expense.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2011 were \$3.0 million, or \$0.11 per Class A Ordinary Share, an increase of \$0.7 million over the \$2.3 million, or \$0.08 per Class A Ordinary Share for the First Quarter 2010.

Sales

Sales for the First Quarter 2011 totalled 125.2 million kwh, an increase of 1.8 million kWh, or 1.5%, in comparison to 123.4 million kwh for the First Quarter 2010. Sales were positively impacted by increased customer numbers quarter-over-quarter and warmer and drier weather conditions that affected customer air conditioning load. The average temperature for the First Quarter 2011 was 79.3 degrees Fahrenheit (F) as compared to an average temperature of 78.1 degrees for the same period last year. The average monthly rainfall for the First Quarter

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2011 was 0.5 inches as compared to an average rainfall of 0.7 inches for the same period last year.

Total customers as at March 31, 2011 were 26,261, an increase of 585 customers, or 2%, compared to 25,676 customers as at March 31, 2010. The Company had a net increase of 110 customers for the First Quarter 2011, comprising 140 residential connections and 30 commercial disconnections.

The following tables present sales and customer highlights:

Customers (#)	March-11	March-10
Residential	22,451	21,924
Commercial	<u>3,810</u>	<u>3,752</u>
Total Customers	26,261	25,676

Sales and customer highlights continued:

Sales (thousands kWh)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	% Change
Residential	54,998	55,772	-1.4%
Commercial	68,701	66,088	4.0%
Other (street lighting, etc.)	<u>1,545</u>	<u>1,560</u>	-1.0%
Total Sales	125,244	123,420	1.5%

Operating Revenues

Operating revenues increased \$3.6 million, or 9%, to \$44.0 million for the First Quarter 2011, from \$40.4 million for the First Quarter 2010, due to 1.5% kWh sales growth and 13% higher fuel factor revenues.

Electricity sales revenues increased \$0.3 million, or 2%, to \$15.8 million for the First Quarter 2011, from \$15.5 million for the First Quarter 2010. Electricity sales revenues are higher due to 1.5% kWh sales growth experienced quarter-over-quarter.

Fuel factor revenues for the First Quarter 2011 totalled \$28.2 million, a \$3.4 million, or 13%, increase from the \$24.8 million in fuel factor revenues for the First Quarter 2010. Fuel factor revenues increased due to an increase in the cost of fuel (see Power Generation for further detail). The average Fuel Cost Charge for the First Quarter 2011 was \$0.24 per kWh, a 20% increase from \$0.20 per kWh for the First Quarter 2010. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

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Total operating revenues were as follows:

Revenues (thousands \$)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Change	% Change
Residential	7,212	7,297	(85)	-1%
Commercial	8,460	8,159	301	4%
Other (street lighting, etc.)	<u>106</u>	<u>82</u>	24	29%
Electricity Sales Revenues	15,778	15,538	240	2%
Fuel Factor Revenues	<u>28,189</u>	<u>24,839</u>	3,350	13%
Total Operating Revenues	43,967	40,377	3,590	9%

Operating Expenses

Operating expenses for the First Quarter 2011 totalled \$39.4 million, a \$3.2 million, or 9%, increase from \$36.2 million for the First Quarter 2010. The major contributing factors to this increase are higher power generation and depreciation expenses which were partially offset by lower maintenance, and transmission and distribution expenses.

Operating expenses were as follows:

(\$ thousands)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Change	% Change
Power generation expenses	28,938	25,602	3,336	13%
General and administration	2,117	2,080	37	2%
Consumer Services	427	410	17	4%
Transmission and distribution	407	546	(139)	-25%
Depreciation	5,221	4,998	223	4%
Maintenance	2,217	2,468	(251)	-10%
Amortization of Intangible Assets	<u>72</u>	<u>117</u>	(45)	-38%
Total operating expenses	39,399	36,221	3,178	9%

Power Generation

Power generation costs for the First Quarter 2011 increased \$3.3 million, or 13%, to \$28.9 million when compared to \$25.6 million for the First Quarter 2010. The increase is a result of 1.5% growth in kWh generated and an increase in the cost of fuel. The peak load for the First Quarter 2011 was 87.3 MW, a 5% decrease compared to the peak load for the same period last year of 91.9 MW. For most of the year, with the exception of summer months, CUC typically experiences peak consumption in the evening hours. Although temperatures on

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average have been warmer for First Quarter 2011 when compared to First Quarter 2010, evening temperatures have been lower on average, reducing air conditioning load and contributing to lower peaks.

Power generation expenses were as follows:

<i>(\$ thousands)</i>	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Change	% Change
Fuel costs (net of deferred fuel charges)	27,600	24,171	3,429	14%
Lube costs (net of deferred lube charges)	589	668	(79)	-12%
Other generation expenses	749	763	(14)	-2%
Total power generation expenses	28,938	25,602	3,336	13%

The Company's average price per imperial gallon ("IG") of fuel for the First Quarter 2011 increased 35% to \$4.26, compared to \$3.15 for the First Quarter 2010. The Company's average price per IG of lube for the First Quarter 2011 increased 25% to \$13.10, compared to \$10.52 for the First Quarter 2010.

The Fuel Tracker Account (see note 5 of the financial statements) is comprised of total diesel fuel and lube oil costs to be recovered from consumers.

Other generation expenses for the First Quarter 2011 totalled \$0.7 million which were comparable to \$0.8 million for the First Quarter 2010.

General and Administration ("G&A")

G&A expenses for the First Quarter 2011 totalled \$2.1 million, comparable to G&A expenses for the First Quarter 2010. General Expenses Capitalised ("GEC") totalled \$0.6 million for the First Quarter 2011, \$0.1 million higher than \$0.5 million for the First Quarter 2011.

Consumer Services ("CS")

CS expenses for the First Quarter 2011 totalled \$0.43 million, an increase of \$0.02 million or 4% when compared to \$0.41 million for the First Quarter 2010. The Company continues to seek improved efficiencies in this area through the use of technology.

Transmission and Distribution ("T&D")

T&D expenses for the First Quarter 2011 totalled \$0.4 million, a \$0.1 million, or 25% decrease compared to \$0.5 million for the First Quarter 2010. This decrease was partially due to increased capitalised labour as the T&D Division focused on capital projects.

Depreciation

Depreciation expenses for the First Quarter 2011 totalled \$5.2 million, an increase of \$0.2 million, or 4%, from \$5.0 million for the First Quarter 2010. This increase is primarily the result of growth-related additions to fixed assets in prior periods including the completion of the expansion and upgrade of the transmission system through the extension of the 69

kilovolt ("kV") line extension. The final cost was \$6.2 million and depreciation began in the second quarter of 2010.

This increase was offset by the temporary cessation of depreciation on a 16 MW unit in October 2010 and the temporary cessation of depreciation on a 7.59 MW unit in March 2011. The 16 MW unit was taken out of service due to an overspeed failure. It is estimated that repairs will be completed in April 2011. The 7.59 MW unit was taken out of service due to a major mechanical failure. An estimate of the repair time for this unit is not yet completed. The cost of the repairs for both units are covered by the Company's insurance policy subject to the deductible (see 'Insurance - Terms & Coverage' in the Business Risks section of the MD&A for greater detail).

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

In the case of the 16 MW unit and the 7.59 MW unit, as required by the Licences, insurance proceeds will be applied to accumulated depreciation and as the asset is repaired the costs incurred will be capitalized (see note 4 of the financial statements for further detail).

Maintenance

Maintenance expenses for the First Quarter 2011 totalled \$2.2 million, a decrease of \$0.3 million from \$2.5 million for the First Quarter 2010. Maintenance expenses for the first quarter of 2011 were expected to be lower than those seen in 2010 due to various capital projects scheduled in 2011. Certain upgrades to generating units are considered capital in nature as the upgrades extend the life or increase the output of the unit.

Amortization

Amortization of intangible assets for the First Quarter 2011 totalled \$0.07 million, a decrease of \$0.05 million, or 41% when compared to \$0.12 million for the First Quarter 2010. This decrease relates to the full amortization of the Company's main business system software that was installed in 2000. The software continues to be utilized and will not be replaced in its entirety prior to 2013.

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

Other Income and Expenses

Net Other Expenses for the First Quarter 2011 totalled \$1.4 million, a decrease of \$0.3 million from \$1.7 million for the First Quarter 2010.

<i>(\$ thousands)</i>	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Change	% Change
Total interest costs	(2,927)	(3,142)	215	7%
AFUDC	772	764	8	1%
Total finance charges	(2,155)	(2,378)	223	9%
Foreign exchange gain	401	386	15	4%
Other income	317	292	25	9%
Total net other expenses	(1,437)	(1,700)	263	15%

Finance charges for the First Quarter 2011 totalled \$2.2 million, a \$0.2 million, or 9% decrease from \$2.4 million for the First Quarter 2010. No new long-term debt was issued by the Company in 2010. Maturing notes led to the decrease in finance charges.

Under the T&D Licence there is a provision for an Allowance for Funds Used During Construction ("AFUDC"). This capitalisation of the Financing Cost is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for 2011 is 8.75% as agreed with the ERA, in accordance with the T&D Licence, and will be reviewed annually. The cost of capital rate for 2010 was 8.75%. The AFUDC amount for the First Quarter 2011 totalled \$0.8 million, comparable to AFUDC for the First Quarter 2010.

Foreign exchange gains and losses are the result of monetary assets and liabilities denominated in foreign currencies that are translated into United States dollars at the exchange rate prevailing on the Balance Sheet date. Revenue and expense items denominated in foreign currencies are translated into United States dollars at the exchange rate prevailing on the transaction date. Foreign exchange gains for the First Quarter 2011 totalled \$0.4 million, comparable to foreign exchange gains for the First Quarter 2010.

Other income totalled \$0.32 million for the First Quarter 2011 comparable to \$0.29 million for the First Quarter 2010. Other income is comprised of pole rental fees, income from pipeline operations, sale of meter sockets, sale of recyclable materials and other miscellaneous income.

The Economy

The Cayman Islands have two main industries; financial services and the tourism sector. These sectors were not immune to the effect of the recent recession experienced worldwide. The recession that began to impact the islands in 2009 continued in 2010. A fall in Gross Domestic Product ("GDP") was reported for 2009 (System of National Accounts Report 2009; released November 2010) at negative 4.7% as compared to 1.2% in 2008. The 2010 Third Quarter Economic Report released in January 2011 indicates that the Cayman Islands 2010 GDP contracted at an annualized rate of negative 5.8% for the first three quarters of 2010. The Government's 2010 projection for GDP growth is presented as a range of negative 3.5% to negative 4.5%.

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

	As at March 2011	As at December 2010	As at December 2009	As at December 2008	As at December 2007
Bank Licences	246	245	266	278	281
Registered Companies	91,712	91,206	92,867	93,693	87,109
Mutual Funds	9,261	9,438	9,523	9,870	9,413
Mutual Fund Administrators	134	134	141	155	152
Captive Insurance Companies	749	738	780	777	765

The estimated square footage of projects slated for completion in 2011 is 703,125. Compass Point, a dive resort located in East End and San Sebastian, a residential community located in South Sound are estimated at 50,000 square feet each. The Government administration building was completed in late 2010 and was occupied in April 2011. Camana Bay, a planned community, will rest on approximately 500 acres of land when completed. The next phase includes an estimated additional 25,000 square feet of commercial space to be completed in December 2011. Building permits, project approvals and the progress of approved projects are indicators of future expansion and are relevant to the Company's projection process for future generation.

The Preliminary Report of the Cayman Islands 2010 Population and Housing Census listed the current population at 54,878 as compared to 57,009 estimated in 2008 due to declines in the non-Caymanian workforce. Cayman has a high proportion of foreign nationals that provide labour in various sectors of the economy. At the close of 2009 there were 23,531 work permits in effect in the Cayman Islands, as at the end of September 2010 that number has dropped to 20,432. Government attributes this decrease to "the sharp slowdown in construction, the largest employer of foreign labour".

The tourist demographic is largely comprised of visitors from the US. In 2010 80% of air arrivals to the country were citizens of the US. As such the US economy largely impacts that of the Cayman Islands. First Quarter 2011 air arrivals were up 7% when compared to First Quarter 2010 and cruise arrivals were up 8% when compared to First Quarter 2010.

Air arrivals from Canada were up 36% in First Quarter 2011 when compared to First Quarter 2010. Beginning in fall 2010 WestJet, a Calgary based airline, began offering non-stop service to Grand Cayman. Air arrivals have a direct impact on the Company's sales growth as these visitors are stay-over visitors who occupy the hotels. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

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

Arrivals	2011	2010	2009	2008	2007
By Air	93,822	87,841	81,080	94,650	86,819
By Sea	<u>510,648</u>	<u>472,036</u>	<u>465,884</u>	<u>553,993</u>	<u>646,304</u>
Total	604,470	559,877	546,964	648,643	733,123

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

Liquidity and Capital Resources

The following table outlines the summary of cash flow:

<i>(\$ thousands)</i>	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Change
Beginning cash	2,363	4,927	(2,564)
Cash provided by/(used in):			
Operating activities	12,005	13,513	(1,508)
Investing activities	(8,606)	(6,280)	(2,326)
Financing activities	(4,399)	(4,346)	(53)
Ending cash	1,363	7,814	(6,451)

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for the First Quarter 2011, was \$12.0 million, a decrease of \$1.6 million from \$13.5 million for the First Quarter 2010. This decrease is attributable to movement in regulatory deferrals offset by the increase in earnings.

Investing Activities:

Cash used in investing activities for the First Quarter 2011 totalled \$8.6 million, an increase of \$2.3 million from \$6.3 million for the First Quarter 2010. This increase is attributable to increased capital expenditures.

Financing Activities:

Cash used in financing activities for the First Quarter 2011 totalled \$4.4 million compared to \$4.3 million for the First Quarter 2010.

Transactions with Related Parties

Miscellaneous receivables from Fortis Turks & Caicos totalling \$0.02 million were outstanding at March 31, 2011 (2010:\$0.04 million). Miscellaneous payables to Fortis Inc. totalled \$0.03 million as at March 31, 2011 (2010:\$0.03 million).

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at March 31, 2011, are outlined in the following table:

<i>(\$ millions)</i>	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	195.3	29.3	37.7	30.9	97.4
Defined benefit pension	0.4	0.4			
Total	195.7	29.7	37.7	30.9	97.4

Caribbean Utilities Company, Ltd.

The Company has a primary fuel supply contract with Esso Standard Oil S.A. ("Esso") and is committed to purchase approximately 80% of the Company's diesel fuel requirements for its generating plant from Esso. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2011 – 24.7. The contract contains an automatic renewal clause for the years 2010 through to 2012. The company renewed the contract until 2011 and plans to renew the contract until its final expiry in 2012.

Financial Position

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2010 to March 31, 2011:

Significant changes in Balance Sheets between December 31, 2010 and March 31, 2011 (\$ millions)	Increase (Decrease)	Explanation
Cash	(1.0)	Decrease due to cash used in investing activities of \$8.6 million and cash utilised in financing activities of \$4.4 million, partially offset by cash provided by operating activities of \$12.0 million.
Accounts receivable - Trade	(1.0)	Decrease due to lower sales and lower billings during the First Quarter of 2011 as compared to the Fourth Quarter of 2010.
Other Receivable - Insurance	(1.9)	Decrease due to funds received from the insurance company of \$2.1 million in relation to overspeed failure on a 16 MW unit.
Regulatory Assets	4.2	In accordance with the regulatory environment the fuel tracker account is classified as a regulatory asset. This amount represents fuel costs incurred by the Company that are recoverable from the customer.
Inventory	1.6	Change mainly attributable to increase in fuel costs and higher fuel inventory levels.
Property, Plant and Equipment	5.2	Net increase is comprised of capital expenditures of \$10.4 million and depreciation expense of \$5.2 million.
Accounts Payable & Accrued Expenses	7.4	Change mainly attributable to increase in fuel costs.
Retained Earnings	(1.7)	Decrease due to net earnings for the period of \$3.1 million offset by Class A dividends of \$4.0 million and Class B dividends of \$0.8 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 per cent equity, including preference shares, and 55 per cent debt. The Company's objective is to maintain investment-grade credit ratings. The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the rights offering that occurred in 2008.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65 per cent of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at March 31, 2011, 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, 2011 (\$ millions)	%	December 31, 2010 (\$ millions)	%
Total debt	195.3	53	195.3	53
Shareholder's equity	<u>172.6</u>	<u>47</u>	<u>173.8</u>	<u>47</u>
Total	367.9	100	369.1	100

The Company's capital structure at March 31, 2011 is comparable to the capital structure at December 31, 2010.

The Company's credit ratings are as follows:

S&P A/Negative
DBRS A (low)

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

In November 2010 S&P affirmed the Company's 'A' credit rating but maintained its negative outlook based on a weak Cayman Islands economy and S&P's concern that it could create a more difficult operating environment for CUC in the next few years. S&P stated that if the Cayman economy continues to demonstrate subdued or negative growth the rating could be lowered. Conversely, the outlook could be revised to stable if the economy quickly improves.

Credit Facilities

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

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

Of the total above, \$15.0 million was available at March 31, 2011.

Capital Expenditures

Capital expenditures for the three months ended March 31, 2011 were \$10.5 million, a \$4.2 million, or 67% increase from \$6.3 million in capital expenditures for the three months ended March 31, 2010. Included within capital expenditures are funds allocated towards the replacement of various assets for which the replacement costs are covered by insurance proceeds. The capital expenditures for the three months ended March 31, 2011 primarily relate to:

- Distribution system extension and upgrades - \$2.5 million.
- Generating Unit 33 - \$3.4 million

Caribbean Utilities Company, Ltd.

- Generating Unit 33 is the 16 MW unit which experienced the overspeed failure discussed in detail within the 'Depreciation' section of this MD&A. In accordance with the Licences when an asset is impaired or disposed of, before the original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. In the case of Generating Unit 33, as the asset is repaired the costs incurred are being capitalized and the insurance proceeds are being applied to accumulated depreciation.
- Generating Unit 2 Piston & Liner Upgrade - \$1.9 million
- Other Building Upgrade - \$0.7 million
- Generation Replacement Cost - \$0.5 million
- Inventory that has met the criteria of Property, Plant and Equipment 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 2011, a decrease of \$0.04 million was allocated to Distribution, reallocated from inventories to capital work in progress. As at March 31, 2011, 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 \$0.8 million was capitalized in the three months ended March 31, 2011.

Capital expenditures (\$ Millions)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Transmission	0.0	1.2
Distribution	2.6	2.7
Generation	7.6	2.2
Other	<u>0.3</u>	<u>0.2</u>
Total	10.5	6.3

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, 2011.

Business Risks

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

Operational Risks

Operational risks are those risks normally inherent in the operation of generating, transmission and distribution facilities. The Company's facilities are subject to the risk of equipment failure due to deterioration of the asset from use or age, latent defects and design or operator error, among other things. These risks could lead to longer-than-forecast equipment downtimes for maintenance and repair, disruptions of power generation, customer service interruptions, could result in injury to employees and the public. Accordingly, to

ensure the continued performance of the physical assets, the Company determines expenditures that must be made to maintain and replace the assets.

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

Economic Conditions

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

Regulation

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

Weather

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

Environmental Matters

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

In 2004, CUC was initially registered to the ISO 14001 which is the international standard for Environmental Management System ("EMS"). The Company continuously adheres with the standard and the renewal of the registration occurred in May 2010. 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").

Insurance – Terms and Coverage

The Company renewed its insurance policy as at July 1, 2010 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include \$100 million in property and machinery breakdown insurance and business interruption insurance per annum with a 24-month indemnity period and a 45-day deductible. All T&D assets outside of 1,000 feet from the boundaries of the main plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$0.5 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1 million and maximum deductible of \$4 million for all interests combined.

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

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

The Company has begun discussions on the renewal of its insurance coverage for the 2011/2012 period.

Transition to New Accounting Standards

Under Canadian securities regulation, CUC is required to adopt International Financial Reporting Standards ("IFRS") effective January 1, 2012. In the absence of an accounting standard for rate-regulated activities, the adoption of IFRS could result in significant volatility in the Company's earnings from those otherwise recognised under US GAAP or previous Canadian GAAP. CUC is considering various options that would allow the Company to apply US GAAP for the purpose of meeting financial and regulatory reporting requirements in Canada effective January 1, 2012. For a full discussion of the Company's IFRS response see section on "Future Accounting Pronouncements".

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

Market driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the assumed return on the assets causing material changes in consolidated pension expense and funding requirements. Net pension expense is impacted by, among other things, the amortization of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other pension assumptions, including the assumed discount rate, may also result in future consolidated contributions to pension plans that differ significantly from current estimates as well as causing material changes in consolidated pension expense. The discount rate assumed for 2011 is 5.5% compared to the discount rate assumed during 2010 which was 6.0%.

There is also measurement uncertainty associated with pension expense, future funding requirements, the accrued benefit asset, accrued benefit liability and benefit obligation due to measurement uncertainty inherent in the actuarial valuation process.

A discussion of the critical accounting estimates associated with pensions is provided in the "Critical Accounting Estimates" section of this MD&A.

Future Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises would be replaced by IFRS for fiscal years beginning on or after January 1, 2011.

IFRS does not currently provide guidance with respect to accounting for rate-regulated activities. In September 2010 the International Accounting Standards Board ("IASB") confirmed its view that matters associated with rate-regulated accounting could not be resolved quickly. The IASB decided, therefore, to defer any further discussion on accounting for rate-regulated activities until public consultation on its future agenda is held, and views as to what form, if any, a future project might take to address accounting for the effects of rate-regulated activities are obtained. Without specific guidance on accounting for rate-regulated activities by the IASB, the adoption of IFRS could result in significant volatility in the Company's earnings from those otherwise recognised under Canadian GAAP.

In view of delays in resolving issues surrounding rate regulated activities within IFRS, the AcSB has provided qualifying entities with an option to defer their changeover to IFRS by one year. The necessary amendments to the CICA Handbook were published by the AcSB in October 2010.

While the IFRS Conversion Project had proceeded as planned in preparation for the adoption of IFRS on January 1, 2011, CUC qualifies for the optional one year deferral and, therefore, will continue to prepare financial statements in accordance with Part V of the CICA Handbook for all interim and annual periods ending on or before December 31, 2011.

Due to the continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the IASB, Fortis expects to prepare its consolidated financial statements in accordance with US GAAP for all interim and annual periods beginning on or after January 1, 2012. Canadian rules allow a reporting issuer to prepare and file its financial statements in accordance with US GAAP by qualifying as a US Securities and Exchange Commission ("SEC") registrant.

CUC is considering an application for exemptive relief under the Canadian Securities Administrators ("CSA") National Instrument 52-107 for permission to qualify to apply US GAAP for the purpose of meeting financial and regulatory reporting requirements in Canada effective January 1, 2012. Should the Company not be successful in the application for exemptive relief, CUC will be required to adopt IFRS effective January 1, 2012.

The Company anticipates a significant increase in disclosure resulting from the adoption of IFRS. The Company is identifying and assessing the impact of the additional disclosure requirements, as well as implementing systems changes that will be necessary to compile the required disclosures. Independent expertise has been engaged to assist in the valuation process.

Differences between IFRS and Canadian GAAP, in addition to those referenced further under "Accounting Policy Impacts and Decisions", may continue to be identified based on further detailed analyses by the Company, and other changes in IFRS prior to the Company's conversion to IFRS in 2012.

IFRS Conversion Project:

The Company's IFRS Conversion Project consists of three phases: Scoping and Diagnostics, Analysis and Development, and Implementation and Review.

Phase One: Scoping and Diagnostics, which involved project planning and staffing and identification of differences between current Canadian GAAP and IFRS, was completed in the first half of 2008. The areas of accounting difference of highest potential impact to the Company, based on existing IFRS at the time, were identified to include rate regulated accounting; property, plant and equipment; employee benefits; impairment of assets; and initial adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1").

Phase Two: Analysis and Development is complete and has involved 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; initial staff training and audit committee orientation; analysis of IFRS 1 optional exemptions and mandatory exceptions to the general requirement for full retrospective application upon transition; analysis of IFRS disclosure requirements; and development of required solutions to address identified issues.

Phase Three: Implementation and Review has commenced and involves the execution of changes to information systems and business processes; completion of formal authorization processes to approve recommended accounting policy changes; and further training programmes across the Company's finance and other affected areas, as necessary. It will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements and reconciliations; embedding of IFRS into the Company's business processes; and audit committee approval of IFRS-compliant interim and annual financial statements for 2012.

The IASB has a number of on-going projects on its agenda that may result in changes to existing IFRS prior to the Company's conversion to IFRS in 2012. The Company continues to monitor these projects and the impact that any resulting IFRS changes may have on its accounting policies, financial position or results of operations under IFRS for 2012 and beyond.

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, 2011, the amount of unbilled revenue recorded in Electricity Sales was \$5.1 million (March 31, 2010: \$4.7 million).

kWh Sales

kWh 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, 2011, the amount of estimated kWh sales was 37.4 million kWh (March 31, 2010: 35.4 million kWh).

Employee Future Benefits

The Company's defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation. There are currently two participants in the Company's defined benefit pension plan. The main assumptions utilized by Management in determining pension expense and obligations were the discount rate for the accrued benefit obligation, pension commencement date, inflation and the expected rate of return on plan assets. As at March 31, 2011, the Company had an accrued benefit liability of \$0.1 million (December 31, 2010: \$0.1 million).

Property, Plant and Equipment Depreciation

Depreciation, by its very nature is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at March 31, 2011, the net book value of the Company's PP&E was \$357.7 million compared to \$352.5 million as at December 31, 2010, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the First Quarter 2011 was \$5.2 million and \$5.0 million for the First Quarter 2010. Due to the value of the Company's property, plant and equipment, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

Quarterly Results

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended June 30, 2009 through March 31, 2011. 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.

<i>Quarterly results (\$ thousands, except basic and diluted earnings per ordinary share)</i>	Operating Revenue	Net earnings	Income applicable to ordinary shares	Earnings per ordinary share	Diluted earnings per ordinary share
March 31, 2011	43,967	3,131	3,044	0.11	0.11
December 31, 2010	47,442	4,666	4,048	0.15	0.15
September 30, 2010	49,095	6,568	6,455	0.23	0.23
June 30, 2010	43,182	6,188	6,075	0.21	0.21
March 31, 2010	40,377	2,456	2,346	0.08	0.08
December 31, 2009	43,851	5,893	5,528	0.20	0.20
September 30, 2009	44,166	6,644	6,051	0.21	0.21
June 30, 2009	35,703	5,042	4,929	0.18	0.18

March 2011/March 2010

Net earnings for First Quarter 2011 totalled \$3.1 million, an increase of \$0.6 million in comparison to \$2.5 million for First Quarter 2010. This increase was due to kWh sales growth of 1.5% for the period and lower T&D and maintenance expenses, which were partially offset by higher depreciation expense.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2011 were \$3.0 million, or \$0.11 per Class A Ordinary Share, an increase of \$0.7 million over the \$2.3 million, or \$0.08 per Class A Ordinary Share for the First Quarter 2010.

December 2010/December 2009

Net earnings for the three months ended December 31, 2010 (the "Fourth Quarter 2010") were \$4.7 million, representing a decrease of 20% or \$1.2 million from net earnings of \$5.9 million for the three months ended December 31, 2009 (the "Fourth Quarter 2009"). This decrease in earnings is primarily due to a 10% kWh sales decline quarter over quarter. Fourth Quarter 2010 was negatively impacted by cooler than average temperatures.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2010 were \$4.0 million, or \$0.15 per Class A Ordinary Share, as compared to \$5.5 million, or \$0.20 per Class A Ordinary Share for the Fourth Quarter 2009. In 2009 an accrual was made for Class B Preference Share ("Class B") dividends to align the payment with the calendar year end. The accrual in 2009 related to a portion of the Class B participating dividend. In 2010 the participating dividend for Class B shareholders is accrued in its entirety in the fourth quarter.

September 2010/September 2009

Net earnings for the three months ended September 30, 2010 (the "Third Quarter 2010") were \$6.6 million, comparable to net earnings for the three months ended September 30, 2009 (the "Third Quarter 2009"). Positive factors such as lower maintenance, G&A and T&D expenses were offset by lower kWh sales and higher depreciation and financing costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Third Quarter 2010 were \$6.5 million, or \$0.23 per Class A Ordinary Share, as compared to \$6.1 million or \$0.21 per Class A Ordinary Share for the Third Quarter 2009. The preference share participating dividend was recorded in the Third Quarter for fiscal year 2009; this timing was in keeping with the payout date for previous financial years prior to the year-end change. The timing of this accrual has now been adjusted to occur once again in the fourth quarter of the financial year effective 2010.

June 2010/June 2009

Net earnings for the three months ended June 30, 2010 (the "Second Quarter 2010") were \$6.2 million, representing an increase of 24% or \$1.2 million compared to net earnings of \$5.0 million for the three months ended June 30, 2009 (the "Second Quarter 2009"). Contributing to this increase is positive sales growth for the period, which was driven by higher than average temperatures, and lower maintenance, G&A and T&D expenses. These factors were partially offset by higher depreciation and financing costs.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2010 were \$6.1 million, or \$0.21 per Class A Ordinary Share, as compared to \$4.9 million or \$0.18 per Class A Ordinary Share for the Second Quarter 2009.

Disclosure Controls and Procedures

The President and Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), together with Management, have established and maintained the Company’s disclosure controls and procedures, to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the quarter ending March 31, 2011 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, 2011.

There has been no change in the Company’s ICFR that occurred during the period beginning on January 1, 2011 and ended on March 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Outlook

In November 2010, the Company filed its 2011-2015 Capital Investment Plan (“CIP”) totalling approximately US\$219 million. The 2011-2015 CIP has been prepared upon the basis of the Company’s application to the Electricity Regulatory Authority for a delay in the retirement of two generation units and any new generation installation until there is more certainty in growth forecasts. In March 2011 the ERA approved the Company’s application to delay retirement of the two generating units and also provided approval of the US\$134 million of proposed non-generation installation expenditures in the CIP. The remaining \$85 million of the CIP relates to new generation installation which would be subject to a competitive solicitation process with the next generating unit scheduled for installation in 2014.

The Company has recently entered into hedging transactions to effectively cap the price on a portion of its fuel purchases. In March 2011 the ERA approved a fuel price volatility management program submitted by the Company. Fuel is purchased at market prices that are impacted by many factors out of the Company’s control. Initially 40% of CUC’s annual fuel requirements will be governed by the program. The objective of the program is to stabilize the price of fuel to the Company. As approved by the ERA, all costs associated with the program will be included in the fuel pass-through costs.

Outstanding Share Data

At May 2, 2011 the Company had issued and outstanding 28,507,089 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

May 2, 2011

Caribbean Utilities Company, Ltd.

Balance Sheets

(expressed in thousands of United States Dollars)

Unaudited	Note	As at March 31, 2011	As At December 31 2010
Assets			
<i>Current Assets</i>			
Cash and Cash Equivalents		1,363	2,363
Accounts Receivable	3	10,904	11,917
Other Receivable - Insurance	4	258	2,188
Regulatory Assets	5	25,932	21,683
Inventories	6	4,674	3,074
Prepayments		<u>1,297</u>	<u>2,462</u>
		44,428	43,687
Property, Plant and Equipment	7	357,726	352,509
Other Assets		172	173
Intangible Assets	8	<u>2,622</u>	<u>2,595</u>
Total Assets		<u>404,948</u>	<u>398,964</u>
Liabilities and Shareholders' Equity			
<i>Current Liabilities</i>			
Accounts Payable and Accrued Expenses		32,434	24,985
Regulatory Liabilities	5	372	670
Short-Term Debt	9	17,000	17,000
Current Portion of Long-Term Debt		15,500	15,500
Consumers' Deposits and Advances for Construction		<u>4,242</u>	<u>4,178</u>
		69,548	62,333
Long-Term Debt		<u>162,815</u>	<u>162,790</u>
Total Liabilities		232,363	225,123
Shareholders' Equity			
Share Capital	11	1,947	1,944
Share Premium	11	75,737	75,355
Contributed Surplus	12	384	372
Retained Earnings		<u>94,517</u>	<u>96,170</u>
Total Shareholders' Equity		172,585	173,841
Total Liabilities and Shareholders' Equity		<u>404,948</u>	<u>398,964</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, 2011	Three Months Ended March 31, 2010
Operating Revenues			
Electricity Sales		15,778	15,538
Fuel Factor		<u>28,189</u>	<u>24,839</u>
<i>Total Operating Revenues</i>		43,967	40,377
Operating Expenses			
Power Generation		28,938	25,602
General and Administration		2,117	2,080
Consumer Services		427	410
Transmission and Distribution		407	546
Depreciation		5,221	4,998
Maintenance		2,217	2,468
Amortization of Intangible Assets		<u>72</u>	<u>117</u>
<i>Total Operating Expenses</i>		39,399	36,221
Operating Income		4,568	4,156
Other (Expenses)/Income:			
Finance Charges	13	(2,155)	(2,378)
Foreign Exchange Gain	14	401	386
Other Income		<u>317</u>	<u>292</u>
<i>Total Net Other Expenses</i>		(1,437)	(1,700)
Earnings and Comprehensive Income for the Period		3,131	2,456
<i>Preference Dividends Paid- Class B</i>		<u>(87)</u>	<u>(110)</u>
<i>Earnings on Class A Ordinary Shares</i>		3,044	2,346
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)	15	28,497	28,315
<i>Earnings per Class A Ordinary Share</i>	15	0.11	0.08
Diluted Earnings per Class A Ordinary Share	15	0.11	0.08
Dividends Declared per Class A Ordinary Share		0.165	0.165

See accompanying Notes to Interim Financial Statements

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

Unaudited	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Balance at beginning of period	96,170	95,955
Earnings for the period	3,131	2,456
Dividends	<u>(4,784)</u>	<u>(4,775)</u>
Balance at end of period	94,517	93,636

See accompanying Notes to Interim Financial Statements

Statements of Cash Flows

(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Operating Activities		
Earnings for the period	3,131	2,456
Items not affecting cash:		
Depreciation	5,221	4,998
Amortization of Intangible Assets	72	117
Non-cash Pension Expenses	-	120
Amortization of Deferred Financing Costs	43	48
Stock-based compensation	<u>12</u>	<u>12</u>
	8,479	7,751
Net change in non-cash working capital balances related to operations	8,073	4,109
Net Change in Regulatory Deferrals	<u>(4,547)</u>	<u>1,653</u>
<i>Cash flow related to operating activities</i>	12,005	13,513
Investing Activities		
Purchase of property, plant and equipment	(10,440)	(6,121)
Costs related to intangible assets	(99)	(159)
Other Receivable – Insurance	1,930	-
Proceeds on sale of property, plant and equipment	<u>3</u>	-
<i>Cash flow related to investing activities</i>	(8,606)	(6,280)
Financing Activities		
Dividends paid	(4,784)	(4,775)
Net proceeds from share issues	<u>385</u>	<u>429</u>
<i>Cash flow related to financing activities</i>	(4,399)	(4,346)
(Decrease)/Increase in net cash	(1,000)	2,887
Cash and cash equivalent - Beginning of period	<u>2,363</u>	<u>4,927</u>
Cash and cash equivalent - End of period	1,363	7,814
Supplemental disclosure of cash flow information:		
Interest paid during the period	84	42

See accompanying Notes to Interim Financial Statements

Notes to Interim Financial Statements

Unaudited - March 31, 2011 (expressed in thousands of United States dollars unless otherwise stated)

1. Nature of Operations and Financial Statement Presentation

These unaudited financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for interim financial statements and reflect the decisions of the Electricity Regulatory Authority ("ERA"). These decisions affect the timing of the recognition of certain transactions resulting in the recognition of regulatory assets and liabilities, which Caribbean Utilities Company Ltd., ("CUC" or "the Company") considers it is probable 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, 2010. 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 non-exclusive Generation Licence (collectively the "Licenses") with the Cayman Islands Government ("Government"), which expire in April 2028 and September 2029 respectively.

Rate Regulated Operations

CUC's base rates are designed to recover and earn a return on all non-fuel and regulatory costs and include per kWh electricity charges and fixed facilities charges. Fuel cost charges and license and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the rate cap and adjustment mechanism ("RCAM"). After the requisite review in 2010, the Company confirmed to the ERA that the RCAM yielded no rate adjustment; therefore there was no rate adjustment in June 2010. All fuel and lubricating oil costs are passed through to customers without markup as a per kWh charge.

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

Seasonality

Interim results will fluctuate due to the seasonal nature of electricity sales. In Grand Cayman, demand is highest in the summer months due to air-conditioning load. Consequently, interim results are not necessarily indicative of annual results.

2. Summary of Significant Accounting Policies

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

3. Accounts Receivable

<i>(\$ Thousands)</i>	As at March 31, 2011	As at December 31, 2010
Billings to consumers	5,110	6,521
Unbilled revenues	5,086	4,400
Other receivables	658	922
Employee Share Purchase Plan	<u>50</u>	<u>74</u>
Total Accounts Receivable	10,904	11,917

Unbilled Revenues

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

Other receivables

Other receivables relate to amounts due outside of the normal course of operations. Items in other accounts receivable include sale of inventory, machine break-down costs covered by warranties and amounts due from related parties (see Note 19).

Employee Share Purchase Plan

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

4. Other Receivable - Insurance

<i>(\$ Thousands)</i>	As at March 31, 2011	As at December 31, 2010
Unit 33 claim	219	2,119
Other Insurance claims	<u>39</u>	<u>69</u>
Total	258	2,188

On September 23, 2010 there was an overspeed failure damaging Unit 33, a MAN B&W 16 MW engine. It is estimated that repairs will be completed by April 2011 and during this period the unit will be out of service. The costs of the repairs are covered by the Company's insurance policy subject to a deductible of \$0.5 million.

5. Regulatory Assets and Liabilities

(\$ Thousands)	Description	As at March 31, 2011	As at December 31, 2010
Regulatory Assets	Fuel Tracker Account (a)	25,450	21,192
Regulatory Assets	Miscellaneous Regulatory Assets (b)	<u>482</u>	<u>491</u>
Total Regulatory Assets		25,932	21,683
Regulatory Liabilities	Government & Regulatory Tracker Account (c)	(372)	(670)

- a) Fuel Tracker Account – The 2008 T&D licence establishes a fuel tracker mechanism to ensure the Company and the consumers neither gain nor lose from the pass through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from or reimbursed to the consumers. The receivable or payable value represents a regulatory asset or liability. The net position of the fuel tracker accounts fluctuates monthly and is affected by fuel prices and electricity consumption. 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 month period ended March 31, 2011 would have been \$4.3 million lower.
- b) Miscellaneous regulatory assets represent costs incurred by the Company, other than fuel and the specifically itemised licence & regulatory fees, to be recovered through the Company’s base rates on terms as agreed with the ERA. In the absence of rate regulation and governmental controls the balance in the miscellaneous regulatory assets would have been expensed and earnings for the three month period ended March 31, 2011 would have been \$0.009 million higher.
- c) Government and Regulatory Tracker Account - A licence fee of 1% of gross revenues applies to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per kWh basis. Additionally, a regulatory fee of ½ of 1% is charged on gross revenues then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The 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. There is no impact in the absence of rate regulation.

6. Inventories

(\$ Thousands)	As at March 31, 2011	As at December 31, 2010
Fuel	4,012	2,593
Line spares	96	97
Other	<u>566</u>	<u>384</u>
Total	4,674	3,074

The inventory amounts expensed for the three month period ended March 31, 2011 totalled \$32.3 million which includes \$32.1 million in fuel and lube costs, \$0.1 million in vehicle fuel and \$0.1 million in line spares.

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

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

<i>(\$ Thousands)</i>	Cost	Accumulated Depreciation	Net Book Value March 31, 2011
Transmission & Distribution (T&D)	242,688	72,951	169,737
Generation	255,365	90,914	164,451
Other:			
Land	5,304	-	5,304
Buildings	19,879	8,312	11,567
Equipment, motor vehicles and computers	<u>19,261</u>	<u>12,594</u>	<u>6,667</u>
<i>Total Other</i>	<u>44,444</u>	<u>20,906</u>	<u>23,538</u>
Property, plant and equipment	542,497	184,771	357,726

<i>(\$ Thousands)</i>	Cost	Accumulated Depreciation	Net Book Value December 31, 2010
Transmission & Distribution (T&D)	239,390	70,845	168,545
Generation	248,575	88,426	160,149
Other:			
Land	5,304	-	5,304
Buildings	19,971	8,145	11,826
Equipment, motor vehicles and computers	<u>18,965</u>	<u>12,280</u>	<u>6,685</u>
<i>Total Other</i>	<u>44,240</u>	<u>20,425</u>	<u>23,815</u>
Property, plant and equipment	532,205	179,696	352,509

Included in PP&E are a number of capital projects in progress with a total cost to date of \$29.1 million (December 31, 2010: \$21.1 million). These projects primarily relate to various improvements to the Distribution System.

Also included in Generation and T&D is freehold land with a cost of \$4.7 million (December 31, 2010:\$4.7 million). In addition, line inventory with a cost of \$5.1 million (December 31, 2010: \$5.1 million) is included in T&D. Engine spares with a net book value of \$14.9 million (December 31, 2010: \$15.0 million) are included in Generation.

The capitalisation of 'Financing Costs' is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for fiscal 2011 is 8.75% (2010:8.75%) and will be adjusted annually. As a result, during the three month period ended March 31, 2011, the Company recognised \$0.8 million in AFUDC. The Company recognised an amount of \$0.8 million for the three month period ended March 31, 2010 under the provision for AFUDC.

The Company capitalised an amount of \$0.6 million (March 31, 2010: \$0.5 million) for the three month period ended March 31, 2011 under the provision for GEC (Note 1).

In accordance with the Licences when an asset is impaired or disposed of, before the original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with rate regulated accounting and differs from the GAAP treatment of a loss being recognized on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. This amount within accumulated depreciation is to be depreciated as per the remaining life of the asset when the unit is placed into service. In the case of Generating Unit 33, as the asset is repaired the costs incurred are being capitalized and the insurance proceeds are being applied to accumulated depreciation

8. Intangible Assets

<i>(\$ thousands)</i>	Cost	Accumulated Amortization	Net Book Value March 31, 2011
Deferred licence renewal costs	1,890	274	1,616
Computer Software	3,956	3,189	767
Other Intangible Assets in progress	239	-	239
Total	6,085	3,463	2,622

	Cost	Accumulated Amortization	Net Book Value December 31, 2010
Deferred licence renewal costs	1,890	250	1,640
Computer Software	3,857	3,139	718
Other Intangible Assets in progress	237	-	237
Total	5,984	3,389	2,595

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

9. Short-Term Debt

The Royal Bank of Canada ("RBC") credit facility agreement provides for \$32.9 million and the total available was \$15.0 million at March 31, 2011 (\$15.0 million at December 31, 2010).

Credit Facilities	Total Credit Financing Facilities	Total Utilised March 31, 2011	Total Available March 31, 2011
Corporate Credit Card Line*	300	300	-
Letters of Credit – 1% per annum	595	595	-
Operating, Revolving Line of Credit – Libor plus 1.5% per annum	7,500	-	7,500
Catastrophe Standby Loan -Libor plus 1.5% per annum	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures – Libor plus 1.5% per annum	<u>17,000</u>	<u>17,000</u>	-
Total	32,895	17,895	15,000

* Included in Accounts Payable and Accrued Expenses

10. Capital Management

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

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

Caribbean Utilities Company, Ltd.

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 overdraft) and shareholders' equity (including: capital stock, share premium, contributed surplus and retained earnings).

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65 percent of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at March 31, 2011, the Company was in compliance with all debt covenants.

The Company's capital structure is shown below:

(\$ thousands)	March 31, 2011		December 31, 2010	
		%		%
Total debt	195,315	53	195,290	53
Shareholder's equity	<u>172,585</u>	<u>47</u>	<u>173,841</u>	<u>47</u>
Total	367,900	100	369,131	100

11. Capital Stock

Authorised:

- 60,000,000 (December 31, 2010: 60,000,000) Class A Ordinary Shares of CI\$0.05 each
- 250,000 (December 31, 2010: 250,000) 9% Cumulative, Participating Class B Preference Shares of CI\$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, 2011	Three months ended March 31, 2011	Twelve months ended December 31, 2010	Twelve months ended December 31, 2010
	Number of shares	Amount (\$ Thousands)	Number of shares	Amount (\$ Thousands)
Class A Ordinary Share Issue				
Balance, beginning of period	28,464,853	1,694	28,277,139	1,683
Consumer Share Purchase and Dividend Reinvestment Plans	42,236	3	170,964	10
Employee Share Purchase, Employee Long Service Bonus Plans and Employee Stock Options	=	=	<u>16,750</u>	<u>1</u>
Class A Ordinary Shares issued & outstanding	28,507,089	1,697	28,464,853	1,694
9% Cumulative, Participating Class B	<u>250,000</u>	<u>250</u>	<u>250,000</u>	<u>250</u>
Total		1,947		1,944

Share proceeds totalled \$0.4 million, of which \$0.4 million was recorded as an increase to share premium and \$0.01 million as an increase to share capital.

12. Share Options

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

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

The position with respect to outstanding unexercised options as at March 31, 2011 was as follows:

Date of Grant	Number of Class A Ordinary Shares under option	Number of Exercisable Class A Ordinary Shares	Exercise Price (\$)	Term of option	Weighted Avg. Remaining Life of Option
18-Jul-01	382,303	382,303	11.46	10 years	
22-Sep-03	174,100	174,100	13.78	10 years	
11-Apr-08	145,200	72,600	12.22	10 years	
27-Feb-09	148,800	74,400	8.76	10 years	
Outstanding at end of period & Weighted Avg.	850,403	703,403	11.59		3.27 years

On February 27, 2009; 161,300 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 fair value of each option granted was calculated to be \$0.78 per option. The fair value was estimated on the date of the grant using the Black-Scholes fair value option pricing model and the following assumptions:

Dividend Yield (%):	7.13
Expected Volatility (%):	24.00
Risk-free interest rate (%):	2.26
Expected life (years):	7.00

Under the fair value method, the compensation expense was \$0.01 million for the three month period ended March 31, 2011 (March 31, 2010: \$0.01 million), resulting in a corresponding increase of the contributed surplus.

13. Finance Charges

The composition of finance charges were as follows:

<i>(\$ thousands)</i>	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Interest costs - long-term debt	2,798	3,050
Other interest costs	129	92
AFUDC *	<u>(772)</u>	<u>(764)</u>
Total	2,155	2,378

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

14. Foreign Exchange

The closing rate of exchange on March 31, 2011 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn \$0.970 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, 2011 for conversion of Cayman Islands dollars into Canadian dollars was Cdn \$1.16 per CI\$1.00 (December 31 2010: Cdn 1.19).

15. Earnings per Share

The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average Class A Ordinary Shares outstanding were 28,496,530 and 28,315,118 for the three month period ended March 31, 2011 and March 31, 2010 respectively. The weighted average of Class A Ordinary Shares used for determining diluted earnings were 28,496,530 and 28,315,118 for the three month period ended March 31, 2011 and March 31, 2010 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at March 31, 2011 the outstanding options are not dilutive as the market price of common shares is below exercise price.

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

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

16. Financial Instruments

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

<i>(\$thousands)</i>	As at March 31, 2011 Carrying Value	As at March 31, 2011 Estimated Fair Value	As at December 31, 2010 Carrying Value	As at December 31, 2010 Estimated Fair Value
Held for trading				
Cash and cash equivalents	<u>1,363</u>	<u>1,363</u>	<u>2,363</u>	<u>2,363</u>
	1,363	1,363	2,363	2,363
Loans and receivables				
Trade and other accounts receivable	10,904	10,904	11,917	11,917
Other Receivables – Insurance Proceeds	258	258	2,188	2,188
Other Assets	<u>172</u>	<u>172</u>	<u>173</u>	<u>173</u>
	11,334	11,334	14,278	14,278
Other financial liabilities				
Short-term borrowings	17,000	17,000	17,000	17,000
Accounts payable and accrued liabilities	32,434	32,434	24,985	24,985
Customer deposits	4,242	4,242	4,178	4,178
Long term debt, including current portion ¹	<u>178,315</u>	<u>166,974</u>	<u>178,290</u>	<u>167,768</u>
	231,991	220,650	224,453	213,931

¹ Carrying value of long term debt includes deferred debt issue costs

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, 2011 totalled \$167.0 million, (December 31, 2010: \$167.8 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 and other assets. This does not represent a significant concentration of risk. The requirements for security deposits for certain customers, which are advance cash collections from customers to guarantee payment of electricity billings; reduces the exposure to credit risk. CUC manages credit risk primarily by executing its credit collection policy, including the requirement for security deposits, through the resources of its customer service department.

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(\$ thousands)	As at March 31, 2011	As at December 31, 2010
Current	8,654	9,556
Past due 31-60 days	649	809
Past due 61-90 days	415	348
Past due over 90 days	<u>1,421</u>	<u>1,423</u>
Total Accounts Receivables	11,139	12,136
Less: Allowance for Doubtful Accounts	(235)	(219)
Less: Consumer Deposits and Advances for Construction	<u>(4,242)</u>	<u>(4,178)</u>
Net Exposure	6,662	7,739

As at March 31, 2011, the net exposure on the balance sheet is \$6.7 million.

Liquidity Risk

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

(\$millions)	Total	2011	2012-2013	2014-2015	2016 Onward
Accounts Payable and Accrued Expenses	32.4	32.4	-	-	-
Consumers' Deposits and Advances for Construction	4.2	4.2	-	-	-
Short term debt	17.0	17.0	-	-	-
Letter of credit	0.6	0.6	-	-	-
Total debt	179.5	15.5	35.0	31.0	98.0
Long term debt interest	<u>69.8</u>	<u>10.9</u>	<u>18.7</u>	<u>14.5</u>	<u>25.7</u>
Total	303.5	80.6	53.7	45.5	123.7

Interest Rate Risk

Long-term debt is issued at fixed interest rates, thereby minimising cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings totals \$17.0 million.

17. Pension Plan

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. As at March 31, 2011, the Company had an accrued benefit liability of \$0.1 million (December 31, 2010: \$0.1 million) which is included within Accounts Payable and Accrued Expenses in the Balance Sheets.

During the three month period ended March 31, 2011, the Company recorded net compensation expense in relation to its defined contribution plan of \$0.2 million (March 31, 2010: \$0.2 million).

18. Taxation

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

The Company is levied custom duties of \$0.89 per IG of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports.

19. Transactions with Related Parties

Miscellaneous receivables from Fortis Turks & Caicos, also a subsidiary of Fortis Inc. totalling \$0.02 million were outstanding at March 31, 2011 (\$0.04 million December 31, 2010) and are included within Accounts Receivable on the Balance Sheets. Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totalled \$0.03 million were outstanding at March 31, 2011 (\$0.03 million as at December 31, 2010) and is included within Accounts Payable and Accrued Expenses on the Balance Sheets. Miscellaneous receivables from management totalling \$0.001 million were outstanding at March 31, 2011 (\$0.001 million as at December 31, 2010) and is included within Accounts Receivable on the Balance Sheets.

20. Commitments

In June 2007, the Company renewed its Primary Fuel Supply Contract with Esso Standard Oil S.A. Limited ("Esso"). As a condition of the new contract, the point of delivery for fuel billing purposes has moved from the Company's plant compound to the Esso terminal. CUC has also assumed responsibility for the management of the fuel pipeline (fuel suppliers will continue to pay the regular throughput fee) and ownership of bulk fuel inventory at the North Sound Plant. The Company is committed to purchase 80% of the Company's fuel requirements for the running of the plant from Esso, the contract was for three years terminating in April 2010. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of Imperial Gallons: 2011 – 24.7. The contract contains an automatic renewal clause for the years 2010 through 2012; effective April 2010 the 2011 portion of the contract was considered automatically renewed. 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.

As a result of the Company's purchase of the bulk fuel inventory, the value of CUC's closing stock of fuel at March 31, 2011 was \$4.0 million (December 31, 2010: \$2.6 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Plant.

21. Subsequent Events

CUC formalised agreements for the purchase of call options in relation to the fuel price volatility management program. These agreements are effective for the twelve month period beginning April 1, 2011 with a total premium value of \$2.0 million.

22. 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 Annual Reports

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

Our Registrar and Transfer Agents are as follows:

CIBC Mellon Trust Company

P.O. Box 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

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
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