

**CARIBBEAN UTILITIES COMPANY,
LTD.**

ANNUAL INFORMATION FORM

**FOR THE YEAR
ENDED December 31, 2009**



DATED: March 9, 2010

CARIBBEAN UTILITIES COMPANY, LTD.

**ANNUAL INFORMATION FORM FOR THE YEAR ENDED DECEMBER 31,
2009**

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CORPORATE STRUCTURE

The following Annual Information Form should be read in conjunction with the financial statements of the Caribbean Utilities Company, Ltd. (“CUC” or “the Company”) included in the Company’s report to shareholders for the year ended December 31, 2009. The material has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations (“NI 51-102”) and National Instrument – 52-110- Audit Committees (NI51-110”).

Effective January 1, 2009, the Company changed its fiscal year-end date from April 30 to December 31. As used in this Annual Information Form, “2008 Transitional Period” or “Transitional Period ended December 31, 2008” means the eight months ended December 31, 2008 and Fiscal 2008” or “year ended April 30, 2008” means the 12 months ended April 30, 2008. “Fiscal 2009” or “year ended December 31, 2009” means the 12 months ended December 31, 2009. Readers should note that the 2008 Transitional Period is an eight-month period and, accordingly, readers should take into account any annualization required to make proper comparisons to Fiscal 2008 or Fiscal 2009 which are 12-month periods.

Additional information in this Annual Information Form has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), including certain accounting practices unique to rate-regulated entities. These accounting practices, which are disclosed in the notes to the Company’s 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, these transactions would result in alternate timing of the recognition of revenues and expenses.

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”, “targets”, 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 this Annual Information Form in the section labeled “Business Risks” and include but are not limited to regulation, general economic, market and business conditions 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 information disclosed in this Annual Information Form is as of December 31, 2009 unless otherwise stated.

1.1 Name and Incorporation

CUC was incorporated under The Companies Law of the Cayman Islands and commenced operations April 30, 1966. The Articles of Association of the Company (the “Articles”) have been amended since incorporation to accommodate subsequent infusions of capital, share consolidations and share splits, which have resulted in the existing capitalization, as well as revisions to the composition of, and mandatory retirement age for, the Board of Directors of the Company (the “Board”). CUC’s head and registered offices are located at 457 North Sound Road, Grand Cayman, Cayman Islands. The mailing address of the Company is P.O. Box 38, Grand Cayman KY1-1101, Cayman Islands, and its website address is www.cuc-cayman.com.

All dollar amounts in this Annual Information Form are in United States dollars, and references to “\$” are to United States dollars unless otherwise indicated. References to “Cdn \$” are to Canadian dollars and references to “CI\$” to Cayman Islands dollars. The closing rate of exchange, as reported by the Bank of Canada, for conversion of US dollars into Canadian dollars was Cdn \$1.051 per US\$1.00 on December 31, 2009. The official fixed exchange rate for conversion of CI\$ into US\$, as determined by the Cayman Islands Monetary Authority, has been fixed since April 1974 at US\$1.20 per CI\$1.00. Thus, the rate of exchange for conversion of Cayman Islands dollars into Canadian dollars was Cdn \$1.261 per CI\$1.00 on December 31, 2009.

2.0 GENERAL DEVELOPMENT OF THE BUSINESS

2.1 Three-Year History

Effective January 1, 2009, CUC changed its fiscal year from a 12-month period ending April 30 to a 12-month period ending December 31. The eight-month period ending December 31, 2008 represents a transitional period with the first full 12-month period under the new cycle ending December 31, 2009. Period-end information in this report reflects that of the twelve-month period ended December 31, 2009 (“Fiscal 2009” or “one-year period ended December 31, 2009”).

A summary of operating revenue, earnings and kilowatt-hour (“kWh”) sales for the Company for the one-year period ended December 31, 2009 (“Fiscal 2009”), the eight-month transitional period ended December 31, 2008 and the one-year period ended April 30, 2008 (“Fiscal 2008”) appears below:

	Periods Ended ¹		
	December 31, 2009	December 31, 2008	April 30, 2008
Operating Revenue (millions \$)	158.8	150.3	176.0
Earnings (millions \$)	20.0	12.6	23.8
Kilowatt-hour Sales (millions)	558.1	376.6	539.6

Net earnings for Fiscal 2009 reflect continued customer base growth and a 2.4% increase in consumer base rates implemented in June 2009. Net earnings increased in Fiscal 2009 compared to the 2008 Transitional Period due in part to the differing reporting periods, kWh sales growth, and the rate increase. CUC has experienced compound growth in kWh sales of 8% per annum from 2004 to 2009 primarily due to population and economic growth in Grand Cayman, the largest of the Cayman Islands. The population of the Cayman Islands has grown at an average rate of 7% per year over the past 28 years, increasing from 17,660 people in 1980 to more than 57,000 people present in 2008. Sales increased for 2009 compared to the 2008 transitional period due to differing reporting periods and warmer temperatures, partially offset by a weakened global economy which has negatively affected the tourism market and increased conservation on the part of customers.

¹ 12-month periods ended April 30, 2008 and December 31, 2009 and the eight month period ended December 31, 2008.

The Cayman Islands economy, in particular the tourism sector, is influenced by the United States (“U.S.”) economy as the majority of visitors originate from North America. As anticipated, the effects of the downturn in the U.S. economy have affected the Cayman Islands tourism sector to a greater degree in 2009 than was seen in 2008. The two largest sectors of the Cayman Islands economy are tourism and offshore financial services.

2.2 Outlook

See “Generating Capacity and Capital Expenditures” below.

3.0 NARRATIVE DESCRIPTION OF THE BUSINESS

The Company is the sole generator and supplier of electricity on Grand Cayman with a total installed capacity of 152.6 megaWatts (“MW”) as of December 31, 2009, seven major transformer substations, approximately 345 miles of land-based high-voltage transmission and distribution (“T&D”) lines and 15 miles of high-voltage submarine cable. The Company uses diesel generation to produce electricity for Grand Cayman. The net book value of property, plant and equipment was \$353.4 million as of December 31, 2009.

3.1 The Cayman Islands

The Cayman Islands are a United Kingdom Overseas Territory. Great Britain retains authority for the Cayman Islands’ defense, external affairs and internal security. The Cayman Islands is a parliamentary democracy with judicial, executive and legislative branches. The Cayman Islands legislature consists of a speaker of the house, 15 elected members and the Deputy Governor and the Attorney General (who are ex officio members). The Cabinet consists of five Ministers (including the Premier) appointed by the Governor from among the elected members of the Legislative Assembly and the Deputy Governor and the Attorney General (who are ex officio members). The Governor is required to appoint as Premier, the leader of the political party that has a majority of the seats of elected members of the legislature. Stable government has prevailed in the Cayman Islands since its decision to remain a direct British dependency following Jamaica’s move to independence in 1962.

Grand Cayman enjoys one of the highest standards of living in the Caribbean. Per capita income in 2008, the most recent year for which this information is available, was estimated at \$47,920

3.2 Regulation

CUC, a vertically integrated utility, operates the only electric utility on Grand Cayman, Cayman Islands pursuant to a 20-year exclusive Electricity Transmission and Distribution Licence (“the T&D Licence”) and a 21.5-year non-exclusive Electricity Generation Licence (“the Generation Licence”) (collectively, the “Licences”) granted by the Cayman Islands Government (the “Government”), which expire in April 2028 and September 2029, respectively. The Licences were signed in April 2008. The terms include allowance for competition for future generating capacity and general promotion of the use of renewable sources of energy.

The Licences set out a rate-of-return-on-rate base (“RORB”) formula, with a rate cap and adjustment mechanism (“RCAM”) based on published consumer price indices. Rates are subject to an annual review and adjustment each June through the RCAM. A price cap mechanism is used to adjust the base rates in accordance with a formula that takes into account inflation and CUC’s RORB. CUC’s annual RORB under the T&D Licence was targeted initially in the 9-11% range assuming a cost of capital, as defined in the T&D Licence, of 10%. The range is adjusted annually based on movements in the average treasury yield of the 10-year US Treasury Notes with increases in the yield resulting in a raising of the range and decreases in the yield resulting in lowering of the range.

In December 2007, prior to the April 2008 signing of the Licences, CUC and Government reached an Agreement in Principle (“AIP”) which formed the basis of the subsequently signed licensing documents. Pursuant to the AIP and effective January 1, 2008, CUC’s base rates were restructured to extract all fuel costs and licence fee amounts which are passed through to consumers without mark-up. A new rate class for large commercial customers and a new fuel and lube charge to provide for pass-through of all fuel and lubricating oil costs were also implemented in January 2008. Following the signing of the T&D Licence, rates were frozen through May 31, 2009, when they were increased by 2.4% or 80% of the increase in Price Level Index as defined in the T&D Licence.

The Electricity Regulatory Authority (“ERA”) has the overall responsibility of regulating the electricity industry in the Cayman Islands in accordance with the ERA Law as amended in January 2008. The ERA oversees all licencees, establishes and enforces licence standards, enforces applicable environmental and performance standards, reviews the proposed RCAM and sets the rate adjustment factors as appropriate. The ERA also annually reviews and approves CUC’s capital investment plan. In conjunction with the establishment of the ERA and the issuance of the Licences, the previous CUC licence fee of 5/8 of 1% was increased to 1% of electricity revenues and applies to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per kWh basis. In addition to the licence fee, a regulatory fee of ½ of 1% of electricity revenues applies to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per-kWh basis.

From January 1, 2008 to September 1, 2009, the Government provided a special fuel duty rebate applied to the first 1,500 kWh of monthly residential consumption. The rebate was calculated based on CI\$0.20 (\$0.24) per imperial gallon (“IG”) of fuel used for generation.

The Company is exempt for the full term of the Licences from all Cayman Islands taxes other than import duties as specified in the Licences and is able to transfer funds free from any exchange controls under the terms of the Licences. There is no income or withholding tax applicable to holders of the Company’s shares under the existing laws of the Cayman Islands.

All imported assets (except diesel fuel) attract import duty at a rate of not more than 15% under the terms of the Licences. The rate of import duty on diesel fuel is set by Government from time to time. Diesel fuel oil currently attracts import duty at a rate equivalent to CI\$0.50 per IG.

Under the terms of the T&D Licence, in the event of a disaster, including a hurricane, the Company may apply to the ERA for approval to charge a special additional rate to customers, expressed in cents per kWh, to recover costs exceeding \$500,000 at any time or for aggregate costs between \$100,000 and \$500,000 within three months of the end of any fiscal period in respect of business interruption (“BI”) insurance deductibles and other extraordinary expenses. Any special additional rate would be subject to the approval of the ERA.

3.3 Market

The following tables present customers, sales and operating revenues by segment for Fiscal 2009 period and the eight-month Transitional Period:

Customers (#)	Dec-09	Dec-08	Change %
Residential	21,701	20,847	4%
Commercial	3,760	3,671	2%
Total Customers	25,461	24,518	4%

Sales (thousands kWh)	Dec-09	Dec-08	Change %
Residential	265,212	175,386	51%
Commercial	286,865	197,344	45%
Other (street lighting, etc.)	5,985	3,835	56%
Total Sales	558,062	376,565	48%

Revenues (thousands \$)	Dec-09	Dec-08	Change %
Residential	34,143	21,980	55%
Commercial	34,986	23,490	49%
Other (street lighting, etc.)	1,362	936	46%
Cost Recovery Surcharge	-	-	-
Fuel Adjustments	88,318	103,942	-15%
Total Operating Revenues	158,809	150,348	6%

During 2009, the Company connected 79 new customers on average per month. The demand for electricity on Grand Cayman is generally higher in the summer months, when the air conditioning load is the greatest. Peaks in demand occasionally occur at other times during the year when new major customers are connected. Fiscal 2009 peak load was 97.5 MW compared with the Transitional Period peak load of 93.8 MW and 92.7 MW in Fiscal 2008.

3.4 Transmission and Distribution System

The Company’s system is comprised of seven major transformer substations, approximately 345 miles of land-based high-voltage (69 kiloVolt and 13 kiloVolt) T&D lines and 15 miles of high-

voltage submarine cable in Grand Cayman. CUC is currently constructing approximately 10 miles of additional transmission lines, which will effectively close the eastern transmission loop. The T&D lines and substations are designed for high winds and flooding that might result from a hurricane. The T&D assets have an original cost of \$224.8 million and a net book value of \$162.3 million as of December 31, 2009.

3.5 Generating Capacity and Capital Expenditures

CUC's generating capacity on December 31, 2009 was 152.6 MW. In April 2008, the Company entered into a project agreement with MAN Diesel SE ("MAN") (formerly MAN B&W Diesel AG) of Germany for the purchase and turnkey installation of one 16 MW V48/60 medium-speed diesel generating unit and auxiliary equipment. This project cost \$29.8 million to complete and was commissioned in September 2009.

CUC entered a 10-year generation strategic alliance agreement ("SAA") effective December 11, 1998 with MAN. The SAA provides CUC with "most preferred customer" pricing as well as other advantages associated with improved design and construction, shorter delivery lead times and standardization of equipment, parts and training. The Company currently has over 68 MW of installed MAN diesel generation capacity. The Company has benefited throughout the SAA from MAN's manufacturer support and guaranteed parts supply. In April 2008, CUC extended the existing SAA with MAN to include the above-mentioned project which was commissioned in September 2009.

The Company bases its generation expansion planning primarily on historical growth trends and planned major commercial developments. Furthermore, limits prescribed under its exclusive T&D Licence dictate reserve generating capacity, consisting of a minimum of 35% and maximum of 55% of projected demand, that the Company must maintain to ensure a reliable supply of electricity after allowance for breakdown and scheduled maintenance. Under the T&D Licence, CUC must submit a Certificate of Need ("CON") to the ERA documenting the size and timing of future generation requirements for firm capacity, which shall be subject to competitive solicitation. The CON shall take into account projected growth in electric peak load, availability of existing capacity, including retirement of existing generation units, projected reserve requirements and safety and environmental requirements.

In October 2008, in accordance with the terms of the T&D Licence in respect of the first solicitation, the ERA issued a Request for Proposal ("RFP") to solicit proposals for the development and operation of 16 MW of power generation on Grand Cayman to begin providing regular service no later than May 1, 2011 and another 16 MW no later than May 1, 2012, each for up to a period not exceeding 25 years. Subsequently, the ERA extended the deadline for RFP submissions and also delayed the in-service date by one year to May 1, 2012 and 2013, respectively, based on revised demand projections developed by the Company. Based on further revised lower growth forecasts, the ERA announced in September of 2009, the cancellation of the solicitation and that it will commence a new solicitation when growth rebounds and CUC's demand forecast confirms the need for additional capacity. A successful bidder other than CUC would have been required to enter a Power Purchase Agreement ("PPA") agreement with CUC as an Independent Power Producer ("IPP").

In October of 2009, the Company issued a request for proposal to pre-qualified third party developers for wind turbine non-firm generation projects to an aggregate of 10 MW. Through the solicitation process, the Company hopes to gain insight into the economic feasibility and potentially facilitate the development of wind generation to supplement diesel generation. The project may potentially be realized as additional energy purchased by CUC from an IPP under a non-firm PPA.

In January 2009, the Company announced that the ERA had approved a Consumer Owned Renewable Energy (“CORE”) service and tariff terms designed to allow consumers who choose to self-generate electricity using renewable energy sources such as wind or photovoltaic to connect to CUC’s T&D grid and receive credits equivalent to the avoided cost of generation (i.e., fuel, lube and variable maintenance costs) for the net generation delivered to the grid. The program is cost-neutral to CUC and its non-generating customers, and CUC must maintain sufficient reserve generation capacity and T&D infrastructure to back up CORE customers with reliable service. CORE generation is not expected to offset significant additional capacity requirements in the near term and is considered non-firm supply.

Net generation growth for the one year period ended December 31, 2009 was 2.2% over the one year period ended December 31, 2008.

Capital expenditures for the one year period ended December 31, 2009 were \$42.7 million, a \$14.7 million, or 53%, increase from \$28.0 million for the eight month period ended December 31, 2008.

In October 2009, CUC submitted its 2010-2014 CIP to the ERA. CUC expects to invest \$98 million plus additional amounts in respect of generation capacity expansion in its capital programme over the next five years, which will be driven by the Company’s sales growth forecasts and by growth in the Cayman Islands economy. Additional capital expenditures in respect of additional generation capacity are subject to ERA approval through a competitive bid process. CUC expects to finance capital investment with a combination of equity, long-term and short-term debt and funds from operations.

The Company’s Capital Investment Plan for the period 2010 to 2014 was approved by the ERA in February of 2010 in the amount of \$98 million.

3.6 Fuel Supply

CUC relies exclusively upon diesel generation to produce electricity for Grand Cayman. The island has neither hydroelectric potential nor inherent thermal resources, and CUC must rely upon diesel fuel imported to Grand Cayman primarily from refineries in the Caribbean and the Gulf of Mexico. The fuel is purchased from the Company’s two fuel suppliers, Esso Standard Oil S.A. Limited (“Esso”) and Chevron Caribbean Inc. (“Chevron”), and transported via pipeline from the suppliers’ coastal terminals to CUC’s centralized generating plant located on the outskirts of George Town. CUC has long-term primary and secondary fuel supply contracts with

Esso and Chevron entered into in 2007. These contracts enable the Company to purchase fuel from the suppliers on what the Company believes to be competitive terms and pricing.

3.7 Properties

The Company's generating plant, two of its seven major transformer substations, office building, hurricane centre, warehouse, fuel tanks and garage are all located on approximately 44.3 acres of land owned by the Company and located on North Sound Road, Grand Cayman. The Company owns seven additional transformer substation sites, including two undeveloped sites, located on approximately seven acres of land.

3.8 Employees

CUC has 197 employees, approximately 92% of whom are Caymanian. The Company's work force is non-unionized, and management believes that employee relations are good.

CUC believes that it has developed a strong specialized skills and knowledge base among its work force with a particular emphasis on engineering expertise, which has been achieved through the Company's comprehensive training, employee development and scholarship programmes. CUC focuses on hiring and promoting Caymanian employees where possible while attracting offshore experience and knowledge as necessary.

Approximately 53% of employees are currently shareholders in the Company, and an Employee Share Purchase Plan exists to encourage employee ownership of Class A Ordinary Shares.

3.9 Insurance

The Company has property, machinery breakdown and BI insurance on its generation assets, property and substations. Terms and coverages on property, machinery breakdown and BI insurance include a maximum per single occurrence limit of \$100 million. In addition to this coverage, the Company also holds an excess layer of insurance on property, machinery breakdown and BI for an additional \$100 million limit on property, machinery breakdown and BI (excluding windstorm, earth movement and flood). BI insurance includes all gross profits up to a 24-month indemnity period with a 45-day deductible waiting period. 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. Each "loss occurrence" is subject to a deductible of \$0.5 million, except for windstorm and earth movement (including hurricane) for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1.0 million and maximum deductible of \$4.0 million.

3.10 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, process, use, emission and disposal of materials and waste products.

CUC received ISO 14001:2004 certification of its electric power generation and other activities, products and services at the North Sound Road site in July 2005 and which is subject to renewal in March 2010. This standard is more stringent than the ISO 14001:1996 certification achieved in May 2004. The Company's ISO certification initiative was undertaken in 2002 as part of its commitment to environmental responsibility and community leadership. ISO 14001 is an internationally recognized environmental standard developed by the International Organization for standardization and was confirmed to the Company by QMI/SAI Global, a globally recognized and accredited third party registrar. CUC is the only organization in the Cayman Islands to receive ISO 14001 certification.

The Company launched several major environmental initiatives throughout the ISO 14001 certification process, including the implementation of an environmental management system ("EMS") as required by the standard. During 2009, EMS activities included: (i) the ongoing segregation of scrap metals consisting mainly of aluminum conductor and damaged transformers for recycling overseas, (ii) ongoing emergency preparedness planning, (iii) continuous employee, contractor and public education programmes and (iv) stringent environmental and structural design standards.

Management believes that the Company complies in all material respects with all Cayman Islands planning and environmental regulations. Although environmental regulations in the Cayman Islands are less onerous than those in North America, the Company believes it acts responsibly in environmental matters and in compliance in all material respects with the environmental regulations of the Cayman Islands while continuing to monitor its operations in this regard.

None of the existing transformers used in the T&D system use polychlorinated biphenyls. An underground fuel pipeline eliminates the need for an ongoing shuttle of fuel tankers along coastal roads and through George Town to the Company's generating plant. CUC is responsible for the piping of the fuel from the vendors' distribution terminal on the coast of Grand Cayman to the day tank holding facilities at the Company's generating plant. The Company continues to burn diesel fuel oil that, although considerably more expensive than heavy fuel oil, results in significantly lower levels of exhaust emissions and reduces the potential damage to the Island's coral reefs and beaches from an oil spill. New generation installations are evaluated and designed to minimize the impact of air emissions on the local population and surrounding areas.

The Company's efforts to reduce transmission, distribution and station losses also improve energy efficiencies. The Company continues to promote its Energy Smart programme with the objective of educating its customers about energy efficiency and conservation at home and in the workplace. The Company is working with the Government and the ERA to increase the amount of power generation from renewable sources through various means including: the CORE programme and the wind generation initiative. See section entitled "Generating Capacity and Capital Expenditures", commencing on page 9.

The Kyoto Protocol was signed by the Cayman Islands in March 2007. This framework aims to reduce greenhouse gas emissions produced by certain industries. Specific details on the regulations implementing the protocol have yet to be released by the Government and,

accordingly, CUC is not in a position to assess the financial impact of compliance with the framework.

3.11 Recent Developments

7.50% Senior Unsecured Notes Issuance

See “Debt” section beginning on page 16.

Consumer Owned Renewable Energy and Wind Generation Project

See “Generating Capacity and Capital Expenditures” section beginning on page 9.

4.0 BUSINESS RISKS

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

Economic Conditions

The general economic condition of CUC’s service area, Grand Cayman, influences electricity sales as with most utility companies. Changes in consumer income, employment and housing are all factors in the amount of sales generated. As the Company supplies electricity to all hotels and large properties, its sales are therefore partially based on tourism and related industry fluctuations. World economic conditions, particularly those in North America, directly impact Grand Cayman’s tourism industry, as approximately 80% of the island’s stayover visitors arrive from the United States annually, which affects electricity sales as described above.

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 such disasters such as hurricanes, adverse conditions will always remain a risk. In order to mitigate some of this risk, the Company maintains insurance coverage management believes is proper and consistent with insurance policies obtained by similar companies.

Environmental Matters

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

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

Regulation

The Company operates within a regulated environment and the operations of the Company are subject to the normal uncertainties faced by regulated companies. Such uncertainties include approval by the ERA of adjustments to 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 cost of expansion to existing generating facilities requires regulatory approval. There is no assurance that capital projects perceived as required by management of the Company will be approved.

5.0 GENERAL DESCRIPTION OF CAPITAL STRUCTURE

5.1 Share Capital

The authorized share capital of the Company consists of the following:

- a) CI\$3,562,520 divided into 60,000,000 Class A Ordinary Shares of nominal or par value of CI\$0.05 each, 28,277,139 of which were issued and outstanding as of December 31, 2009 and each of which is entitled as such to one vote on each matter at the Annual General Meeting (“AGM”) of Shareholders. The holders of Class A Ordinary Shares are entitled to dividends after payment of all dividends to which the holders of the Class B, Class C and Class D Preference Shares are entitled, including any arrears of dividends, in proportion to the amounts paid up on the Class A Ordinary Shares held by them, provided that, in the event that the dividend payable to the holders of each Class A Ordinary Share in any year exceeds CI \$0.15, the Company shall pay an amount equivalent to such excess multiplied by four to the holders of each Class B and Class D Preference Share contemporaneously with such payment. The Class A Ordinary Shares may be issued by the Company for an issue price to be determined by the Company from time to time;
- b) 250,000 9% Class B Cumulative Participating Preference Shares (“Class B Preference Shares”) of nominal or par value of \$1.00 (CI\$0.84) each, 250,000 of which are issued and outstanding. The Class B Preference Shares entitle the holders to a fixed cumulative preferential dividend at the rate of 9% per annum.

The Class B Preference Shares do not carry the right to vote except (i) in the event the Company is in arrears in the payment of dividends on the Class B Preference Shares, or (ii) as otherwise prescribed by the Articles. Class B Preference Shares may be issued at any time and from time to time by the Company in one or more series. In the event the Company fails to pay such dividend, the holders of Class B and Class D Preference Shares shall have four votes for each Preference Share held by them at any general meeting of the Company. In the event that holders of Class C Preference Shares become entitled to vote for the election of a director, the holders of the Class B Preference Shares acting together with the holders of the Class C Preference Shares will be entitled to elect one director on the basis of one vote for each Class B Preference held.

Subject to the Companies Law of the Cayman Islands, Class B Preference Shares are redeemable at the sole option of the Company at any time upon receipt by the Company of a written request to redeem such shares from the holder or holders of the Class B Preference Shares to be redeemed at such price (not exceeding \$20.00 per share) as may be negotiated between the Company and the holders;

- c) 419,666 Class C Preference Shares of nominal or par value of \$1.00 (CI\$0.84) each, all of which have been issued and subsequently redeemed but still form part of the authorized capital. Class C Preference Shares may be issued at any time and from time to time by the Company in one or more series.

Subject to the Articles and the Companies Law of the Cayman Islands, the Board may fix the number of Class C Preference Shares in each series, the designation, rights, privileges, restrictions and conditions attached to the Class C Preference Shares in each series, including without any limitation any voting rights, any right to receive dividends, any terms and conditions of redemption or purchase, any conversion rights and any rights on liquidation, dissolution or winding up of the Company.

In the event that holders of the Class B Preference Shares become entitled to vote for the election of a director, the holders of the Class C Preference Shares acting together with the holders of the Class B Preference Shares will be entitled to elect one director on the basis of five votes for each Class C Preference Share held; and

- d) one unissued Class D Cumulative Participating Preference Share (the “Class D Preference Share”) of nominal or par value of CI\$0.56 which may at any time be issued by the Company. The Class D Preference Share entitles the holder thereof to fixed cumulative preferential dividend at a rate to be determined in the sole discretion of the Board. The Class D Preference Share does not carry the right to vote except (i) in the event the Company is in arrears in the payment of dividends, or (ii) as otherwise prescribed in the Articles.

Subject to the Companies Law of the Cayman Islands, the Class D Preference Share is redeemable at the sole option of the Company at any time upon receipt by the Company of a written request to redeem such share from the holder of the Class D Preference Share to be redeemed at such price (not exceeding \$10.00 per share) as may be negotiated between the Company and the holder.

The holders of the Class B and Class D Preferred Shares are entitled to notice of, and to be present at, any general meeting of the Company but no right to speak at or vote at such meeting, except as discussed above.

On a return of assets on liquidation or otherwise, holders of the Class B Preference Shares, Class C Preference Shares and the Class D Preference Share (collectively, the “Preference Shares”) will be paid the amount of the par value and premium of each share together with any accrued and unpaid dividend to the date of payment on such share in preference to such payments to be made to the holders of Class A Ordinary Shares and on parity with payments to be made to the other holders of Preference Shares.

In the event any of the Preference Shares or the Class A Ordinary Shares are subdivided, consolidated or changed into a greater or lesser number of shares, an appropriate adjustment will be made in the rights and conditions attached to the other Preference Shares so as to maintain the relative rights of the holders of such shares.

Subject to the restrictions prescribed by the Articles and in the Companies Law of the Cayman Islands, the Company may fix, before the issue thereof, the designation, rights, privileges, restrictions and conditions attaching to the Class B Preference Shares and the Class D Preference Shares.

5.2 Debt

CUC's principal activity as the sole provider of electricity to Grand Cayman requires the Company to have ongoing access to capital to build and maintain the electricity system to the community it serves.

7.50% Senior Unsecured Notes Issuance

On May 29, 2009, the Company closed on the first tranche of a private placement of \$40 million aggregate principal amount of 7.50% Senior Unsecured Notes due May 29, 2024. The first tranche was of an aggregate principal amount of \$30 million and the second tranche of an aggregate principal amount of \$10 million, closed on July 10, 2009. The debt offering was privately placed with institutional investors in the United States. Proceeds from the offering were used to repay short-term indebtedness and to finance ongoing additions and upgrades to CUC's generation, transmission and distribution system.

Reflecting this placement, the Company's capital structure as of December 31, 2009 compared to December 31, 2008 is shown in the table below:

	December 31, 2009 (millions \$)	%	December 31, 2008 (millions \$)	%
Total Debt	200.2	54%	174.6	51%
Shareholders' Equity	171.9	46%	170.0	49%
Total	372.1	100%	344.6	100%

The Company also repaid \$14.0 million in current portion of long term debt in June 2009.

The Company had the following credit facilities at Royal Bank of Canada as of December 31, 2009:

Description	Details (thousands \$)
Capital Expenditures Line of Credit	17,000
Operating Line of Credit	7,500
Catastrophe Standby Loan	7,500
Letters of Credit	595
Corporate Credit Card Line	300
Total	32,895

\$24.0 million of the above credit facilities were fully available as of December 31, 2009. Management constantly reviews its level of credit facilities based on liquidity needs.

Class A Ordinary Share Rights Offering

In August of 2008, the Company completed a Class A Ordinary Share rights offering (the "Offering") for gross proceeds of approximately \$28 million. Fortis Energy (Bermuda) Ltd. ("FEBL"), the Company's largest shareholder, purchased 2,156,148 Class A Ordinary Shares under the Offering.

6.0 DIVIDEND POLICY

Class A Ordinary Share dividends are normally paid in March, June, September and December. The most recent Class A Ordinary Share dividend was paid in December 2009 at the rate of \$0.165 per share. Dividends have been paid on the Class A Ordinary Shares each quarter since 1984 with the exception of December 2004, when the Board elected not to declare a dividend in consideration of the impact of Hurricane Ivan on the cash flow of the Company. Regular quarterly dividend payments on the Class A Ordinary Shares resumed in March 2005.

Holders of the Class A Ordinary Shares are entitled to dividends if, as and when declared by the Board, whereas holders of the Class B Preference Shares are entitled to receive fixed annual dividends at a rate of \$1.80 per share. Regular dividends on the Class B Preference Shares are normally paid in January, April, July and October. Regular dividends have been paid at the prescribed rate on all outstanding preference shares of the Company in accordance with the Articles. Holders of the Class B Preference Shares are also entitled to receive on an annual basis, in accordance with the Articles, a participating dividend in the event that the total Class A Ordinary Share dividend paid in any financial year exceeds \$0.18, with the participating dividend to be calculated by multiplying the amount of the excess by four.

A Class B Preference Share participating dividend of \$1.92 was paid on July 31, 2009. The Company has historically paid Class B Preference Share participating dividends together with regular dividends in July of each year. Following the change in year end to December 31, commencing in 2010, the Company will pay participating dividends in March of each year, commencing with a pro-rata dividend payment in 2010 representing the participating entitlement associated with the Class A Ordinary Share dividends paid in September and December of 2009.

The following table sets forth a summary of dividends paid per Class A Ordinary Share and Class B Preference Share for the most recent financial years ended April 30, 2008, Transitional Period ended December 31, 2008 and the year ended December 31, 2009:

	Fiscal 2009 (\$)	Transitional Period 2008 (\$)	Fiscal 2008 (\$)
Class A Ordinary Shares	0.66	0.495	0.66
9% Class B Preference Shares	3.72	2.82	3.72

7.0 CREDIT RATINGS

Debt securities issued by CUC are rated by Standard and Poor's ("S&P") and Dominion Bond Rating Service ("DBRS") as set out below. The ratings assigned to CUC's securities are reviewed by these agencies on an ongoing basis. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities and are not recommendations to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the rating organization. CUC's credit ratings were as follows as at December 31, 2009:

Agency	Rating
Standard and Poor's	A (negative): Senior Unsecured Debt and Long-Term Corporate Credit Rating
Dominion Bond Rating Service	A (low): Senior Unsecured Debt

S&P long-term debt ratings are on a scale that ranges from AAA to C, which represents the range from highest to lowest quality of such securities. S&P uses "+" or "-" designations to indicate the relative standing of securities within a particular rating category. S&P credit ratings are current opinions of the financial security characteristics with respect to the ability to pay under contracts in accordance with their terms. This opinion is not specific to any particular contract, nor does it address the suitability of a particular contract for a specific purpose or purchaser. An issuer rated BBB or higher is regarded by S&P as having financial security characteristics that outweigh any vulnerabilities and is highly likely to have the ability to meet financial commitments.

DBRS rates debt instruments by rating categories ranging from AAA to D, which represents the range from highest to lowest quality of such securities. DBRS states that its long-term debt ratings are meant to give an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments. DBRS ratings do not

take factors such as pricing or market risk into consideration and are expected to be used by purchasers as one part of their investment decision. Every DBRS rating is based on quantitative and qualitative considerations that are relevant for the borrowing entity. According to DBRS, a rating of A by DBRS is in the middle of three subcategories within the third highest of nine major categories, and such rating is assigned to debt instruments considered to be of satisfactory credit quality and for which protection of interest and principal is still substantial, but the degree of strength is less than with AA rated entities. Entities in the A category are considered by DBRS to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated entities. The assignment of a “(high)” or “(low)” modified within each rating category indicates relative standing within such category.

8.0 MANAGEMENT’S DISCUSSION AND ANALYSIS

Reference is made to the Management’s Discussion and Analysis (“MD&A”) on pages 6 through 25 of the CUC Report to Shareholders for the one year period ended December 31, 2009, which pages are incorporated herein by reference. The Company’s MD&A can be located on SEDAR at www.sedar.com.

9.0 MARKET FOR SECURITIES

The Class A Ordinary Shares are listed in United States dollars on the Toronto Stock Exchange (“TSX”) under the trading symbol “CUP.U”. The following table sets forth the reported high and low trading prices and trading volumes for the Class A Ordinary Shares for the one year period ended December 31, 2009. The closing price of the Class A Ordinary Shares on the TSX as of December 31, 2009 was \$8.26 per share.

	High (\$)	Low (\$)	Volume (shares)
December 2009	8.84	8.02	111,338
November 2009	9.18	8.50	53,125
October 2009	8.75	8.24	51,974
September 2009	8.75	8.01	59,326
August 2009	8.94	8.00	73,458
July 2009	8.97	8.27	60,878
June 2009	8.73	8.29	75,571
May 2009	8.72	8.06	38,762
April 2009	8.75	8.26	33,419
March 2009	8.95	8.17	92,315
February 2009	9.49	6.99	135,814
January 2009	7.24	6.55	311,294
Fiscal 2009	9.49	6.55	1,097,274

Fortis Energy (Bermuda) Ltd. (“FEBL”), a wholly-owned subsidiary of Fortis Inc., is the controlling shareholder of the Company and held approximately 59% of the issued and outstanding Class A Ordinary Shares as of December 31, 2009. No person or entity other than FEBL owns beneficially or of record, directly or indirectly, more than 10% of the issued and outstanding Class A Ordinary Shares of the Company to the knowledge of the Company.

10.0 DIRECTORS AND OFFICERS

The following chart discloses the name, place of residence and office of each member of the Board as of December 31, 2009. All directors have been elected to serve until the next Annual General Meeting of shareholders, scheduled to be held on May 11, 2010, or until their successors are elected or appointed in accordance with applicable laws.

Name and Residence	Position with the Company or Principal Occupation	Director Since
J. Bryan Bothwell, MBE (2) Grand Cayman, Cayman Islands	Retired Banking Executive	2004
Frank J. Crothers (3) Bahamas	Chairman, Island Corporate Holdings Ltd, a private investment holding company; Vice-Chairman of the Board of Directors, Caribbean Utilities Company, Ltd. (non-executive position)	1980
J.F. Richard Hew (1) Grand Cayman, Cayman Islands	President and Chief Executive Officer, Caribbean Utilities Company, Ltd.	2003
Joseph A. Imparato Grand Cayman, Cayman Islands	Retired Chairman, Caribbean Utilities Company, Ltd.	1982
H. Stanley Marshall (3) Newfoundland and Labrador, Canada	President and Chief Executive Officer, Fortis Inc., a diversified utility holding company	2000
Eddinton M. Powell, JP Providenciales, Turks and Caicos	President and Chief Executive Officer, P.P.C. Limited and Atlantic Equipment & Power (Turks and Caicos) Ltd., an integrated electrical utility company	2007
David E. Ritch, OBE, JP (2) (3) Grand Cayman, Cayman Islands	Attorney-at-Law, Ritch and Conolly; Chairman of the Board of Directors, Caribbean Utilities Company, Ltd. (non-executive position)	1988
Karl W. Smith (2) Alberta, Canada	President and Chief Executive Officer, FortisAlberta Inc., an electrical utility distribution company	2007
Peter A. Thomson Grand Cayman, Cayman Islands	Retired Executive, Caribbean Utilities Company, Ltd.	1986

Notes:

1. Executive officer of the Company. The Chairman and Vice-Chairman of the Board are non-executive positions of the Company.
2. Member of the Audit Committee. Mr. Bothwell is Chairman of the committee.
3. Member of the Nominating and Corporate Governance Committee. Mr. Ritch is Chairman of the committee.

All of the above directors have held their principal occupations or held executive positions with the same or associated firms for the past five years, except as indicated below:

1. J.F. Richard Hew: Served as Executive Vice-President and Chief Operating Officer prior to August 2005.

2. Peter A. Thomson: Served as President and Chief Executive Officer of Caribbean Utilities Company, Ltd. prior to August 2005.
3. Eddinton M. Powell: Served as Senior Vice-President Financial and Corporate Services and Chief Financial Officer of Caribbean Utilities Company, Ltd., prior to August 2007.
4. Karl W. Smith: Served as President and Chief Executive Officer of Newfoundland Power Inc. and Chief Financial Officer of Fortis Inc. prior to May 2007.

The Articles provide for a mandatory retirement age of seventy (70) years for directors of the Company pursuant to special resolutions passed at the 2003 Annual General and Special Meeting of Shareholders. Directors will be required to vacate the office of director and any officer's position at the first general meeting after reaching such age. All of the directors are below age 70, and none will be subject to the mandatory retirement requirement in the near future.

The following chart discloses the name, place of residence and office of each officer of CUC as of the fiscal year ended December 31, 2009. Each executive officer has held the office indicated opposite his respective name as noted below:

Name and Municipality of Residence	Office
J.F. Richard Hew, Grand Cayman, Cayman Islands	President & Chief Executive Officer (1)
Letitia T. Lawrence , Grand Cayman, Cayman Islands	Vice-President Finance & Chief Financial Officer (2)
Douglas H. Murray, Grand Cayman, Cayman Islands	Corporate Secretary (3)
David C. Watler, Grand Cayman, Cayman Islands	Vice-President Production (4)
Andrew E. Small, Grand Cayman, Cayman Islands	Vice-President Transmission & Distribution (5)

Notes: The above officers of the Company have held the same or similar positions for the past five years with the exception of the following:

1. Mr. Hew was appointed to his present position in August 2005 and prior to that time served as Executive Vice-President and Chief Operating Officer and Senior Vice-President & General Manager.
2. Ms. Lawrence was appointed to her present position in August 2007 and prior to that time served as Manager, Financial Services.
3. Mr. Murray was appointed to his present position in October 2007 and prior to that time was Director, Legal Services and Assistant Corporate Secretary of The Westaim Corporation.
4. Mr. Watler was appointed to his present position in August 2007 and prior to that time served as Manager Production Maintenance and Manager Systems Operations.
5. Mr. Small was appointed to his present position in August 2007 and prior to that time served as Vice-President Production, Manager Line Department and Manager Production Maintenance.

The directors and executive officers of the Company as a group beneficially owned, directly or indirectly, or controlled or directed 246,412 Class A Ordinary Shares, representing 0.87% of all Class A Ordinary Shares of the Company outstanding as of December 31, 2009.

11.0 AUDIT COMMITTEE

11.1 Education and Experience

The Audit Committee was comprised of three individuals as of December 31, 2009. The education and experience of each committee member that is relevant to his responsibilities as a member of the Audit Committee are described below.

Name	Relevant Education and Experience
J. Bryan Bothwell, MBE (Chairman) Grand Cayman, Cayman Islands	Mr. Bothwell is the retired Chief Executive Officer (Managing Director) of Ansbacher (Cayman) Limited and was employed in the banking and trust industry in the Cayman Islands for 35 years prior to retirement. He is an Associate of the Chartered Institute of Bankers.
Karl W. Smith Calgary, Alberta, Canada	Mr. Smith is the President and Chief Executive Officer of FortisAlberta Inc. He holds a Bachelor of Commerce (Honours) degree from Memorial University, Newfoundland, Canada, as well as a Chartered Accountant designation from the Institute of Chartered Accountants of Alberta. Mr. Smith was previously President and Chief Executive Officer of Newfoundland Power Inc., Chief Financial Officer of Fortis Inc. and Chairman of the Atlantic Provinces Economic Council.
David E. Ritch, OBE, JP Grand Cayman, Cayman Islands	Mr. Ritch is the senior partner of Ritch & Conolly, a Cayman Islands law firm practising, inter alia, banking, general corporate and insolvency law. He holds an LL.B Degree with Honours from the University of the West Indies and attended the Inns of Court School of Law in London, England, where he completed the Bar Final exams as an Honours student. He was called to the Bar of England and Wales by the Honourable Society of the Inner Temple and is also admitted as an Attorney-at-Law in the Cayman Islands. Mr. Ritch currently serves on the Board of Directors of FirstCaribbean International Bank (Cayman) Limited and FirstCaribbean International Bank Limited and is a member of the Regional Audit Committee of FirstCaribbean International Bank.

The Board has determined that each of the Audit Committee members is financially literate; that Messrs. Bothwell and Ritch are both independent; and that Mr. Smith, although not independent on account of his role as an executive officer of an affiliate company, is exempt from the

requirement to be independent under NI 52-110 pursuant to Section 3.3 (2). The Company has relied on this exemption in order that Mr. Smith may be a member of the Audit Committee in accordance with NI 52-110. The Board has determined in its reasonable judgment that Mr. Smith is able to exercise the impartial judgment necessary to fulfill his responsibilities as an Audit Committee member and that his appointment is required in the best interests of the Company and its shareholders.

Financially literate means having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements. Independent means free from any direct or indirect material relationship with the Company that could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment as more particularly described in NI 52-110.

11.2 Audit Committee Mandate

The text of the Audit Committee mandate, which was amended in September 2009, is reproduced below.

A. Definitions

In this mandate:

- (a) "Board" means the board of directors of the Corporation;
- (b) "CICA" means the Canadian Institute of Chartered Accountants or any successor body;
- (c) "Committee" means the Audit Committee of the Board;
- (d) "Corporation" means Caribbean Utilities Company, Ltd. ("CUC");
- (e) "Director" means a member of the Board;
- (f) "External Auditor" means the firm of chartered accountants appointed by the shareholders to act as External Auditor of the Corporation;
- (g) "Financially literate" means having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected in the Corporation's financial statements;
- (h) "Management" means the senior officers of the Corporation; and
- (i) "Member" means a member of the Committee.

B. Statement of Policy

The Committee shall provide assistance to the Directors in fulfilling their duties related to the following oversight responsibilities:

1. Integrity of the Corporation's financial statements,
2. Corporation's compliance with legal and regulatory requirements, including assistance to the Board in compliance with the continuous disclosure obligations as required by the Canadian Securities Administrators ("CSA") rules and policies.
3. External Auditor's qualifications and independence, and

4. Performance of the Corporation's internal audit function and External Auditors.

The CUC Audit Committee focuses on ensuring integrity of financial information, the clarity in reporting and greater transparency in disclosure. In doing so, it is the responsibility of the audit committee to maintain free and open means of communication with the Directors, External Auditor, Internal Auditors and the senior Management of the Corporation.

C. Authority

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Pre-approve all auditing and permitted non-audit services performed by the Corporation's external audit firm.
- Retain independent counsel, accountants or others to advise the Committee or assist in the conduct of an investigation.
- Meet with Management, Internal Auditor, External Auditors or outside counsel, as necessary.
- The Committee may delegate authority to subcommittees, including the authority to preapprove all auditing and permitted non-audit services, providing that such decisions are presented to the full Committee at its next scheduled meeting.

D. Organization & Composition

1. The Committee shall review and reassess the adequacy of the charter annually and recommend any proposed changes to the Nominating and Corporate Governance Committee.
2. The Committee shall be appointed annually by the Board and shall be comprised of three (3) or more Directors:
 - (a) none of whom is a member of Management or an employee of the Corporation;
 - (b) all of whom are independent of Management under Canadian Securities Administrator rules;
 - (c) the Chair and/or Vice Chair of the Board shall be a member of the Committee;
 - (d) every audit committee member must be financially literate;
 - (e) a member shall be appointed Chair of the Committee by the Board.

E. Meetings

1. The committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require.
2. Meetings of the Committee shall be held at the call (i) of the Chair of the Committee, or (ii) of any two (2) members, or (iii) of the External Auditor.
3. The President & Chief Executive Officer, the Senior Vice President, Finance & Chief Financial Officer, External Auditor and Internal Auditor shall receive notice of, and (unless otherwise determined by the Chair of the Committee) shall be entitled to attend all meetings of the Committee.
4. A quorum at any meeting shall be a majority of the Members of the Committee.
5. The Committee will meet without Management present for a portion of each meeting.

6. The Committee shall meet separately with Management, with Internal Auditors and with External Auditors at least once in each year.
7. The Chair of the Committee shall act as chair of all meetings of the Committee at which the Chair is present. In the absence of the Chair from any meeting of the Committee, the Members present at the meeting shall appoint one of their members to act as Chair of the meeting.
8. The Secretary of the Corporation shall act as secretary of all meetings of the Committee unless otherwise determined by the Chair of the Committee.
9. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

F. Responsibilities

The committee will carry out the following responsibilities:

1. Financial Statements

- 1.1 Review Management's and the External Auditor's reports of significant accounting and reporting issues and understand their impact on the financial statements. These issues include:
 - (a) Complex or unusual transactions and highly judgmental areas.
 - (b) Major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles.
 - (c) The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation.
- 1.2 Review analyses prepared by Management and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
- 1.3 Review with Management and the External Auditors the results of the audit, including any difficulties encountered. This review will include any restrictions on the scope of the External Auditor's activities or on access to requested information, and any significant disagreements with Management.
- 1.4 To use reasonable efforts to satisfy itself, at least annually, as to the adequacy of the Corporation's accounting personnel and senior financial Management responsible for financial reporting;
- 1.5 Review with Management and the External Auditor any correspondence with regulators and any employee complaints or published reports which raise material issues regarding the Corporation's financial statements or accounting policies;
- 1.6 To meet periodically with Management to review and understand the Corporation's structure, industry risks and major financial exposures of the Corporation. Use reasonable efforts to satisfy itself as to the adequacy and implementation of the Corporation's policies for the Management of the risk related to foreign currency transactions, interest rate fluctuations and the use of derivative financial instruments.

- 1.7 Review the annual audited financial statements and quarterly financial statements with Management and the External Auditors, including the Corporation's disclosures under MD&A, interim and annual earnings press releases and CEO/CFO certifications relating to the disclosure of the statements before the issuer publicly discloses this information.
- 1.8 The audit committee must be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in 1.7 and must periodically assess the adequacy of those procedures.
- 1.9 Review disclosures made by the CEO and CFO during the quarterly and annual disclosure certification process about significant deficiencies in the design or operation of internal controls or any fraud or untoward conduct that involves Management or other employees who may or may not have a significant role in the Corporation's internal controls. (CSA MI 52-109)

2. Internal Control

- 2.1 Consider the effectiveness of the Corporation's internal control system, including information technology security and control.
- 2.2 Understand the scope of Internal and External Auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Management's responses.

3. Internal Audit

- 3.1 Review with Management and the Internal Auditor the charter, plans, activities, staffing, internal audit reports and organizational structure of the internal audit function.
- 3.2 Ensure there are no unjustified restrictions or limitations on, and review and concur in the appointment, replacement or dismissal of the Internal Auditor.
- 3.3 Review the assessment of the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing. Engage external quality assessment reviews of the internal audit activity every five years in order for the audit activity to declare that it meets the Standards.
- 3.4 On a regular basis, meet separately with the Internal Auditor to discuss any matters that the committee or internal audit believes should be discussed privately.

4. External Audit

- 4.1 Review the External Auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- 4.2 Review the performance of the External Auditors, and recommend approval of appointment or discharge of Auditors. In performing this review, the committee will:
 - (a) At least annually, obtain and review a report by the External Auditor describing (to assess the External Auditor's independence) all relationships between the External Auditor and the Corporation.
 - (b) Take into account the opinions of Management and Internal Auditor.
 - (c) Review and evaluate the lead partner of the External Auditor.
 - (d) Present its conclusions with respect to the External Auditor to the Board.
- 4.3 Ensure the rotation of the lead audit partner every five years and other audit partners every seven years, and consider whether there should be regular rotation of the audit firm itself.
- 4.4 Present its conclusions with respect to the External Auditor to the full board.
- 4.5 Approve hiring policies for employees or former employees of the External Auditors.
- 4.6 On a regular basis, meet separately with the External Auditors to discuss any matters that the committee or Auditors believe should be discussed privately.
- 4.7 The External Auditor should communicate the following with the Committee prior to the completion of the audit:
 - (a) the audit and non-audit services that the External Auditor is providing to the Corporation;
 - (b) the level of responsibility assumed by the External Auditor under generally accepted auditing standards; and
 - (c) a summary of the planned audit approach:
 - i. the general approach to the audit;
 - ii. areas of the financial statements identified by the Auditor, Management or the audit committee as having a high risk of material misstatement and the Auditor's response thereto;
 - iii. the materiality and audit risk levels;
 - iv. the preliminary assessment of internal control, the planned extent of audit work related to internal control and the effect of any control reliance on year-end procedures;
 - v. how matters communicated with the Committee during the planning process affect the planned nature and scope of the audit;
 - vi. the effects of any new developments in accounting standards or regulatory requirements on the entity's financial reporting;
 - vii. planned reliance on other Auditors, how the expectations will be communicated to the other Auditors and how their findings will be communicated to the Committee;
 - viii. use of specialists, if any;
 - ix. the timing of the audit;

- x. the experience and qualifications of the senior members of the External Auditor team and the quality control procedures of the External Auditor;
- xi. the External Auditor's engagement letter; and,
- xii. the estimated External Auditor's fees.

4.8 The Committee shall discuss with the External Auditor matters arising out of the audit upon completion of the audit. The Committee shall be advised on at least the following:

(a) identification and discussion of audit assurance standards concerning:

- i. knowledge of any fraud and misstatements arising from error (Section 5135);
- ii. any illegal or possibly illegal acts (Section 5136);
- iii. identification of any significant weaknesses in internal control identified by the Auditor (Section 5220); and
- iv. related party transactions identified by the Auditor which are not in the normal course of operations and which involve significant judgments made by Management concerning measurement or disclosure (Section 6010).

(b) matters that have a significant and material effect on the accounting principles used in the Corporation's financial reporting;

- i. the selection of and changes in any significant accounting policies;
- ii. the effect of significant accounting policies in controversial areas or those unique to the industry;
- iii. the existence of acceptable alternative policies and methods, and the acceptability of the particular policy or method used by Management;
- iv. the effect on the financial statements of significant unusual transactions;
- v. the use of accruals, provisions or estimates that have a significant effect upon the financial statements, the reasonableness of significant adjustments and the clarity of the disclosures in the financial statements;
- vi. the basis for the External Auditor's conclusions regarding the reasonableness of the estimates made by Management;
- vii. factors affecting the asset and liability carry values and the Auditor's conclusion regarding reasonableness of assumptions made by Management.

(c) summary of all unadjusted differences and the effect on the financial statements;

(d) resolve any disagreements between Management and the External Auditor regarding financial reporting.

4.9 To use reasonable efforts to satisfy itself that any litigation, claim or other contingency, including tax assessments, that could have a material effect on the

financial position or operating results of the Corporation have been appropriately disclosed in the Corporation's audited financial statements.

- 4.10 Approve the retention of the External Auditor for any non-audit service and the fee for such service.

5. Compliance

- 5.1 Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of Management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- 5.2 Establish procedures for: (i) The receipt, retention, and treatment of complaints received by the listed issuer regarding accounting, internal accounting controls, or auditing matters; and (ii) The confidential, anonymous submission by employees of the listed issuer of concerns regarding questionable accounting or auditing matters.
- 5.3 Review the findings of any examinations by regulatory agencies, and any Internal/External Auditor's observations.
- 5.4 Review the process for communicating the code of conduct to Corporation's personnel, and for monitoring compliance therewith.
- 5.5 Obtain regular updates from Management and corporate legal counsel regarding compliance matters.

6. Reporting Responsibilities

- 6.1 Regularly report to the board of directors about committee activities and issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements, the performance and independence of the Corporation's External Auditors, and the performance of the internal audit function.
- 6.2 Provide an open avenue of communication between Internal Auditor, the External Auditors and the board of directors.
- 6.3 Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- 6.4 Review any other reports the company issues that relate to committee responsibilities.

7. Whistle-Blower Policy

- 7.1 The Chair of the Audit Committee shall have direction to call a meeting of the Committee to review suspected violations of the Whistle-Blower Policy of the Company, and shall have the authority to engage independent counsel before presenting such violations to the committee.

8. Other Responsibilities

- 8.1 To review and report annually to the Board with respect to the expenses of the Chair of the Board and President of the Corporation.
- 8.2 Discuss with Management the Corporation's major policies with respect to risk assessment and risk management.
- 8.3 Perform other activities related to this mandate as requested by the Board of Directors.
- 8.4 Institute and oversee special investigations as needed.
- 8.5 Review and assess the adequacy of the Committee mandate annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- 8.6 Confirm annually that all responsibilities outlined in this mandate have been carried out.
- 8.7 Evaluate the Committee's and individual members' performance at least annually.

11.3 Pre-Approval of Audit and Non-Audit Services

The Audit Committee requires written pre-approval of all audit and non-audit services provided to the Company by the Company's external auditor. Non-audit services included performing certain procedures in relation to the Company's annual returns filed with the Government, continuous disclosure documents, quarterly financial statements and debt covenant certificates, as well as providing technical advice. The Audit Committee considers non-audit business advisory services to be in the context of auditor independence.

11.4 External Auditor Service Fees

The External Auditors of the Company for the one year period ended December 31, 2009 are Ernst and Young, Cayman Islands ("E&Y"), Chartered Accountants, Georgetown, Grand Cayman, Cayman Islands. The Company has been advised that the partners and senior management of E&Y, together with each employee or consultant of E&Y who participated in and who was in a position to directly influence the preparation of E&Y's audit report on the audited financial statements of the Company for the year ended December 31, 2009, hold no interest in the securities of CUC and that E&Y is independent with respect to the Company in accordance with the independence requirements of The International Federation of Accountants.

Fees paid by CUC to E&Y in Fiscal 2009 and the eight-month Transitional Period for audit, audit-related and non-audit services were as follows:

	December 31, 2009	December 31, 2008
	(\$)	(\$)
Audit fees	171,000	171,000
Audit-related fees	-	-
Tax fees	-	-
All other fees	82,000	72,000
Total	253,000	243,000

12.0 MATERIAL CONTRACTS

The following is a list of the “material contracts” of the Company required to be filed on SEDAR under NI 51-102 and that were entered within the most recently completed financial year or prior to the most recently completed financial year and that are still in effect:

- the T&D Licence and the Generation Licence, each of which is described above under Section 3.2 “Regulation”.

13.0 REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent for the Class A Ordinary Shares and 9% Class B Preference Shares is CIBC Mellon Trust Company of Toronto, Ontario, Canada.

14.0 SHARE PLANS

The Company has the following share plans that allow participants to acquire Class A Ordinary Shares in the capital of the Company: Customer Share Purchase Plan, Employee Share Purchase Plan, Employee Long Service Bonus Plan, Dividend Reinvestment Plan and Executive Stock Option Plan.

14.1 Customer Share Purchase Plan

A Customer Share Purchase Plan (“CSPP”) was established on January 1, 1995 and provides customers of the Company resident in Grand Cayman with an opportunity to acquire Class A Ordinary Shares free of brokerage fees and related transaction costs. Customers may make cash payments of not less than \$30 per purchase and up to a total of \$14,400 per calendar year for the purchase of Class A Ordinary Shares. Dividends paid on Class A Ordinary Shares acquired under the CSPP are reinvested in additional Class A Ordinary Shares. All administrative costs in connection with the CSPP, including brokerage commissions, are borne by the Company.

14.2 Employee Share Purchase Plan

CUC also has an Employee Share Purchase Plan (“ESPP”) to encourage participation and long-term investment by its employees. The Company provides interest-free advances to employees to purchase Class A Ordinary Shares, with such advances recovered through payroll deductions over the next year. Dividends on Class A Ordinary Shares purchased on behalf of employees under the Purchase Plan are paid in full to participating employees. The minimum semi-annual participation in the ESPP is 50 Class A Ordinary Shares, and the maximum semi-annual participation is 1,000 Class A Ordinary Shares per employee.

14.3 Employee Long Service Bonus Plan

The Company has also implemented an Employee Long Service Bonus Plan (“ELSBP”) whereby long-serving employees and non-executive Directors (i.e., those with more than 10 years of service) are awarded 10 Class A Ordinary Shares for each year of service, with such awards presented on the 10th, 15th, 20th, 25th, 30th, 35th and 40th anniversaries of employment.

14.4 Dividend Reinvestment Plan

CUC established a Dividend Reinvestment Plan (“DRIP”) effective May 1, 1990 whereby the holders of Class A Ordinary Shares can elect to reinvest their quarterly dividends in additional Class A Ordinary Shares. Holders of the Class B Preference Shares also have the option of investing their dividends in Class A Ordinary Shares.

The Class A Ordinary Shares required to satisfy the requirements of the CSPP, ESPP, ELSBP and DRIP may be obtained from treasury at the 20-day average market price or from purchases in the open market at the discretion of the Company through its Normal Course Issuer Bid (“NCIB”) as approved by the TSX. The plan requirements will be fulfilled to the extent possible through NCIB-related market purchases in the event that the trading price of the Class A Ordinary Shares is below the 20-day average market price, and any remaining balance will be issued from treasury. NCIB-related purchases should total no more than 400,000 Class A Ordinary Shares per annum. The Company did not purchase any Class A Ordinary Shares through the NCIB in the one year period ended December 31, 2009.

14.5 Executive Stock Option Plan

Shareholders of CUC approved the Executive Stock Option Plan (“ESOP”) in 1991 providing for the grant of options (“Options”) to purchase Class A Ordinary Shares of the Company to employees, officers and directors. The purpose of the plan is to encourage increased share ownership by key employees as an incentive to increase share value. Grants of Options are dependent upon personal performance, and the number of shares made available under each option is dependent upon the employee's salary level and years of service, all in accordance with the terms of the plan.

The exercise price per share in respect of an Option is equal to the fair market value on the date of grant without any discount. Each Option is for a term not exceeding 10 years and becomes exercisable on a cumulative basis at the end of each year following the date of grant. CUC does not make loans available to executives for the purchase of such shares. The number of Class A Ordinary Shares under the option shall be fixed and approved by the shareholders of the Company.

Options to purchase 161,300 Class A Ordinary Shares at an exercise price of \$8.76 were granted to managers and executives during the one year period ended December 31, 2009. No options to purchase Class A Ordinary Shares were exercised during the one year period ended December 31, 2009.

The Company issued Class A Ordinary Shares from treasury to fulfill the requirements of the DRIP, CSPP, ESPP, ELSBP and ESOP during the one year period ended December 31, 2009 as follows:

	One-Year Period Ended December 31, 2009	
	Shares	Range of Issue Prices (\$)
Dividend Reinvestment Plan/Customer Share Purchase Plan	172,664	8.255 – 8.675
Employee Share Purchase Plan/Employee Long Service Bonus Plan	17,850	8.255 – 8.675
Executive Stock Option Plan	-	-
Total Shares Issued and Purchased	190,514	8.255 – 8.675

15.0 ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com. Further additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Company's Information Circular for CUC's most recent annual meeting of shareholders that involved the election of directors. Additional financial information is provided in the Company's comparative financial statements for the one year period ended December 31, 2009 and the MD&A thereof. Requests for copies of the aforementioned documents as well as this Annual Information Form should be directed to the Corporate Secretary, Caribbean Utilities Company, Ltd., P.O. Box 38, Grand Cayman KY1-1101, Cayman Islands (phone: (345) 949-5200; fax: (345) 949-4621; e-mail: investor@cuc.ky).