







Caribbean Utilities Company, Ltd.

2010 Third Quarter Report September 30, 2010



About the Company

Caribbean Utilities Company, Ltd., ("CUC" or "the Company") commenced operations as the only electric utility in Grand Cayman on May 10, 1966. The Company currently has an installed generating capacity of 151.230 megawatts ("MW"), and a new 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 25,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's rapid development for over 40 years.

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

Table of Contents:

To Our Shareholders	4
Interim Management's Discussion and Analysis	6
Financial Statements: Balance Sheets Statements of Earnings and Comprehensive Income Statements of Retained Earnings Statements of Cash Flows	28 29 30 31
Notes to Interim Financial Statements	32
Shareholder Information	44

To Our Shareholders

Dear Shareholder,

The third quarter of 2010 was characterized by continued economic weakness on Grand Cayman ("the island"), cooler and wetter weather conditions and flat underlying growth in demand. Electricity sales for the third quarter of 2010 totalled 152.7 million kilowatthours ("kWh") in comparison to 153.3 million kWh for the three months ended September 30, 2009; a decrease of 0.6 million kWh. Year-to-date, the Company experienced higher revenues largely due to higher temperatures through the first six months of the year.

Net earnings for the third quarter of 2010 were \$6.6 million, down marginally from net earnings for the three months ended September 30, 2009. Nine month earnings of \$15.2 million were up \$1.1 million or 8% compared to 2009. Over the period, the Company has focused on reducing discretionary expenses, however, such reductions were partially offset by higher depreciation and financing costs.

Total customers connected presently stands at 25,968 with 151 new customers added during the quarter. Although a new peak load of 102.1 megawatts ("MW") was set during the second quarter of 2010, the third quarter peak, when annual records are typically set, was 3% lower at 99.4 MW. The Company, following a comprehensive analysis of demand indicators, is of the view that further capacity expansion is not warranted until there is evidence of a return to sustained growth, and has recommended to the Electricity Regulatory Authority ("ERA") that scheduled generator retirements be delayed pending more economic certainty.

Earnings per share for the quarter were \$0.23 per Class A Ordinary Share after adjustment for dividends on Class B Preference Shares compared to \$0.21 per share in 2009 and \$0.52 per Class A Ordinary Share year-to-date compared to \$0.47 per share for the same period in 2009. Earnings per share were positively affected by the timing of the Class B Preference Share participating dividend following the change of year end completed in 2009.

Class A Ordinary Share dividends of \$0.165 per share were paid in September.

We continue to focus on reliability projects commenced prior to the economic downturn which will complete important elements of our strategic reliability investment programme. In particular, the Rum Point to Frank Sound transmission line has been completed and tie-in work will commence shortly, including substation upgrades. Portable substation equipment will be employed to meet increased demand and improve reliability in the Prospect area of the island until a new permanent substation can be built. Reliability for the Third Quarter of 2010, as measured by Average System Availability Index, was 99.75% which was severely impacted by an island-wide outage caused by lightning storms.

In early October, the Cayman Islands Government announced that a Doppler radar facility for weather prediction purposes would be installed in the East End district of the island. The location of the Doppler radar installation effectively precludes the advancement of a planned 10 MW wind generation project which was proposed to be installed in the same vicinity and was nearing final commitment following a competitive solicitation process commenced in mid-2008. While the Company is disappointed that

this opportunity to expand renewable energy sources on the island has been curtailed, we remain committed to further development of alternative energy sources.

The Company has taken advantage of the hiatus in capital growth projects to turn its attention to efficiency projects and employee development and safety matters. Technical skills development and supervisory and management training have been enhanced during the period as we encourage our employees to work more efficiently and at the same time, safely.

We expect the lower growth on the island to last through 2011 and see few major construction projects scheduled to come on line which would increase demand. The Company continues to focus on trimming expenses and preserving cash while meeting its obligations to serve reliably, and values the support of shareholders and employees in this regard.

J.F. Richard Hew

J. Murum J.

President & Chief Executive Officer

November 2, 2010

Interim Management 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 nine months ended September 30, 2010 and audited financial statements for the twelve months ended December 31, 2009. The material has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to Management's Discussion and Analysis.

Additional information in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, and their impact, which are disclosed in the notes to the Company's 2009 annual financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation the amount and timing of the recovery or refund would not be subject to regulatory approval.

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

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

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

Financial and Operational Highlights

(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Change	% Change
Electricity Sales	19,126	19,191	53,400	51,569	1,831	4%
Fuel Factor Revenues	29,969	24,975	79,254	63,390	15,864	25%
Operating Revenues	49,095	44,166	132,654	114,959	17,695	15%
Total Operating Expenses	41,145	36,519	112,828	97,997	14,831	15%
Earnings for the Period	6,568	6,644	15,212	14,120	1,092	8%
Basic Earnings per Class A Ordinary Share	0.23	0.21	0.52	0.47	0.05	11%
Dividends paid per Class A Ordinary Share	0.165	0.165	0.495	0.495	-	0%
Peak Load Gross (MW)	99.4	97.5	102.1	97.5	4.6	5%
Net Generation (millions of kWh)	163.7	163.7	456.6	445.1	11.5	3%
Kilowatt-Hour Sales (millions of kWh)	152.7	153.3	425.9	415.6	10.3	2%
Total Customers	25,968	25,226	25,968	25,226	742	3%
Customer per Employee (#)	134	129	134	129	5	4%
Sales per employee (millions of kWh)	0.79	0.78	2.20	2.12	0.08	4%

Corporate and Regulatory Overview

CUC, a vertically integrated utility, operates the only electric utility on Grand Cayman, Cayman Islands, pursuant to a 20-year exclusive T&D Licence and a 21.5 year non-exclusive Generation Licence granted by the Government, which expire in April 2028 and September 2029 respectively. The Licences contain the provision for a rate cap and adjustment mechanism ("RCAM") based on published consumer price indices. CUC's return on rate base ("RORB") for 2009 was 7.8%. CUC's RORB for 2010 is targeted in the 7.75% to 9.75% range (2009: 9% to 11%).

CUC's base rates are designed to recover all non-fuel and regulatory costs and include per kilowatt-hour (kWh") electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2009 the base rates were increased by 2.4%. In early May 2010, after the requisite review, the Company confirmed to the Electricity Regulatory Authority ("ERA") that the RCAM yielded no rate adjustment for June 2010 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 2009. 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 February 2010 the ERA approved CUC's 2010 CIP for \$21.3 million. CUC will submit its 2011-2015 CIP during the fourth quarter. ERA approval on the CIP is expected before the end of the year. Additional generation needs are subject to a competitive bid process.

A licence fee of 1%, payable to the Government, is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge. In addition to the licence fee, a regulatory fee of $\frac{1}{2}$ 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 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, general and administration ("G&A") and transmission and distribution ("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 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.

Net earnings for the nine months ended September 30, 2010 were \$15.2 million, representing an increase of 8% or \$1.1 million compared to net earnings of \$14.1 million for the nine months ended September 30, 2009. Contributing to this increase in earnings was positive sales growth, attributable in part to higher than average temperatures in the first six months of the year and lower G&A, maintenance 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 nine months ended September 30, 2010 were \$14.9 million,

or \$0.52 per Class A Ordinary Share, as compared to \$13.3 million or \$0.47 per Class A Ordinary Share for the nine months ended September 30, 2009.

Sales

Kilowatt-hour sales for the Third Quarter 2010 totalled 152.7 million, a decrease of 0.6 million when compared to 153.3 million for the Third Quarter 2009. Sales for the Third Quarter 2010 were negatively affected by higher rainfall and lower temperatures offset by increasing customer numbers. Twenty-eight inches of rainfall were experienced in the Third Quarter 2010 as compared to 11.9 inches in the Third Quarter 2009. Average temperatures of 85 degrees Fahrenheit ("F") were experienced in the Third Quarter 2010 as compared to an average of 86 degrees F in the Third Quarter 2009.

Kilowatt-hour sales for the nine months ended September 30, 2010 totalled 425.9 million, an increase of 10.3 million or 2%, in comparison to 415.6 million for the nine months ended September 30, 2009. Sales for the nine month period were positively impacted by increasing customer numbers and warmer weather conditions during the first half of the year that affected customer air conditioning load. The average temperature for the nine months ended September 30, 2010 was 81 degrees F as compared to an average temperature of 80 degrees F for the same period last year. Sales for the first nine months of 2009 were negatively impacted by customer conservation driven by high fuel prices in late 2008.

Total customers as at September 30, 2010 were 25,968, an increase of 742 customers, or 3%, compared to 25,226 customers as at September 30, 2009. The Company had a net increase of 151 customers for the Third Quarter 2010 which was comprised entirely of residential connections.

The following tables present customer and sales highlights:

Customers (#)	Sep-10	Sep-09	Change %
Residential	22,175	21,482	3%
Commercial	<u>3,793</u>	<u>3,744</u>	1%
Total Customers	25,968	25,226	3%

Sales and customer highlights continued:

Sales (thousands kWh)	Three Months Ended September 2010	Three Months Ended September 2009	Nine Months Ended September 2010	Nine Months Ended September 2009	Change % for the Nine Months
Residential	75,869	75,891	202,571	196,567	3%
Commercial	75,317	75,923	218,684	214,621	2%
Other (street lighting, etc.)	<u>1,560</u>	<u>1,493</u>	<u>4,683</u>	<u>4,431</u>	6%
Total Sales	152,746	153,307	425,938	415,619	2%

Operating Revenues

Operating revenues increased \$4.9 million, or 11%, to \$49.1 million for the Third Quarter 2010 from \$44.2 million for the Third Quarter 2009 due to 20% higher fuel factor revenues. Operating revenues increased \$17.7 million, or 15%, to \$132.7 million for the nine months ended September 30, 2010, from \$115.0 million for the nine months ended September 30, 2009, due to 2% kWh sales growth and 25% higher fuel factor revenues. Total operating revenues were as follows:

Revenues (thousands \$)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Change	% Change
Residential	9,789	9,804	26,262	25,258	1,004	4%
Commercial	9,249	9,321	26,876	26,083	793	3%
Other (street lighting, etc.)	<u>88</u>	<u>66</u>	<u>262</u>	<u>228</u>	34	14%
Electricity Sales Revenues	19,126	19,191	53,400	51,569	1,831	4%
Fuel Factor Revenues	<u>29,969</u>	<u>24,975</u>	<u>79,254</u>	63,390	15,864	25%
Total Operating Revenues	49,095	44,166	132,654	114,959	17,695	15%

Electricity sales revenue decreased \$0.1 million, or 1%, to \$19.1 million in the Third Quarter 2010 when compared to electricity sales revenues of \$19.2 million for the Third Quarter 2009 due to lower kWh sales.

Electricity sales revenue increased \$1.8 million, or 4%, to \$53.4 million for the nine months ended September 30, 2010, from \$51.6 million for the nine months ended September 30, 2009. This increase is mainly due to 2% kWh sales growth experienced period over period, primarily related to higher than average temperatures in the first six months of 2010, and the 2.4% base rate increase implemented in June 2009.

Fuel factor revenues for the Third Quarter 2010 totalled \$30.0 million, a 20% increase from the \$25.0 million in fuel factor revenues for the Third Quarter 2009. This increase is due to higher fuel costs (see "Power Generation" section for further details). The average Fuel Cost Charge rate per kWh charged to consumers for the three months ended September 30, 2010 was \$0.20, an 11% increase from \$0.18 per kWh for the three months ended September 30, 2009.

Fuel factor revenues for the nine months ended September 30, 2010 totalled \$79.3 million, a \$15.9 million, or 25%, increase from the \$63.4 million in fuel factor revenues for the nine months ended September 30, 2009. This increase is due to higher sales and higher fuel costs (see "Power Generation" section for further details). The average Fuel Cost Charge rate per kWh charged to consumers for the nine months ended September 30, 2010 was \$0.20, a 25% increase from \$0.16 per kWh for the nine months ended September 30, 2009. CUC passes through all fuel costs (with no mark-up) to consumers on a two-month lag basis.

Operating Expenses

Total operating expenses for the Third Quarter 2010 increased 13% to \$41.1 million from \$36.5 million for the Third Quarter 2009. The major contributing factor to the increase in operating expenses is higher generation expenses which are comprised predominantly of fuel costs. Higher depreciation expense also contributed to the increase.

Operating expenses for the nine months ended September 30, 2010 totalled \$112.8 million, a \$14.8 million, or 15%, increase from \$98.0 million for the nine months ended September 30, 2009. The major contributing factors to this increase are higher power generation and depreciation expenses which were partially offset by lower G&A, maintenance and T&D expenses.

Operating expenses were as follows:

(\$ thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Change	% Change
Power generation expenses	30,688	25,800	81,503	65,902	15,601	24%
General and administration	2,111	2,423	6,292	7,696	(1,404)	-18%
Consumer Service and promotion	631	376	1,424	1,136	288	25%
Transmission and distribution	515	557	1,567	1,997	(430)	-22%
Depreciation	5,210	4,381	15,276	13,787	1,489	11%
Maintenance	1,922	2,874	6,499	7,083	(584)	-8%
Amortization of Intangible Assets	<u>68</u>	<u>108</u>	<u> 267</u>	<u>396</u>	(129)	-33%
Total operating expenses	41,145	36,519	112,828	97,997	14,831	15%

Power Generation

Power generation costs for the Third Quarter 2010 increased \$4.9 million, or 19%, to \$30.7 million when compared to \$25.8 million for the Third Quarter 2009. The change is a result of an increase in the cost of fuel. In July 2010 the Government increased the duty applicable to fuel by 0.30 per gallon which has impacted the price per imperial gallon ("IG") of fuel. The peak load for the Third Quarter 2010 was 99.4 MW, a 2% increase over the peak load for the same period last year. The peak load for the quarter was set prior to the significant rainy period.

Power generation costs for the nine months ended September 30, 2010 increased \$15.6 million, or 24%, to \$81.5 million when compared to \$65.9 million for the nine months ended September 30, 2009. The peak load for the nine months ended September 2010 was 102.1 MW, a 5% increase over the peak load for the same period last year of 97.5 MW.

Power generation	expenses	were	as	follows:
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(\$ thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Change	% Change
Fuel costs (net of deferred fuel charges)	29,399	24,003	77,548	60,819	16,729	28%
Lube costs (net of deferred lube charges)	570	972	1,706	2,571	(865)	-34%
Other generation expenses	<u>719</u>	<u>825</u>	<u>2,249</u>	<u>2,512</u>	(263)	-10%
Total power generation expenses	30,688	25,800	81,503	65,902	15,601	24%

The Company's average price per IG of fuel for the Third Quarter 2010 increased 19% to \$3.47, compared to \$2.92 for the Third Quarter 2009. The Company's average price per IG of fuel for the nine months ended September 30, 2010 increased 48% to \$3.32, compared to \$2.24 for the nine months ended September 30, 2009.

The Company's average price per IG of lube for the Third Quarter 2010 increased 1% to \$11.14 compared to \$11.02 for the Third Quarter 2009. The Company's average price per IG of lube for the nine months ended September 30, 2010 decreased 23% to \$10.44, compared to \$13.62 for the nine months ended September 30, 2009.

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

Other generation expenses for the Third Quarter 2010 totalled \$0.7 million, a 13% decrease from \$0.8 million for the Third Quarter 2009. Other generation expenses for the nine months ended September 30, 2010 totalled \$2.2 million, a 10% decrease from \$2.5 million for the nine months ended September 30, 2009. This change is primarily due to efforts to control discretionary costs.

General and Administration ("G&A")

G&A expenses for the Third Quarter 2010 totalled \$2.1 million, a decrease of \$0.3 million, or 13% when compared to \$2.4 million for the Third Quarter 2009. This decrease is partially attributable to increased General Expenses Capitalised ("GEC") in accordance with the Company's employee level of activity on capital related projects versus operating projects (refer to Note 1 of the Notes to Interim Financial Statements for further details regarding GEC) and decreased consultancy and payroll costs. The Company implemented a hiring, salary and bonus freeze in 2009 that remains in effect in an effort to control discretionary costs.

G&A expenses for the nine months ended September 30, 2010 totalled \$6.3 million, a decrease of \$1.4 million from \$7.7 million for the nine months ended September 30, 2009 due mainly to an increase in GEC of \$1.1 million.

Consumer Services ("CS")

CS expenses for the Third Quarter 2010 totalled \$0.6 million, a \$0.2 million increase when compared to \$0.4 million for the Third Quarter 2009.

CS expenses for the nine months ended September 30, 2010 totalled \$1.4 million an increase of \$0.3 million when compared to CS expenses of \$1.1 million for the nine months ended September 30, 2009.

Transmission and Distribution ("T&D")

T&D expenses for the Third Quarter 2010 totalled \$0.5 million, a \$0.1 million, or 8% decrease compared to \$0.6 million for the Third Quarter 2009 due mainly to efforts to control discretionary costs.

T&D expenses for the nine months ended September 30, 2010 totalled \$1.6 million, a decrease of \$0.4 million from \$2.0 million for the nine months ended September 30, 2009. This decrease was partially due to increased capitalised labour as the T&D Division focused on capital projects and partially due to efforts to control discretionary costs.

Depreciation

Depreciation expense for the Third Quarter 2010 totalled \$5.2 million, an increase of \$0.8 million, or 19%, from \$4.4 million for the Third Quarter 2009. This increase is primarily the result of growth-related additions to fixed assets in prior periods including the 16 MW generating unit commissioned in September 2009.

Depreciation expense for the nine months ended September 30, 2010 totalled \$15.3 million, an increase of \$1.5 million from \$13.8 million for the nine months ended September 30, 2009. This increase is the result of growth-related capital expenditures.

Maintenance

Maintenance expenses for the Third Quarter 2010 totalled \$1.9 million, a decrease of \$1.0 million from \$2.9 million for the Third Quarter 2009. Increased focus on capital projects has resulted in some delays in scheduled maintenance causing reduced maintenance expenses.

Maintenance expenses for the nine months ended September 30, 2010 totalled \$6.5 million, a decrease of \$0.6 million from \$7.1 million for the nine months ended September 30, 2009. The Company now expects all maintenance that was scheduled for 2010 to be completed by June 2011.

Amortization

Amortization of intangible assets for the Third Quarter 2010 totalled \$0.07 million, a decrease of \$0.03 million, or 30% when compared to \$0.1 million for the Third Quarter 2009. This decrease relates to the retirement of various intangible assets, all assets retired were of the software category.

Amortization of intangible assets for the nine months ended September 30, 2010 totalled \$0.3 million, a decrease of \$0.1 million or 33% when compared to \$0.4 million for the nine months September 30, 2009.

Amortization represents the monthly recognition of the expense associated with software purchases as well as other intangible assets such as the costs associated with the license negotiations.

Other Income and Expenses

Net other expenses for the Third Quarter 2010 totalled \$1.4 million, an increase of \$0.4 million from \$1.0 million for the Third Quarter 2009. Net other expenses for the nine months ended September 30, 2010 totalled \$4.6 million, an increase of \$1.8 million, from \$2.8 million for the nine months September 30, 2009.

(\$ thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Change	% Change
Total interest costs	(2,957)	(3,119)	(9,177)	(8,614)	(563)	7%
AFUDC	759	1,299	2,284	3,549	(1,265)	-36%
Total finance charges	(2,198)	(1,820)	(6,893)	(5,065)	(1,828)	36%
Foreign exchange gain	465	465	1,298	1,309	(11)	-1%
Other income	351	352	981	914	67	7%
Total net other expenses	(1,382)	(1,003)	(4,614)	(2,842)	(1,772)	62%

Finance charges for the Third Quarter 2010 totalled \$2.2 million, a \$0.4 million, or 21% increase from \$1.8 million for the Third Quarter 2009. This is attributable to a decrease in the Allowance for Funds Used during Construction ("AFUDC") in the Third Quarter of 2010.

Finance charges for the nine months ended September 30, 2010 totalled \$6.9 million, an increase of \$1.8 million from \$5.1 million for the nine months September 30, 2009. This increase is attributable to interest costs on the \$40 million 7.5% senior unsecured notes issued in May and July 2009 and a decrease in AFUDC.

Under the T&D Licence there is a provision for an AFUDC. This capitalisation of the Financing Cost is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for 2010 is 8.75% as agreed with the ERA, in accordance with the T&D Licence, and will be reviewed annually. The cost of capital rate for 2009 was 10%. The AFUDC amount for the Third Quarter 2010 totalled \$0.8 million, a \$0.5 million decrease when compared to \$1.3 million for the Third quarter 2009.

The AFUDC amount for the nine months ended September 30, 2010 totalled \$2.3 million a \$1.2 million decrease when compared to \$3.5 million for the nine months ended September 30, 2009. This decrease is attributable to the lower cost of capital rate and reduced capital expenditure.

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 Third Quarter 2010 totalled \$0.5 million, comparable to foreign exchange gains of \$0.5 million for the Third Quarter 2009.

Foreign exchange gains totalled \$1.3 million for the nine months ended September 30, 2010 comparable to \$1.3 million for the nine months ended September 30, 2009.

Other income is comprised of pole rental fees, income from pipeline operations, sales of meter sockets, sale of recyclable metals and other miscellaneous income. Other income totalled \$0.4 million for the Third Quarter 2010 comparable to the Third Quarter 2009.

Other income totalled \$1.0 million for the nine months ended September 30, 2010 a \$0.1 million increase when compared to \$0.9 million for the nine months ended September 30, 2009.

The Economy

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

The Cayman Islands Monetary Authority acknowledges that greater regulation, converging international standards and increased monitoring are imminent and occurring. The Cayman Islands have gained seats on the steering committee and the peer review group of the Global Forum on Transparency and Exchange of Information for tax purposes. This will allow the Cayman Islands to proactively institute necessary changes as well as influence the resulting international standards. The Global Forum has been the multilateral framework within which work in the area of transparency and exchange of information has been carried out by both OECD and non-OECD economies since 2000.

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

	As at	As at	As at	As at	As at
	September	December	December	December	December
	2010	2009	2008	2007	2006
Bank Licences	262	266	278	281	291
Registered Companies	92,399	92,867	93,693	87,109	83,532
Mutual Funds	9,594	9,523	9,870	9,413	8,134
Mutual Fund Administrators	133	141	155	152	153
Captive Insurance Companies	758	780	777	765	740

Tourism plays a significant role in the Island's economy. In 2009, 79% of air arrivals to the country were citizens of the United States. As such the United States economy largely impacts that of the Cayman Islands. For the Third Quarter 2010 air arrivals were 7% higher when compared to the same period in 2009.

Air arrivals have a direct impact on the Company's sales growth as these 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 nine months ending September 30:

Arrivals	2010	2009	2008	2007	2006
By Air	219,934	208,761	240,288	220,919	202,962
By Sea	1,182,308	<u>1,144,948</u>	1,166,741	1,321,815	1,424,223
Total	1,402,242	1,353,709	1,407,029	1,542,734	1,627,185

Government released the 2010 Semi Annual Economic Report in October 2010, which indicates that the Cayman Islands GDP contracted at an annualized rate of 4.1% in the first half of 2010. GDP growth is projected for 2010 to fall within the range of negative 3.5% and negative 4.5%. This projection was attributed to the fact that 'lacklustre economic recovery persist in major source markets which continue to impact the domestic economy'. The report showed that for the first six months of 2010, construction (based on the value of building permits) declined by 28.0% from the same period in 2009. It was also noted that project approvals, a measure of future construction intentions, fell by 33.7% (based on the estimated value of the projects) when compared to the same period in 2009. Average inflation for the first half of 2010 was recorded at 0.9%.

The 2009 Labour Force Survey Report estimated the population at 52,830 as compared to 57,009 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 June 2010 that number has dropped to 21,529. The 2010 Semi Annual report attributes this decrease to "the sharp slowdown in construction, the largest employer of foreign labour".

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

Liquidity and Capital Resources

The following table outlines the summary of cash flow:

(\$ thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Change	% Change
Beginning cash Cash provided by/(used in):	1,960	3,089	4,927	1,431	3,496	244%
Operating activities	11,798	10,551	33,104	31,074	2,030	7%
Investing activities	(4,654)	(14,409)	(15,916)	(36,198)	20,282	-56%
Financing activities	(5,110)	5,123	(18,121)	8,047	(26,168)	-325%
Ending cash	3,994	4,354	3,994	4,354	(360)	-8%

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for the Third Quarter 2010, was \$11.8 million, an increase of \$1.2 million from \$10.6 million for the Third Quarter 2009. This increase is mostly attributable to net positive change in working capital.

Cash flow provided by operations, after working capital adjustments, for the nine months ended September 30, 2010, was \$33.1 million, an increase of \$2.0 million from \$31.1 million for the nine months ended September 30, 2009. This increase is attributable to the increase in earnings and the net positive change in working capital.

Investing Activities:

Cash used in investing activities for the Third Quarter 2010 totalled \$4.7 million, a decrease of \$9.7 million from \$14.4 million for the Third Quarter 2009. This decrease is attributable to decreased capital related expenditures.

Cash used in investing activities totalled \$15.9 million for the nine months ended September 30, 2010 a decrease of \$20.3 million from \$36.2 million for the nine months ended September 30, 2009. This decrease is attributable to decreased capital related expenditures.

Financing Activities:

Cash used in financing activities for the Third Quarter 2010 totalled \$5.1 million, a \$10.2 million change from cash received from financing activities of \$5.1 million for the Third Quarter 2009. This change in cash received is mainly attributable to the funding received from long term debt financing in the Third Quarter 2009.

Cash used in financing activities totalled \$18.1 million for the nine months ended September 30, 2010 a change of \$26.1 million from cash received from financing activities of \$8.0 million for the nine months ended September 30, 2009. This change in cash received is mainly attributable to the funding received from debt financing in 2009.

Transactions with Related Parties

Miscellaneous receivables from Fortis Turks & Caicos totalling \$0.16 million were outstanding at September 30, 2010 (2009:\$0.08 million).

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at September 30, 2010, are outlined in the following table:

(\$ millions)	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	0.1	0.1			
Total	195.4	29.4	37.7	30.9	97.4

The Company has a primary fuel supply contract with Esso Standard Oil S.A. ("Esso") and is committed to purchase 80% of the Company's diesel fuel requirements for its generating plant from Esso. The initial contract terminated in April 2010. CUC continues to operate within the

terms of the initial contract. The contract contains an automatic renewal clause for the years 2010 through to 2012. Should any party choose to terminate within that two year period notice must be given a minimum of one year in advance of the desired termination date. No such termination notice has been given by either party to date. As such the contract is effectively renewed until 2011. The approximate quantities per the contract in millions of IGs: 2010 - 25.3.

Financial Position

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2009 to September 30, 2010:

Significant changes in Balance Sheets between December 31, 2009 and September 30, 2010	Increase (Decrease)	Explanation
(\$ millions)		
Cash	(0.9)	Decrease due to cash used in investing activities of \$15.9 million and cash utilised in financing activities of \$18.1 million, partially offset by cash provided by operating activities of \$33.1 million.
Accounts receivable - Trade	2.8	Increase due to higher fuel factor billings as a result of increasing fuel prices.
Regulatory Assets	0.7	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.
Property, Plant and Equipment	0.3	Net increase is comprised of capital expenditures of (1) \$15.6 million and (2) depreciation expense of \$15.3 million.
Accounts Payable & Accrued Expenses	6.6	Change mainly attributable to increase in fuel costs.
Short-Term Debt	9.0	Increase is a net result of drawdown of \$9 million against the RBC Capital Expenditure line of credit.
Current Portion of Long Term Debt	(1.5)	Decrease due to repayment of 8.47% unsecured loan note.
Long-Term Debt	(12.4)	Decrease due to principal repayments made in June and portions allocated to current debt.
Share premium	1.2	The Company issued 143,319 shares through its share purchase plans.
Retained Earnings	0.9	Increase due to net earnings for the period of \$15.2 million offset by Class A dividends of \$14.0 million and Class B dividends of \$0.3 million.

Capital Resources

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

To help ensure access to capital, the Company targets a long-term capital structure containing approximately 45% equity, including preference shares, and 55% debt. The Company's objective is to maintain investment-grade credit ratings.

The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the rights offering that occurred in 2008.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65% of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at September 30, 2010, the Company was in compliance with all debt covenants.

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

Capital structure	September 30, 2010 (\$ millions)	%	December 31, 2009 (\$ millions)	%
Total debt	195.3	53	200.2	54
Shareholder's equity	<u>174.1</u>	<u>47</u>	<u>171.9</u>	<u>46</u>
Total	369.4	100	372.1	100

The change in the Company's capital structure at September 30, 2010 is due to a net reduction in total debt. In June 2010 the Company repaid \$14 million on various senior unsecured notes and borrowed an additional \$9 million against the Royal Bank of Canada ("RBC") capital expenditure line of credit. The rate on the RBC credit line is Libor+1.5% per annum.

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

S&P A/Negative DBRS A (low)

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

In November 2009 S&P affirmed the Company's 'A' credit rating but revised its outlook from stable to negative. The outlook revision reflects the pressures facing the Cayman economy and S&P's concern that it could create a more difficult operating environment for CUC in the next few years. S&P stated that if the Cayman economy continues to demonstrate subdued or negative growth the rating could be lowered. Conversely, the outlook could be revised to stable if the economy quickly improves. In August 2010 the rating of A negative was reaffirmed due to the continued uncertainty facing the economy.

Credit Facilities

The Company has \$32.9 million of unsecured credit financing facilities 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 September 30, 2010.

Capital Expenditures

Capital expenditures for the Third Quarter 2010 were \$4.7 million, a \$9.6 million, or 68% decrease from \$14.3 million in capital expenditures for the Third Quarter 2009. Third Quarter 2009 capital expenditures were comprised primarily of growth related projects including the 16 MW generating unit commissioned in September 2009.

Capital expenditures for the nine months ended September 30, 2010 were \$15.9 million, a \$20.1 million, or 56% decrease from \$36.0 million in capital expenditures for the nine months ended September 30, 2009. The capital expenditures for the nine months ended September 30, 2010 primarily relate to:

- Distribution system extension and upgrades \$8.3 million.
- Transmission system expansion and upgrades 69 kilovolt ("kV") line extension to close loops to West Bay and Frank Sound - \$1.4 million.
- G36 Piston and Liner Upgrade \$1.7 million
- Inventory that has met the criteria of Property, Plant and Equipment ("PP&E") in accordance with CICA 3031 has been added to work in progress and is included in capital expenditure. For the nine months ended September 30, 2010, a decrease of \$0.03 million was allocated to Transmission and a decrease of \$0.15 million was allocated to Distribution, totalling a decrease of \$0.18 million reallocated from inventories to capital work in progress. As at September 30, 2010, 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 \$2.3 million was capitalized in the nine months ended September 30, 2010

Capital expenditures (\$ Millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine months Ended September 30, 2010	Nine months Ended September 30, 2009
Transmission	-	0.8	1.4	3.1
Distribution	3.0	2.0	8.3	6.6
Generation	1.4	11.4	5.5	25.7
Other	<u>0.3</u>	<u>0.1</u>	<u>0.7</u>	<u>0.6</u>
Total	4.7	14.3	15.9	36.0

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 September 30, 2010.

Business Risks

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

Economic Conditions

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

Weather

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

Environmental Matters

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

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

Regulation

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

Insurance - Terms and Coverage

The Company renewed its insurance policy as at July 1, 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 million limit on property and business interruption (excluding windstorm, earth movement and flood).

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

Defined Benefit Pension Plan

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

Market driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the assumed return on the assets causing material changes in consolidated pension expense and funding requirements. Net pension expense is impacted by, among other things, the amortization of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other pension assumptions, including the assumed discount rate, may also result in future consolidated contributions to pension plans that differ significantly from current estimates as well as causing material changes in consolidated pension expense. The discount rate assumed for 2010 is 6% compared to the discount rate assumed during 2009 which was 6.5%.

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

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

Future Accounting Pronouncements

International Financial Reporting Standards

A detailed discussion of the Company's transition to International Financial Reporting Standards ("IFRS") is provided in the MD&A for the year ended December 31, 2009. The Company is still unable to fully determine the impact on its future financial position and results of operations of the transition to IFRS, particularly as it relates to the accounting for rate-

regulated activities. Completion of the Rate-regulated Activities Project by the International Accounting Standards Board ("IASB") has been delayed based on comments received in response to the IASB's July 2009 Exposure Draft on *Rate-regulated Activities* and decisions by the IASB to conduct further research and analysis.

The IASB met in July 2010 and discussed the key issue of whether regulatory assets and liabilities can be recognized based on the current IFRS - Framework for the Preparation and Presentation of Financial Statements. As a result of those meetings, the IASB decided to continue with the rate-regulated activities project; however, no decision was made as to whether regulatory assets and liabilities could be recognized under IFRS.

At its September 2010 meeting, the IASB continued its discussions on rate-regulated activities. However, the IASB did not reach conclusions on any of the associated technical issues discussed at the meeting. The IASB did reconfirm its earlier view that the matter could not be resolved quickly, and decided that the next step should be to consider whether to include a project on accounting for the effects of rate-regulated activities in its future agenda. The IASB decided, therefore, to include in public consultation on its future agenda a request for views on what form a future project might take, if any, to address accounting for the effects of rate-regulated activities. The feedback to be received is expected to assist the IASB in setting its future agenda. Potential future steps on how to deal with accounting for the effects of rate-regulated activities under IFRS include, but are not limited to: (i) a disclosure only standard; (ii) an interim standard to grandfather previous country-specific GAAP associated with accounting for the effects rate-regulated activities with some limited improvements; (iii) a medium-term project focused specifically on accounting for the effects of rate-regulation; and/or (iv) a comprehensive project on intangible assets that would include accounting for the effects of rate-regulated activities.

On July 28, 2010, the Canadian Accounting Standards Board ("AcSB") issued an Exposure Draft, *Adoption of IFRSs by Entities with Rate-regulated Activities*, (the "July 2010 ED") proposing that qualifying entities with rate-regulated activities be permitted, but not required, to continue applying the accounting standards in Part V of the CICA Handbook for an additional two years. A qualifying entity would be an entity that: (i) has activities subject to rate regulation meeting the definition of that term in *Generally Accepted Accounting Principles*, paragraph 1100.32B, in Part V of the CICA Handbook; and (ii) in accordance with Accounting Guideline AcG-19, *Disclosures by Entities Subject to Rate Regulation*, discloses that it has accounted for a transaction or event differently than it would have in the absence of rate regulation (i.e., that it has recognized regulatory assets and liabilities). The July 2010 ED also proposed that an entity choosing to defer its IFRS changeover date disclose that fact and when it will first present financial statements in accordance with IFRS.

On September 7 and 8, 2010, the AcSB re-deliberated the proposals in its July 2010 ED. The AcSB decided that an optional deferral of the mandatory IFRS changeover date for entities with rate-regulated activities was warranted, but that the deferral should last for one year only. Part I of the CICA Handbook has been updated to reflect the AcSB's decision. Adoption of IFRS by qualifying entities with rate-regulated activities is now mandatory under Canadian GAAP for interim and annual periods beginning on or after January 1, 2012.

While the Company's IFRS Conversion Project has proceeded as planned in preparation for the adoption of IFRS on January 1, 2011 CUC does qualify for the one-year deferral option. The Company has elected to defer the adoption of IFRS until January 1, 2012 and will, therefore, continue to prepare its financial statements in accordance with Part V of the CICA Handbook for all interim and annual periods ending on or before December 31, 2011.

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 September 30, 2010, the amount of unbilled revenue recorded in Electricity Sales was \$5.5 million (September 30, 2009: \$4.8 million).

Kilowatt-hour Sales

Kilowatt-hour sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. The kWh accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for electricity consumption will result in adjustments of kWh sales statistics in the periods they become known when actual results differ from the estimates. As at September 30, 2010, the amount of estimated kWh sales was 37.2 million kWh (September 30, 2009: 35.9 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 September 30, 2010, the Company had no accrued benefit liability (December 31, 2009: \$0.1 million).

Property, Plant and Equipment Depreciation

Depreciation, by its very nature is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at September 30, 2010, the net book value of the Company's PP&E was \$353.7 million compared to \$353.4 million as at December 31, 2009, increasing as a result of the Company's generation and T&D capital

expenditures. Depreciation expense for the nine months ended September 30, 2010 was \$15.3 million (September 30, 2009:\$13.8 million). Due to the value of the Company's PP&E, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

Quarterly Results

This table summarises unaudited quarterly information for each of the eight quarters ended December 31, 2008 through September 30, 2010. This information has been obtained from CUC's unaudited interim Financial Statements which, in the opinion of Management, have been prepared in accordance with Canadian GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Quarterly results (\$ thousands, except basic and diluted earnings per ordinary share)	Operating Revenue	Net earnings	Income applicable to ordinary shares	Earnings per ordinary share	Diluted earnings per ordinary share
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	6,005	5,638	0.20	0.20
September 30, 2009	44,166	6,644	6,051	0.21	0.21
June 30, 2009	35,703	5,042	4,929	0.18	0.18
March 31, 2009	35,090	2,435	2,322	0.08	0.08
December 31, 2008*	32,986	1,865	1,865	0.08	0.08

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

September 2010/September 2009

Net earnings for the Third Quarter 2010 were \$6.5 million, comparable to net earnings for 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 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 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.

March 2010/March 2009

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

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

December 2009/December 2008

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

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

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 September 30, 2010 and information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls over Financial Reporting ("ICFR")

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

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). There was no material weakness relating to design existing as of September 30, 2010.

There has been no change in the Company's ICFR that occurred during the period beginning on July 1, 2010 and ended on September 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

The Company has an approved CIP for the 2010-2014 period totalling \$98 million. The plan has taken into consideration anticipated reductions in growth in the upcoming periods due to the impact of the weakened global economy on the tourism, financial and construction sectors of the Cayman Islands. We expect the lower growth on the island to last through 2011 and have recommended a further delay in new generation needs to the ERA. The Company continues to focus on trimming expenses and preserving cash while meeting its obligations to serve reliably.

Outstanding Share Data

At November 2, 2010, the Company had issued and outstanding 28,420,458 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

November 2, 2010

Balance Sheets (expressed in thousands of United States Dollars)

Unaudited	Note		
		As at September 30, 2010	As At December 31 2009
Assets			
Current Assets			
Cash and cash equivalents		3,994	4,927
Accounts Receivable	5	14,434	11,571
Regulatory Assets	6	22,708	21,996
Inventories	7	2,675	2,702
Prepayments		<u>3,181</u>	<u>2,112</u>
		46,992	43,308
Property, Plant and Equipment	8	353,697	353,359
Other Assets		32	36
Intangible Assets	9	2,835	2,843
Total Assets		403,556	399,546
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts Payable and Accrued Expenses		29,142	22,510
Regulatory Liabilities	6	919	972
Short-Term Debt	10	17,000	8,000
Current Portion of Long-Term Debt		12,500	14,000
Consumer's Deposits and Advances for Construction		<u>4,128</u>	<u>3,963</u>
		<u>63,689</u>	49,445
Long-Term Debt		165,798	<u>178,159</u>
		229,487	227,604
Shareholders' Equity			
Share Capital	12	1,942	1,933
Share Premium	12	74,957	73,729
Contributed Surplus	13	360	325
Retained Earnings		96,810	95,955
Total Shareholders' Equity		174,069	171,942
Total Liabilities and Shareholders' Equity		403,556	<u>399,546</u>

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 September 30, 2010	Three Months Ended September 30, 2009 [Note 3]	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009 [Note 3]
Operating Revenues					
Electricity Sales		19,126	19,191	53,400	51,569
Fuel Factor		<u>29,969</u>	<u>24,975</u>	<u>79,254</u>	63,390
Total Operating Revenues		49,095	44,166	132,654	114,959
Operating Expenses					
Power Generation		30,688	25,800	81,503	65,902
General and Administration		2,111	2,423	6,292	7,696
Consumer Services		631	376	1,424	1,136
Transmission and Distribution		515	557	1,567	1,997
Depreciation		5,210	4,381	15,276	13,787
Maintenance		1,922	2,874	6,499	7,083
Amortisation of Intangible Assets		<u>68</u>	<u>108</u>	<u>267</u>	<u>396</u>
Total Operating Expenses		41,145	36,519	112,828	97,997
Operating Income		7,950	7,647	19,826	16,962
Other (Expenses)/ Income:					
Finance Charges	17	(2,198)	(1,820)	(6,893)	(5,065)
Foreign Exchange Gain	16	465	465	1,298	1,309
Other Income		<u>351</u>	<u>352</u>	<u>981</u>	<u>914</u>
Total Net Other (Expenses)/Income		(1,382)	(1,003)	(4,614)	(2,842)
Earnings and Comprehensive Income for the					11100
Period		6,568	6,644	15,212	14,120
Preference Dividends Paid- Class B		<u>(113)</u>	<u>(593)</u>	<u>(335)</u>	<u>(818)</u>
Earnings on Class A Ordinary Shares Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)	14	6,455 28,382	6,051 28,187	14,877 28,329	13,302 28,111
Earnings per Class A Ordinary Share	14	0.23	0.21	0.52	0.47
Diluted Earnings per Class A Ordinary Share	14	0.23	0.21	0.52	0.47
Dividends Declared per Class A Ordinary Share	11	0.165	0.165	0.495	0.495

Statements of Retained Earnings

(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Balance at beginning of period	95,037	93,674	95,955	95,701
Earnings for the period	6,568	6,644	15,212	14,120
Dividends	<u>(4,795)</u>	(5,243)	(14,357)	(14,746)
Balance at end of period	96,810	95,075	96,810	95,075

Statements of Cash Flows (expressed in thousands of United States Dollars)

Unaudited	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Operating Activities				
Earnings for the period	6,568	6,644	15,212	14,120
Items not affecting cash:				
Depreciation	5,210	4,381	15,276	13,787
Amortisation of Intangible Assets	68	108	267	396
Non-cash pension expenses Amortisation of deferred financing	-	107	-	114
costs	43	42	139	126
Stock-based compensation	<u>12</u>	<u>12</u>	<u>36</u>	<u>34</u>
	11,900	11,294	30,929	28,577
Net change in non-cash working capital balances related to operations	(317)	278	2,940	6,800
•	, ,		·	-
Net Change in Regulatory Deferrals	<u>215</u>	<u>(1,021)</u>	<u>(765)</u>	(4,303)
Cash flow related to operating activities	11,798	10,551	33,104	31,074
Investing Activities Proceeds on sale of property, plant and equipment	3	-	13	-
Costs related to intangible assets	(9)	(44)	(259)	(158)
Purchase of property, plant and equipment	(4,648)	(14,365)	(15,670)	(36,040)
Cash flow related to investing activities	(4,654)	(14,409)	(15,916)	(36,198)
Financing Activities				
Proceeds from debt financing	-	10,000	9,000	41,500
Repayment of debt	-	-	(14,000)	(15,766)
Decrease in bank overdraft	(657)	-	-	(4,158)
Dividends paid	(4,795)	(5,243)	(14,357)	(14,746)
Net proceeds from share issues	<u>342</u>	<u>366</u>	<u>1,236</u>	<u>1,217</u>
Cash flow related to financing activities	(5,110)	5,123	(18,121)	8,047
Increase/(Decrease) in net cash	2,034	1,265	(933)	2,923
Cash and cash equivalent - Beginning of period	<u>1,960</u>	<u>3,089</u>	<u>4,927</u>	<u>1,431</u>
Cash and cash equivalent - End of period Supplemental disclosure of cash flow information:	3,994	4,354	3,994	4,354
Interest paid during the period	93	50	6,291	5,161

Notes to Interim Financial Statements

Unaudited – September 30, 2010 (expressed in thousands of United States dollars unless otherwise stated)

1. Nature of Operations and Financial Statement Presentation

These unaudited financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for interim financial statements and reflect the decisions of the Electricity Regulatory Authority ("ERA"). These decisions affect the timing of the recognition of certain transactions resulting in the recognition of regulatory assets and liabilities, which Caribbean Utilities Company, Ltd. ("CUC" or "the Company") considers it is 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, 2009. Except as disclosed within Note 3, these interim financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual financial statements.

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

Rate Regulated Operations

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

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

For regulatory purposes fixed assets comprise the Property, Plant and Equipment ("PP&E") as reported in the Company's financial statements and intangible assets acquired or constructed by the Company. The original book value of these fixed assets include an Allowance for Funds Used During Construction ("AFUDC") (Note 8) and an allowance for General Expenses Capitalised ("GEC") (Note 8). GEC is calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity.

Seasonality

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

2. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with Canadian GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets

and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Changes in Accounting Policies

Adopted in 2010

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

The adoption of this practice resulted in a reclassification to Fuel Factor of \$0.2 million for the three months ended September 30, 2009 and \$0.8 million for the nine months ended September 30, 2009 with a corresponding reduction in Electricity Sales.

4. Future Accounting Changes

At its September 2010 meeting, the IASB continued its discussions on rate-regulated activities. However, the IASB did not reach conclusions on any of the associated technical issues discussed at the meeting. The IASB did reconfirm its earlier view that the matter could not be resolved quickly, and decided that the next step should be to consider whether to include a project on accounting for the effects of rate-regulated activities in its future agenda. The IASB decided, therefore, to include in public consultation on its future agenda a request for views on what form a future project might take, if any, to address accounting for the effects of rate-regulated activities. The feedback to be received is expected to assist the IASB in setting its future agenda. Potential future steps on how to deal with accounting for the effects of rate-regulated activities under IFRS include, but are not limited to: (i) a disclosure only standard; (ii) an interim standard to grandfather previous country-specific GAAP associated with accounting for the effects of rate-regulated activities with some limited improvements; (iii) a medium-term project focused specifically on accounting for the effects of rate-regulation; and/or (iv) a comprehensive project on intangible assets that would include accounting for the effects of rate-regulated activities.

On July 28, 2010, the AcSB issued an Exposure Draft, *Adoption of IFRSs by Entities with Rate-regulated Activities*, (the "July 2010 ED") proposing that qualifying entities with rate-regulated activities be permitted, but not required, to continue applying the accounting standards in Part V of the CICA Handbook for an additional two years. A qualifying entity would be an entity that: (i) has activities subject to rate regulation meeting the definition of that term in *Generally Accepted Accounting Principles*, paragraph 1100.32B, in Part V of the Handbook; and (ii) in accordance with Accounting Guideline AcG-19, *Disclosures by Entities Subject to Rate Regulation*, discloses that it has accounted for a transaction or event differently than it would have in the absence of rate regulation (i.e., that it has recognized regulatory assets and liabilities). The July 2010 ED also proposed that an entity choosing to defer its IFRS changeover date disclose that fact and when it will first present financial statements in accordance with IFRS.

On September 7 and 8, 2010 the AcSB re-deliberated the proposals in its July 2010 ED. The AcSB decided that an optional deferral of the mandatory IFRS changeover date for entities with rate-regulated activities was warranted, but that the deferral should last for one year only. Part I of the CICA Handbook has been updated to reflect the AcSB's decision. Adoption of IFRS by qualifying entities with rate-regulated activities is now mandatory under Canadian GAAP for interim and annual periods beginning on or after January 1, 2012.

While the Company's IFRS Conversion Project has proceeded as planned in preparation for the adoption of IFRS on January 1, 2011, CUC does qualify for the one-year deferral option. The Company has elected to defer the adoption of IFRS until January 1, 2012 and will, therefore, continue to prepare its financial statements in accordance with Part V of the CICA Handbook for all interim and annual periods ending on or before December 31, 2011.

5. Accounts Receivable

	As at September 30, 2010	As at December 31, 2009
Billings to consumers	8,168	5,650
Unbilled revenues	5,470	4,890
Other receivables	755	956
Employee Share Purchase Plan	<u>41</u>	<u>75</u>
Total Accounts Receivable	14,434	11,571

Unbilled Revenues

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

Other receivables

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

6. Regulatory Assets and Liabilities

Asset/Liability	Description	As at September 30, 2010	As at December 31, 2009
Regulatory Assets	Fuel Tracker Account (a)	22,708	21,996
Regulatory Liabilities	Government & Regulatory Tracker Account (b)	(919)	(972)

- a) Fuel Tracker Account The 2008 T&D Licence establishes a fuel tracker mechanism to ensure the Company and the consumers neither gain nor lose from the pass through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from or reimbursed to the consumers. The receivable or payable value represents a regulatory asset or liability. The net position of the fuel tracker accounts fluctuates monthly and is affected by fuel prices and electricity consumption. On a quarterly basis, an adjustment is made to the fuel charge billed to consumers to reflect the net position of the receivable and payable accounts. In the absence of rate regulation and governmental controls the balance in the fuel tracker account would have been expensed as opposed to deferred for two months to allow for regulatory review and earnings for the quarter ended September 30, 2010 would have been \$0.7 million lower.
- b) Government and Regulatory Tracker Account A licence fee of 1%, payable to the Government, is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge. In addition to the licence fee, a regulatory fee of ½ of 1% is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The tracker account is the actual fee incurred less the amount of funds received from consumers. The per kWh charge is then adjusted quarterly for the balance of this account.

7. Inventories

(\$ Thousands)	As at September 30, 2010	As at December 31, 2009
Fuel	2,165	2,356
Line spares	126	100
Other	<u>384</u>	<u>246</u>
Total	2,675	2,702

The inventory amounts expensed for the three months ended September 30, 2010 totalled \$31.3 million which includes \$31.1 million in fuel and lube costs, \$0.1 million in vehicle fuel and \$0.1 million in line inventory. The inventory amounts expensed for the three month period ended September 30, 2009 totalled \$26.9 million which includes \$26.8 million in fuel and lube costs and \$0.1 million in line inventory.

The inventory amounts expensed for the nine months ended September 30, 2010 totalled \$83.7 million which includes \$83.3 million in fuel and lube costs, \$0.2 million in vehicle fuel and \$0.2 million in line inventory. The inventory amounts expensed for the nine month period

ended September 30, 2009 totalled \$67.5 million which includes \$67.2 million in fuel and lube costs and \$0.3 million in line inventory.

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

Property, Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value September 30, 2010
Transmission & Distribution ("T&D")	238,440	68,692	169,748
Generation	246,760	86,443	160,317
Other:			
Land	5,304	-	5,304
Buildings	19,949	7,978	11,971
Equipment, motor vehicles and computers	<u>18,416</u>	12,059	<u>6,357</u>
Total Other	43,669	20,037	23,632
Property, plant and equipment	528,869	175,172	353,697
Property, Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value December 31, 2009
Transmission & Distribution ("T&D")	224,800	62,498	162,302
Generation	247,196	80,146	167,050
Other:			
Land	5,304	-	5,304
Buildings	19,077	8,651	10,426
Equipment, motor vehicles and computers	18,292	10,015	<u>8,277</u>
Total Other	42,673	<u>18,666</u>	<u>24,007</u>
Property, plant and equipment	514,669	161,310	353,359

Included in PP&E are a number of capital projects in progress with a total cost to date of \$15.7 million (December 31, 2009: \$22.6 million). These projects primarily relate to various improvements to the Distribution System.

Also included in Generation and T&D is freehold land with a cost of \$4.7 million (December 31, 2009: \$4.7 million). In addition, engine spares with a net book value of \$14.7 million (December 31, 2009: \$14.0 million) are included in Generation and line inventory with a net book value of \$5.1 million (December 31, 2009: \$5.3 million) is included in T&D.

The T&D Licence includes 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 2010 is 8.75% (2009: 10%) and will be adjusted annually. As a result, during the nine month period ended September 30, 2010, the Company recognised \$2.3 million in AFUDC. The Company recognised an amount of \$3.5 million for the nine month period ended September 30, 2009 under the provision for AFUDC.

The Company capitalised an amount of \$1.7 million for the nine month period ended September 30, 2010 (September 30, 2009: \$0.6 million) under the provision for GEC (Note 1).

9. Intangible Assets

Intangible Assets	Cost	Accumulated Amortisation	Net Book Value September 30, 2010
Deferred licence renewal costs	1,890	226	1,664
Computer Software	4,045	3,094	951
Other Intangible Assets in progress	<u>220</u>	=	<u>220</u>
Total	6,155	3,320	2,835
Intangible Assets	Cost	Accumulated Amortisation	Net Book Value December 31, 2009
Deferred licence renewal costs	1,890	154	1,736
Computer Software	3,795	2,899	896
Other Intangible Assets in progress	<u>211</u>	Ξ	<u>211</u>
Total	5,896	3,053	2,843

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

10. Short-Term Financing

The Royal Bank of Canada ("RBC") credit facility agreement provides for \$32.9 million and the total available was \$15.0 million at September 30, 2010.

Credit Facilities	Total Credit Financing Facilities September 30, 2010	Total Utilised September 30, 2010	Total Available September 30, 2010
Corporate Credit Card Line*	300	300	-
Letters of Credit	595	595	-
Operating, Revolving Line of Credit	7,500	-	7,500
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>17,000</u>	<u>17,000</u>	Ξ
Total	32,895	17,895	15,000

^{*} Included in Accounts Payable and Accrued Expenses

11. Capital Management

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

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

The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods. The capital managed by the Company is composed of debt (short-term debt, long-term debt and bank overdraft) and shareholders' equity (including: capital stock, share premium, contributed surplus and retained earnings).

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65 per cent of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at September 30, 2010, the Company was in compliance with all debt covenants.

The Company's capital structure is shown below:

Capital structure	September 30, 2010 (\$ thousands)	%	December 31, 2009 (\$ thousands)	%
Total debt	195,298	53	200,159	54
Shareholder's equity	<u>174,069</u>	<u>47</u>	<u>171,942</u>	<u>46</u>
Total	369,367	100	372,101	100

12. Capital Stock

Authorised:

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

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

Class A Ordinary Share Issue	Three months ended September 30, 2010 Number of shares	Three months ended September 30, 2010 Amount (\$Thousands)	Nine months ended September 30, 2010 Number of shares	Nine months ended September 30, 2010 Amount (\$ Thousands)	Year ended December 31, 2009 Number of shares	Year ended December 31, 2009 Amount (\$ Thousands)
Balance, beginning of period	28,381,560	1,689	28,277,139	1,683	28,087,313	1,672
Consumer Share Purchase and Dividend Reinvestment Plans Employee Share Purchase, Employee Long Service	38,898	3	132,919	8	171,976	10
Bonus Plans and Employee Stock Options	=	-	10,400	1	<u>17,850</u>	1
Class A Ordinary Shares issued & outstanding	28,420,458	1,692	28,420,458	1,692	28,277,139	1,683
9% Cumulative, Participating Class B Total	250,000	250 1,942	250,000	250 1,942	250,000	250 1,933

Share premium increased by \$1.2 million in the Third quarter of 2010 due to common stock issuances.

13. Share Options

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

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

Share Options	Nine months ended September 30, 2010 Number of options	Nine months ended September 30, 2010 Weighted average exercise price per share	December 31, 2009 Number of options	December 31, 2009 Weighted average exercise price per share
Outstanding at beginning of period	904,903	11.59	770,603	12.19
Granted	-	-	161,300	8.76
Exercised	(54.500)	-	-	- (10.04)
Forfeited	(54,500)	<u>11.60</u>	(27,000)	(12.34)
Outstanding at end of period	850,403	11.59	904,903	11.59

The position with respect to outstanding unexercised options as at September 30, 2010 was as follows:

Share Options	Number of Class A Ordinary Shares under option	Exercise Price (\$)	Term of option
Date of grant:			
18-Jul-01	382,303	11.46	10 years
22-Sep-03	174,100	13.78	10 years
11-Apr-08	145,200	12.22	10 years
27-Feb-09	148,800	8.76	10 years
Outstanding at end of period & Weighted Avg.	850,403	11.59	

The Company has a policy of recording compensation expense upon the issuance of stock options. Using the fair value method, the compensation expense is amortised over the four-year vesting period of the options. Upon exercise, the proceeds of the option are credited to capital stock at CI\$0.05 and the difference from the exercise price to share premium. Therefore an exercise of options below the current market price has a dilutive effect on capital stock and shareholders equity. Under the fair value method, the compensation expense was \$0.01 million for the quarter ended September 30, 2010 (September 30, 2009: \$0.01 million), resulting in a corresponding increase of the contributed surplus.

14. 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 28,381,560 and 28,186,755 for the quarter ended September 30, 2010 and September 30, 2009 respectively. The weighted average Class A Ordinary Shares outstanding were 28,160,115 and 26,721,894 for the year ended December 31, 2009 and Transitional Period ended December 31, 2008 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at September 30, 2010 the outstanding options are not dilutive as the market price of common shares is below exercise price.

	Earnings (in thousands) September 30, 2010	Weighted average shares (in thousands) September 30, 2010	Earnings per Common Shares September 30, 2010
Net earnings applicable to common shares	6,455		
Weighted Average share outstanding		28,382	
Basic Earnings Per Common Share			0.23
Effect of potential dilutive securities:			
Stock Options			
Diluted Earnings per Common Share	6,455	28,382	0.23

	Earnings (in thousands) September 30, 2009	Weighted average shares (in thousands) September 30, 2009	Earnings per Common Shares September 30, 2009
Net earnings applicable to common shares	6,051		
Weighted Average share outstanding		28,187	
Basic Earnings Per Common Share			0.21
Effect of potential dilutive securities:			
Stock Options			
Diluted Earnings per Common Share	6,051	28,187	0.21

15. Financial Instruments

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

	September 30, 2010 Carrying Value	September 30, 2010 Estimated Fair Value	December 31, 2009 Carrying Value	December 31, 2009 Estimated Fair Value
Held for trading				
Cash and cash equivalents	<u>3,994</u>	<u>3,994</u>	<u>4,927</u>	<u>4,927</u>
	3,994	3,994	4,927	4,927
Loans and receivables				
Trade and other accounts receivable	14,434	14,434	11,571	11,571
Other Assets ¹	<u>32</u>	<u>32</u>	<u>36</u>	<u>36</u>
	14,466	14,466	11,607	11,607
Other financial liabilities				
Short-term borrowings	17,000	17,000	8,000	8,000
Trade and other accounts payable	29,142	29,142	22,510	22,510
Customer deposits	4,128	4,128	3,963	3,963
Long term debt, including current portion ²	<u>178,298</u>	175,324	192,159	<u>172,856</u>
	228,568	225,594	226,632	207,329

¹ Other receivables due from customers

Carrying values

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

² 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 September 30, 2010 totalled \$175.3 million, (December 31, 2009: \$172.9 million). The fair value of the Company's remaining financial instruments approximates their carrying value, reflecting either their nature or short-term maturity.

Credit Risk

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

Trade and other accounts receivables	September 30, 2010	December 31, 2009
Current	11,828	9,151
Past due 31-60 days	1,026	822
Past due 61-90 days	477	622
Past due over 90 days	1,316	1,171
Total Accounts Receivables	14,647	11,766
Total recounts receivables	11,017	11,700
Less: allowance for doubtful accounts	(213)	(195)
Less: Consumer Deposits and Advances for Construction	<u>(4,128)</u>	(3,963)
Net Exposure	10,306	7,608

Liquidity Risk

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

(\$millions)	Total	2010	2011-2012	2013-2014	2015 Onward
Accounts payable and accrued expenses	29.1	29.1	-	-	-
Consumer's Deposits and Advances for Construction	4.1	4.1	-	-	-
Short term debt	17.0	17.0			
Letter of credit	0.6	0.6			
Long term debt interest	75.5	5.6	20.8	16.5	32.6
Total debt	<u>179.5</u>	<u>0.0</u>	<u>50.5</u>	<u>31.0</u>	<u>98.0</u>
Total	305.8	56.4	71.3	47.5	130.6

Interest Rate Risk

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

16. Foreign Exchange

The closing rate of exchange on September 30, 2010 as reported by the Bank of Canada for the conversion of United States ("US") dollars into Canadian ("Cdn") dollars was Cdn \$1.0290 per US\$1.00. The official exchange rate for the conversion of Cayman Islands ("CI") dollars into US dollars as determined by the Cayman Islands Monetary Authority is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of September 30, 2010 for conversion of CI dollars into Canadian dollars was Cdn\$1.2348 per CI\$1.00.

17. Finance Charges

The composition of finance charges is as follows:

Finance Charges (\$ thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Interest costs - long-term debt	2,820	3,023	8,844	8,274
Other interest costs	137	96	333	340
AFUDC *	<u>(759)</u>	(1,299)	(2,284)	(3,549)
Total	2,198	1,820	6,893	5,065

^{*}Refer to PP&E (Note 8) with regards to AFUDC methodology

18. Pension Plan

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. As at September 30, 2010, the Company had an accrued benefit liability of \$0 (December 31, 2009: \$0.1 million). During the nine months ended September 30, 2010, the Company recorded net compensation expense in relation to its defined benefit plan of \$0.3million (September 30, 2009:\$0.3 million).

During the first nine months of 2010, the Company recorded net compensation expense in relation to its defined contribution plan of \$0.6 million (September 30, 2009: \$0.4 million).

19. Transactions with Related Parties

Miscellaneous receivables from Fortis Turks & Caicos totalling \$0.16 million were outstanding at September 30, 2010 (2009:\$0.08 million).

20. Comparative Figures

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

Shareholder Information

Shareholder Plans

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

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

Shareholder Information

Duplicate Quarterly Reports

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

Our Registrar and Transfer Agents are as follows:

CIBC Mellon Trust Company

P.O. Box 7010 Adelaide St. Postal Station Toronto, Ontario M5C 2W9, Canada

Tel: (416) 643-5500 Fax: (416) 643-5501

E-mail: inquiries@cibcmellon.ca

Caribbean Utilities Company, Ltd.

Assistant to the Corporate Secretary P.O. Box 38 Grand Cayman KY1-1101 CAYMAN ISLANDS

Tel: (345) 949-5200 Fax: (345) 949-4621 E-mail: investor@cuc.ky

Website: www.cuc-cayman.com

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

Caribbean Utilities Company, Ltd.

Douglas H. Murray Corporate Secretary P.O. Box 38 Grand Cayman KY1-1101 CAYMAN ISLANDS

Tel: (345) 949-5200 Fax: (345) 949-4621 E-mail: investor@cuc.ky

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