


Caribbean Utilities Company, Ltd.

2011 Third Quarter Report

September 30, 2011

About the Company

Caribbean Utilities Company, Ltd., ("CUC" or "the Company") commenced operations as the only electric utility in Grand Cayman on May 10, 1966.

The Company currently has an installed generating capacity of 151.230 megawatts ("MW") and a record peak load of 102.086 MW was experienced on June 3, 2010.

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

The Company's registered office address is 457 North Sound Road, P.O Box 38, Grand Cayman KY1-1101 and employs 196 employees.

About the Cayman Islands

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

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

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

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

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To Our Shareholders

Dear Shareholder,

The weak economic environment in Grand Cayman ("the Island") continued through the three months ended September 30, 2011 ("Third Quarter 2011") with electricity sales falling by 1% and earnings by 5% when compared to the same period in 2010.

Electricity Sales for the Third Quarter 2011 totalled 151.2 million kilowatt hours ("kWh"), a decrease of 1.5 million kWh, or 1%, in comparison to 152.7 million kWh for the three months ended September 30, 2010 ("Third Quarter 2010"). Analysis of customer sales data for the Third Quarter 2011 indicates a reduction in electricity consumption by customers, which may be caused by energy conservation in response to high fuel costs. Fuel costs in the Third Quarter 2011 were the highest for 2011, averaging $4.74 per Imperial Gallon ("IG") compared to $3.47 per IG for the same period last year. Reductions experienced in the Island's population also impacted sales.

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

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

According to the 2010 Cayman Islands' Annual Economic Report, the population was 54,397 as compared to 57,009 estimated in 2008. This decrease is due to declines in the non-Caymanian workforce. Cayman has a high proportion of foreign nationals working in various sectors of the economy. The Cayman Islands' 2011 Semi-Annual Economic Report noted that work permits as at June 2011 stood at 19,920, a 7.5% decline when compared to the same period in the prior year but an increase when compared to the first quarter figure which was 19,877. The Cayman Islands Government has attributed this decrease to "the sharp slowdown in construction which is the largest employer of foreign labour". The impact of the population decline can be seen in the decreased residential and commercial consumption.

The total number of customers as at September 30, 2011 was 26,456, an increase of 488 customers, or 2%, when compared to 25,968 customers as at September 30, 2010.

The Company had a net increase of 69 customers for the Third Quarter 2011, comprising 42 residential connections and 27 commercial connections. Despite increases in overall customer numbers, average monthly kWh consumption per customer for the residential and commercial categories combined has declined from 1,803 kWh for the nine months ended September 30, 2010 to 1,751 kWh for the nine months ended September 30, 2011. At the end of December 2010 there were 3,840 commercial customers. At the end of September 2011 there were 3,832, commercial customers.

In September 2011 Standard & Poors ("S&P") adjusted the Company's 'A/Negative' credit rating to 'A-/ Stable'. This adjustment reflects S&P's opinion of a weak customer market given the recent declines in population and the negative impact of high fuel costs. The stable outlook reflects S&P's expectation of relatively predictable forecast cash flows and credit metrics.

Net earnings for the nine months ended September 30, 2011 were $15.3 million, an increase of $0.1 million, or 1%, compared to net earnings of $15.2 million for the nine months ended September 30, 2010. This increase is attributable to an increase in other income and lower financing and maintenance charges which were partially offset by a 1% decline in kWh sales.

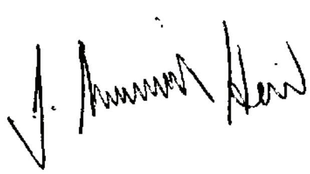
Despite the weak economic conditions the Company continues to control discretionary operating and capital expenditures while maintaining a reliable service to our customers. Following the shortfall in generation capacity experienced earlier in the year due to mechanical failures, the Company successfully restored its capacity to normal levels in the Third Quarter 2011. As a result, there were no outages related to generation capacity and reliability to customers during the Third Quarter 2011, as measured by the Average Service Availability Index, was 99.96%.

During the quarter under review CUC continued its efforts to employ renewable energy sources and invited interested parties to submit an Expression of Interest and Preliminary Proposal for the financing, construction, ownership and operation of renewable energy generation facilities. It is the Company's intention to accept up to 13 megawatts ("MW") in aggregate of grid-connected renewable energy generators on Grand Cayman.

Other notable activities carried out during the Third Quarter 2011 included progress on the installation of the communications network for the Advanced Metering Infrastructure ("AMI") project and physical works on the Eastern Transmission Loop project. By the First Quarter of 2012 the AMI project will bring efficiencies in the meter reading and services such as disconnects and reconnects directly from CUC's offices, provide real-time electricity consumption information and a 'pay as you go' payment option to aid consumers in monitoring and controlling their electricity consumption. The Eastern Transmission Loop project will also bring customer benefits through an increase in the reliability and operational flexibility of the Transmission and Distribution System serving all areas of the Island from South Sound, east to the districts of East End and North Side.

We remain optimistic about future growth in the economy and a resumption of growth in electricity demand. As always, our employees remain the key to the successful operation of our Company. We appreciate their ongoing commitment to serving our customers, the Grand Cayman community, and you, our shareholders. Across the Company, we continue to invest in new technologies, training and knowledge transfer to ensure our workforce is prepared to deliver a highly reliable electricity service at least cost, today, and in the future.

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



J.F. Richard Hew
President & Chief Executive Officer

October 31, 2011

Interim Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or "the Company") unaudited financial statements for the nine months ended September 30, 2011 and audited financial statements for the twelve months ended December 31, 2010. The material has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to Management's Discussion and Analysis.

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

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

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

Financial and Operational Highlights

($ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)	**Three Months Ended September 30, 2011**	**Three Months Ended September 30, 2010**	**Nine Months Ended September 30, 2011**	**Nine Months Ended September 30, 2010**	**Change**	**% Change**
Electricity Sales Revenues	**18,961**	19,126	**52,927**	53,400	**(473)**	-1%
Fuel Factor Revenues	**43,492**	29,969	**107,439**	79,254	**28,185**	36%
Total Operating Revenues	**62,453**	49,095	**160,366**	132,654	**27,712**	21%
Fuel and Lube Costs	**43,492**	29,969	**107,439**	79,254	**28,185**	36%
Other Operating Expenses	**11,358**	11,176	**33,940**	33,574	**366**	1%
Total Operating Expenses	**54,850**	41,145	**141,379**	112,828	**28,551**	25%
Earnings for the Period	**6,253**	6,568	**15,308**	15,212	**96**	1%
Basic Earnings per Class A Ordinary Share	**0.22**	0.23	**0.53**	0.52	**0.01**	2%
Dividends paid per Class A Ordinary Share	**0.165**	0.165	**0.495**	0.495	**-**	0%
Peak Load Gross (MW)	**99.0**	99.4	**99.0**	102.1	**(3.1)**	-3%
Net Generation (millions of kWh)	**162.3**	163.7	**451.9**	456.6	**(4.7)**	-1%
Kilowatt-Hour Sales (millions of kWh)	**151.2**	152.7	**421.4**	425.9	**(4.5)**	-1%
Total Customers	**26,456**	25,968	**26,456**	25,968	**488**	2%

Corporate and Regulatory Overview

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

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

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

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

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

The ERA also annually reviews and approves CUC's capital investment plan ("CIP"). The 2011-2015 CIP totalling approximately $219 million was prepared upon the basis of the Company's application to the ERA for a delay in any new generation installation until there is more certainty in growth forecasts. In March 2011 the ERA approved the $134 million of proposed non-generation installation expenditures in the CIP. The remaining $85 million of the CIP relates to new generation installation which would be subject to a competitive solicitation process with the next generating unit currently scheduled for installation in 2014. CUC will submit its 2012 - 2016 CIP during the fourth quarter for ERA approval.

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

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

Earnings

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

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

Net earnings for the nine months ended September 30, 2011 were $15.3 million, an increase of $0.1 million, or 1%, compared to net earnings of $15.2 million for the nine months ended September 30, 2010. This increase is attributable to an increase in other income of $0.4

million and lower financing and maintenance charges which were partially offset by a 1% decline in kWh sales.

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, 2011 were $15.0 million, or $0.53 per Class A Ordinary Share, an increase of $0.1 million over the $14.9 million, or $0.52 per Class A Ordinary Share for the nine months ended September 30, 2010.

Sales

Sales for the Third Quarter 2011 totalled 151.2 million kWh, a decrease of 1.5 million kWh, or 1%, in comparison to 152.7 million kWh for the Third Quarter 2010. Analysis of customer sales data for the Third Quarter 2011 indicates a reduction in electricity consumption by customers which may be caused by energy conservation in response to high fuel costs. Fuel rates in the Third Quarter 2011 were the highest for 2011. Reductions experienced in the island's population also impacted sales. The average temperature for the Third Quarter 2011 was 85.13 degrees Fahrenheit ("°F") as compared to an average temperature of 85.27°F for the same period last year. The average monthly rainfall for the Third Quarter 2011 was 6.62 inches as compared to average monthly rainfall of 9.33 inches for Third Quarter 2010.

Sales for the nine months ended September 30, 2011 totalled 421.4 million kWh, a decrease of 4.5 million kWh, or 1%, in comparison to 425.9 million kWh for the nine months ended September 30, 2010. Analysis of customer sales data indicates that sales for the nine month period may be negatively impacted by conservation on the part of residential consumers due to higher fuel costs and reductions to the Island's population. The average temperature for the nine months ended September 30, 2011 was 82.59°F as compared to an average temperature of 82.58°F for the same period last year. The average monthly rainfall for the first nine months of 2011 was 2.85 inches as compared to an average monthly rainfall of 5.01 inches for the same period last year. Rainfall and lower temperatures impact electricity sales by reducing air conditioning loads. Weather is one of multiple factors that affect kWh sales (see "The Economy" section of this MD&A for greater detail).

Total customers as at September 30, 2011 were 26,456, an increase of 488 customers, or 2%, compared to 25,968 customers as at September 30, 2010. The Company had a net increase of 69 customers for the Third Quarter 2011, comprising 42 residential connections and 27 commercial connections. According to Government reports, the number of work permit holders on the Island has declined significantly since 2008 (see "The Economy" section of this MD&A for further details). This has caused some rental properties to remain vacant with an active electricity account. Vacant residences with active electricity accounts are included within customer numbers, however, these accounts result in lower average electricity sales.

Despite increases in overall customer numbers, average monthly kWh consumption per customer for the residential and commercial categories combined has declined from 1,803 kWh for the nine months ended September 30, 2010 to 1,751 kWh for the nine months ended September 30, 2011.

The following tables present sales and customer highlights:

Customers (#)	September 30, 2011	September 30. 2010	Change %
Residential	**22,624**	22,175	2%
Commercial	**3,832**	3,793	1%
Total Customers	**26,456**	25,968	2%

Sales and customer highlights continued:

Sales (thousands kWh)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	% Change
Residential	**74,571**	75,869	**197,072**	202,571	-2.7%
Commercial	**75,104**	75,317	**219,725**	218,684	0.5%
Other (street lighting, etc.)	**1,556**	1,560	**4,607**	4,683	-1.6%
Total Sales	**151,231**	152,746	**421,404**	425,938	-1.1%

Operating Revenues

Operating revenues increased $13.4 million, or 27%, to $62.5 million for the Third Quarter 2011, from $49.1 million for the Third Quarter 2010, due to 45% higher fuel factor revenues.

Operating revenues increased $27.7 million, or 21%, to $160.4 million for the nine months ended September 30, 2011, from $132.7 million for the nine months ended September 30, 2010, due to 36% higher fuel factor revenues.

Electricity sales revenues decreased $0.1 million, or 1%, to $19.0 million for the Third Quarter 2011, from $19.1 million for the Third Quarter 2010. Electricity sales revenues decreased as a result of a 1% kWh sales decline experienced quarter-over-quarter.

Electricity sales revenues decreased $0.5 million, or 1%, to $52.9 million for the nine months ended September 30, 2011, from $53.4 million for the nine months ended September 30, 2010. Electricity sales revenues declined as a result of a 1% kWh sales reduction experienced period over period.

Fuel factor revenues for the Third Quarter 2011 totalled $43.5 million, a $13.5 million, or 45%, increase from the $30.0 million in fuel factor revenues for the Third Quarter 2010. Fuel factor revenues increased due to an increase in the cost of fuel (see "Power Generation" section of this MD&A for further details). The average Fuel Cost Charge for the Third Quarter 2011 was $0.29 per kWh, a 45% increase from $0.20 per kWh for the Third Quarter 2010.

Fuel factor revenues for the nine months ended September 30, 2011 totalled $107.4 million, a $28.1 million, or 35%, increase from the $79.3 million in fuel factor revenues for the nine months ended September 30, 2010. Fuel factor revenues increased due to an increase in the cost of fuel (see "Power Generation" section of this MD&A for further details). The average Fuel Cost Charge for the nine months ended September 30, 2011 was $0.27 per kWh, a 35% increase from $0.20 per kWh for the nine months ended September 30, 2010. CUC passes through all fuel costs to consumers on a two-month lag basis with no mark-up.

Total operating revenues were as follows:

Revenues (thousands $)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Change	% Change
Electricity Sales Revenues	**18,961**	19,126	**52,927**	53,400	**(473)**	-1%
Fuel Factor Revenues	**43,492**	29,969	**107,439**	79,254	**28,185**	36%
Total Operating Revenues	**62,453**	49,095	**160,366**	132,654	**27,712**	21%

Operating Expenses

Operating expenses for the Third Quarter 2011 totalled $54.9 million, a $13.8 million, or 34%, increase from $41.1 million for the Third Quarter 2010. The major contributing factors to this increase are higher power generation and general and administration expenses which were partially offset by lower consumer service and maintenance expenses.

Operating expenses for the nine months ended September 30, 2011 totalled $141.4 million, a $28.6 million, or 25%, increase from $112.8 million for the nine months ended September 30, 2010. The major contributing factors to this increase are higher power generation and depreciation expenses which were partially offset by lower consumer service and maintenance expenses.

Total operating expenses were as follows:

($ thousands)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Change	% Change
Power generation expenses	**44,376**	30,688	**109,920**	81,503	**28,417**	35%
General and administration	**2,329**	2,111	**6,825**	6,292	**533**	8%
Consumer Service	**440**	631	**1,272**	1,424	**(152)**	-11%
Transmission and distribution	**602**	515	**1,602**	1,567	**35**	2%
Depreciation	**5,207**	5,210	**15,446**	15,276	**170**	1%
Maintenance	**1,817**	1,922	**6,087**	6,499	**(412)**	-6%
Amortization of Intangible Assets	**79**	68	**227**	267	**(40)**	-15%
Total operating expenses	**54,850**	41,145	**141,379**	112,828	**28,551**	25%

Power Generation

Power generation costs for the Third Quarter 2011 increased $13.7 million, or 45%, to $44.4 million when compared to $30.7 million for the Third Quarter 2010. The increase is a result of an increase in the cost of fuel. The peak load for the Third Quarter 2011 and for the nine months ended September 2010 was 99.0 megawatts ("MW") comparable to the peak load for the Third Quarter 2010 of 99.4 MW. The 2010 peak of 102.1 MW was experienced in the month of June. June 2010 registered an above average temperature at 86.0°F, the highest June temperature experienced in over five years. Comparatively the temperature for June 2011 was 84.7°F.

Power generation costs for the nine months ended September 30, 2011 increased $28.4 million, or 35%, to $109.9 million when compared to $81.5 million for the nine months ended September 30, 2010. The increase is a result of an increase in the cost of fuel.

Total power generation expenses were as follows:

($ thousands)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Change	% Change
Fuel costs (net of deferred fuel charges)	**42,736**	29,399	**105,384**	77,548	**27,836**	36%
Lube costs (net of deferred lube charges)	**756**	570	**2,055**	1,706	**349**	20%
Other generation expenses	**884**	719	**2,481**	2,249	**232**	10%
Total power generation expenses	**44,376**	30,688	**109,920**	81,503	**28,417**	35%

The Company's average price per imperial gallon ("IG") of fuel for the Third Quarter 2011 increased 37% to $4.74, compared to $3.47 for the Third Quarter 2010. The Company's average price per IG of fuel for the nine months ended September 30, 2011 increased 39% to $4.60, compared to $3.32 for the nine months ended September 30, 2010.

The Company's average price per IG of lube for the Third Quarter 2011 increased 27% to $14.20, compared to $11.14 for the Third Quarter 2010. The Company's average price per IG of lube for the nine months ended September 30, 2011 increased 30% to $13.52, compared to $10.44 for the nine months ended September 30, 2010.

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

In March 2011 the ERA approved the Fuel Price Volatility Management Programme. The objective of the programme is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers for the fuel that the Company must purchase in order to provide electric service. The programme utilises call options creating a ceiling price for fuel costs at pre-determined contract premiums. The programme as it is currently structured covers 40% of expected fuel consumption. The call options were purchased in an effort to assist consumers and promote certainty in pricing, as such the monthly hedging costs and returns are also included within the Fuel Tracker Account.

Other generation expenses for the Third Quarter 2011 totalled $0.88 million a 23% increase when compared to $0.72 million for the Third Quarter 2010. This increase is attributable to additional costs related to the disposal of lubricating oils.

Other generation expenses for the nine months ended September 30, 2011 totalled $2.5 million, an increase of $0.2 million or 10% when compared to $2.2 million for the nine months ended September 30, 2010. This increase is attributable to additional costs related to the disposal of lubricating oils.

General and Administration ("G&A")

G&A expenses for the Third Quarter 2011 totalled $2.3 million, an increase of $0.2 million or 10% when compared to G&A expenses of $2.1 million for the Third Quarter 2010. The increase was the result of higher legal, administrative payroll and insurance expenses. The increased legal and payroll costs are expected to be temporary in nature. The Company enjoys the benefits of purchasing insurance collectively with the Fortis group of companies which leads to efficiency and more competitive rates (see the "Insurance" section of this MD&A for further discussion of insurance terms and coverage). General Expenses Capitalised ("GEC") totalled $0.7 million for the Third Quarter 2011, $0.1 million higher than $0.6 million for the Third Quarter 2010.

G&A expenses for the nine months ended September 30, 2011 totalled $6.8 million, an increase of $0.5 million or 8% when compared to G&A expenses of $6.3 million for the nine months ended September 30, 2010. GEC totalled $2.1 million for the nine months ended September 30, 2011, $0.4 million higher than $1.7 million for the nine months ended September 30, 2010.

Consumer Services ("CS")

CS expenses for the Third Quarter 2011 totalled $0.4 million, a decrease of $0.2 million, or 30%, when compared to $0.6 million for the Third Quarter 2010. This decrease was the result of increased costs related to customer claims in 2010. Contributing to the decrease are lower stationary supply costs in 2011 with the implementation of Electronic Billing. The Company continues to seek improved efficiencies in this area through the use of technology.

CS expenses for the nine months ended September 30, 2011 totalled $1.3 million, a decrease of $0.1 million or 7% when compared to $1.4 million for the nine months ended September 30, 2010.

Transmission and Distribution ("T&D")

T&D expenses for the Third Quarter 2011 totalled $0.6 million, a $0.1 million, or 20% increase compared to $0.5 million for the Third Quarter 2010. In the Third Quarter 2011, the T&D division focused on maintenance projects and as a result the amount of capitalised labour decreased as compared to the same period last year.

T&D expenses for the nine months ended September 30, 2011 totalled $1.6 million, comparable to $1.6 million for the nine months ended September 30, 2010.

Depreciation

Depreciation expenses for the Third Quarter 2011 totalled $5.2 million, comparable to $5.2 million for the Third Quarter 2010.

In October 2010 the temporary cessation of depreciation on a 16 MW unit began and the temporary cessation of depreciation on a 7.59 MW unit began in March 2011. The 16 MW unit was taken out of service due to an over speed failure and placed back in service in July 2011. The 7.59 MW unit was taken out of service due to a major mechanical failure. The cost of the repairs for both units is covered by the Company's insurance policy subject to the deductible (see 'Insurance – Terms & Coverage" in the Business Risks section of this MD&A for further details).

Depreciation expense for the nine month period ended September 30, 2011 totalled $15.4 million, an increase of $0.1 million from $15.3 million for the nine month period ended September 30, 2010.

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

In the case of the 16 MW unit and the 7.59 MW unit, as required by the Licences, insurance proceeds are being applied to accumulated depreciation and as the asset is repaired the costs incurred are capitalised (see Note 5 of the Notes to Interim Financial Statements for further details).

Maintenance

Maintenance expenses for the Third Quarter 2011 totalled $1.8 million, a decrease of $0.1 million or 5% when compared to $1.9 million for the Third Quarter 2010.

Maintenance expenses for the nine months ended September 30, 2011 totalled $6.1 million, a decrease of $0.4 million from $6.5 million for the nine months ended September 30, 2010.

Maintenance expenses for the three and nine months ended September 30, 2011 were expected to be lower than those seen in 2010 due to various capital projects scheduled in 2011. Certain upgrades to generating units are considered capital in nature as the upgrades extend the life or increase the output of the unit.

The Company currently has an installed generating capacity of 151.23 MW and in addition to this had installed 15 MW of leased temporary generation capacity for the summer to facilitate on-going planned generator maintenance and repairs. Of this leased capacity 9 MW have been returned and 6 MW remains in service. The rental cost for the temporary generation is expected to total $1.2 million. This cost is expected to be covered by the Company's property and machinery breakdown insurance. The temporary generation costs are not included within maintenance or any operating expenditure line item.

Amortization

Amortization of intangible assets for the Third Quarter 2011 totalled $0.08 million, an increase of $0.01 million or 14% when compared to $0.07 million for the Third Quarter 2010.

Amortization of intangible assets for the nine months ended September 30, 2011 totalled $0.22 million, a decrease of $0.05 million, or 19% when compared to $0.27 million for the nine months ended September 30, 2010. This decrease relates to the full amortization of the Company's main business system software that was installed in 2000. The software continues to be utilised and will not be replaced in its entirety prior to 2013.

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

Other Income and Expenses

Net Other Expenses for the Third Quarter 2011 totalled $1.4 million, comparable to $1.4 million for the Third Quarter 2010. Net Other Expenses for the nine months ended September 30, 2011 totalled $3.7 million, a decrease of $0.9 million from $4.6 million for the nine months ended September 30, 2010.

($ thousands)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Change	% Change
Total interest costs	**(3,185)**	(2,957)	**(9,125)**	(9,177)	**52**	-1%
AFUDC	**921**	759	**2,568**	2,284	**284**	12%
Total finance charges	**(2,264)**	(2,198)	**(6,557)**	(6,893)	**336**	-5%
Foreign exchange gain	**558**	465	**1,501**	1,298	**203**	16%
Other income	**356**	351	**1,377**	981	**396**	40%
Total Net Other Expense	**(1,350)**	(1,382)	**(3,679)**	(4,614)	**935**	-20%

Finance charges for the Third Quarter 2011 totalled $2.3 million, a $0.1 million, or 5% increase from $2.2 million for the Third Quarter 2010. Finance charges increased as a result of additional debt financing in June and July 2011 (see the "Financing Activities" section in this MD&A for further details)). Finance charges for the nine months ended September 30, 2011 totalled $6.6 million, a $0.3 million decrease or 4% from $6.9 million for the nine months ended September 30, 2010.

Under the T&D Licence there is a provision for an Allowance for Funds Used During Construction ("AFUDC"). This capitalisation of the Financing Cost is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for 2011 is 8.75% as agreed with the ERA, in accordance with the T&D Licence, and will be reviewed annually. The cost of capital rate for 2010 was 8.75%. The AFUDC amount for the Third Quarter 2011 totalled $0.9 million, a $0.1 million increase when compared to AFUDC of $0.8 million for the Third Quarter 2010. The AFUDC amount for the nine months ended September 30, 2011 totalled $2.6 million, a $0.3 million increase when compared to AFUDC of $2.3 million for the nine months ended September 30, 2010.

Foreign exchange gains and losses are the result of monetary assets and liabilities denominated in foreign currencies that are translated into United States dollars at the exchange rate prevailing on the Balance Sheet date. Revenue and expense items denominated in foreign currencies are translated into United States dollars at the exchange rate prevailing on the transaction date. Foreign exchange gains for the Third Quarter 2011 totalled $0.6 million, a $0.1 million, or 20% increase when compared to foreign exchange gains of $0.5 million for the Third Quarter 2010.

Foreign exchange gains totalled $1.5 million for the nine months ended September 30, 2011 a $0.2 million, or 16% increase when compared to foreign exchange gains of $1.3 million for the nine months ended September 30, 2010.

Other income is comprised of pole rental fees, income from pipeline operations, sale of meter sockets, sale of recyclable materials and other miscellaneous income. Other income totalled $0.4 million for the Third Quarter 2011 comparable to $0.4 million for the Third Quarter 2010.

Other income totalled $1.4 million for the nine months ended September 30, 2011, an increase of $0.4 million when compared to $1.0 million for the nine months ended September 30, 2010. Other Income for the nine months ended September 30, 2011 includes a billing adjustment for a commercial customer. The impact of this adjustment on earnings totalled $0.4 million.

The Economy

The Cayman Islands have two main industries; financial services and tourism. These sectors were not immune to the effect of the recent recession experienced worldwide. The recession that began to impact the Cayman Islands in 2009 continued in 2010. A fall in Gross Domestic Product ("GDP") occurred in 2010 (2010 Cayman Islands' Annual Economic Report; released July 2011) a decrease of 4.0% as compared to a decrease of 7.5% in 2009. The 2011 Semi-Annual Economic Report was released by the Government in late September 2011 and reported that the Cayman Islands' real GDP grew by an estimated annualised rate of 1.3% for the first half of 2011.

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

	As at September 2011	As at December 2010	As at December 2009	As at December 2008	As at December 2007
Bank Licences	250	245	266	278	281
Mutual Funds	9,444	9,438	9,523	9,870	9,413
Mutual Fund Administrators	129	134	141	155	152
Captive Insurance Companies	730	738	780	777	765

The estimated square footage of projects slated for completion in 2011 is 276,575. The first phase of San Sebastian, a residential community located in South Sound is estimated at 50,000 square feet. The second phase of Compass Point, a dive resort located in East End is estimated at 24,000 square feet. The Government Administration Building was completed in late 2010 and was occupied in April 2011. Building permits, project approvals and the progress of approved projects are indicators of future expansion and are relevant to the Company's projection process for future generation.

The 2010 Cayman Islands' Annual Economic Report listed the 2010 population at 54,397 as compared to 57,009 estimated in 2008 due to declines in the non-Caymanian workforce.

Cayman has a high proportion of foreign nationals that provide labour in various sectors of the economy. The 2011 Cayman Islands' Semi-Annual Economic Report lists work permits as at June 2011 at 19,920, a 7.5% decline when compared to the same period in the prior year but an increase when compared to the first quarter figure of 19,877. Government attributes this decrease to "the sharp slowdown in construction, the largest employer of foreign labour".

Construction is gauged by the value of building permits which decreased 21% to $118.5 million for the first half of 2011 when compared to $150.5 for the same period in 2010. Building permits are a good indication of future development but not of future energy requirements from CUC. Customers may simply move from one building to another leaving the previous premises unoccupied.

The tourist demographic is largely comprised of visitors from the United States of America ("US"). In 2010 80% of air arrivals to the country were citizens of the US. As such the US economy largely impacts that of the Cayman Islands. Third Quarter 2011 air arrivals were up 6% when compared to Third Quarter 2010 and cruise arrivals were down 28% when compared to Third Quarter 2010. Air arrivals have a direct impact on the Company's sales growth as these visitors are stay-over visitors who occupy the hotels. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

The following table presents statistics for tourist arrivals in the Cayman Islands for the three months ending September 30:

Arrivals	2011	2010	2009	2008	2007
By Air	61,401	57,864	54,121	61,967	57,833
By Sea	225,958	315,968	297,996	265,267	278,751
Total	287,359	373,832	352,117	327,234	336,584

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

Liquidity and Capital Resources

The following table outlines the summary of cash flow:

($ thousands)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Change	% Change
Beginning cash	**6,644**	1,960	**2,363**	4,927	**(2,564)**	-52%
Cash provided by/(used in):						
Operating activities	**9,591**	11,798	**27,042**	33,104	**(6,062)**	-18%
Investing activities	**(10,346)**	(4,654)	**(23,634)**	(15,916)	**(7,718)**	48%
Financing activities	**(2,872)**	(5,110)	**(2,754)**	(18,121)	**15,367**	-85%
Ending cash	**3,017**	3,994	**3,017**	3,994	**(977)**	-24%

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for the Third Quarter 2011, was $9.6 million, a decrease of $2.2 million from $11.8 million for the Third Quarter 2010. This decrease is attributable to the movement in trade receivables and inventory, both a direct result of higher fuel costs.

Cash flow provided by operations, after working capital adjustments, for the nine months ended September 30, 2011, was $27.0 million, a decrease of $6.1 million from $33.1 million for the nine months ended September 30, 2010. This decrease is attributable to the movement in trade receivables and inventory, both a direct result of higher fuel costs.

Investing Activities:

Cash used in investing activities for the Third Quarter 2011 totalled $10.3 million, an increase of $5.6 million from $4.7 million for the Third Quarter 2010. This increase is attributable to increased capital expenditures.

Cash used in investing activities for the nine months ended September 30, 2011 totalled $23.6 million, an increase of $7.7 million from $15.9 million for the nine months ended September 30, 2010. This increase is attributable to increased capital expenditures.

Financing Activities:

Cash utilised in financing activities for the Third Quarter 2011 totalled $2.9 million compared to cash utilised in financing activities of $5.1 million for the Third Quarter 2010. In July 2011 the Company received $10.0 million in long-term debt proceeds, repaid short-term debt of $9.0 million and utilised $0.6 million of the overdraft facility.

Cash utilised in financing activities for the nine months ended September 30, 2011 totalled $2.8 million compared to cash utilised in financing activities of $18.1 million for the nine months ended September 30, 2010. During the first nine months of 2011, $40.0 million in debt financing was received. Debt payments for 2011 included current payments for long-term debt in addition to the repayment of $9.0 million of short-term debt.

Transactions with Related Parties

Miscellaneous receivables from Fortis Turks & Caicos, also a subsidiary of Fortis Inc. totalling $0.01 million were outstanding at September 30, 2011 ($0.04 million as at December 31, 2010) for engineering assistance and are included within Accounts Receivable on the Balance Sheet. Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totalling $0.007 million were outstanding at September 30, 2011 ($0.03 million as at December 31, 2010). The payable relates to travel, insurance and membership expenses and is included within Accounts Payable and Accrued Expenses on the Balance Sheet.

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at September 30, 2011, are outlined in the following table:

($ millions)	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	205.4	15.3	39.2	27.9	123.0
Defined benefit pension	0.2	0.2	0.0	0.0	0.0
Total	**205.6**	**15.5**	**39.2**	**27.9**	**123.0**

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

Financial Position

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2010 to September 30, 2011:

Significant changes in Balance Sheets between December 31, 2010 and September 30, 2011 *($ millions)*	Increase (Decrease)	Explanation
Cash and Cash Equivalents	0.7	Increase due to cash provided by operating activities of $27.0 million and offset by cash used in financing activities of $2.7 million and by cash used in investing activities of $23.6 million.
Accounts Receivable	6.3	Increase due to high fuel costs
Other Receivable - Insurance	(1.9)	Decrease due to funds received on insurance receivable in relation to overspeed failure on a 16 MW unit.
Regulatory Assets	6.3	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.
Inventories	1.4	Increase in value of fuel inventory.
Prepayments	1.3	Increase due to renewal of the Company's insurance plan in July 2011.
Property, Plant and Equipment	11.6	Net increase is comprised of capital expenditures of (1) $29.7 million (2) depreciation expense of $15.4 million and (3) $2.7 of insurance & asset sale proceeds.
Accounts Payable and Accrued Expenses	13.4	Change mainly attributable to increase in fuel costs.
Short-Term Debt	(17.0)	Decrease is a result of repayment of $17.0 million for the RBC Capital Expenditure line of credit.
Long-Term Debt	27.1	Increase due to $40 million received in June & July 2011 offset by principal repayments made in June and portions allocated to current portion of long-term debt.
Share Premium	1.0	The Company issued 112,023 shares through its share purchase plans.
Retained Earnings	0.9	Increase due to net earnings for the period of $15.3 million offset by Class A dividends of $14.1 million and Class B dividends of $0.3 million.

Capital Resurces

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, 2011, the Company was in compliance with all debt covenants.

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

Capital structure	September 30, 2011 *($ millions)*	%	December 31, 2010 *($ millions)*	%
Total debt	205.4	54	195.3	53
Shareholder's equity	175.8	46	173.8	47
Total	**381.2**	**100**	**369.1**	**100**

The Company's capital structure at September 30, 2011 shows an increase in debt when compared to December 31, 2010 due to $30 million of debt proceeds received in June 2011, and $10 million of debt proceeds received in July 2011 offset by principal payments made in 2011.

The Company's credit ratings are as follows:

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

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

In September 2011, S&P adjusted the Company's 'A' credit rating to "A-" and adjusted the outlook to stable. This adjustment reflects the S&P's opinion of a weak customer market given the recent declines in population and the negative impact of high fuel costs. The stable outlook reflects S&P's expectation of relatively predictable forecast cash flows and credit metrics.

In July 2011 DBRS affirmed the Company's 'A' credit rating while maintaining the categorisation of low with a stable trend. Considerations for the rating were a favourable regulatory regime, reasonable credit metrics and a stable island economy and demand for electricity. Impacting the rating were such factors as hurricane event risk and high government levies on fuel purchases.

Liquidity Risk

The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by allowances in the Licences for review of the RCAM by the ERA in order to enable the Company to maintain sound credit ratings

Credit Facilities

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

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

Of the total above, $31.4 million was available at September 30, 2011.

Capital Expenditures

Capital expenditures for the three months ended September 30, 2011 were $11.2 million, a $6.5 million, or 138% increase from $4.7 million in capital expenditures for the three months ended September 30, 2010.

Capital expenditures for the nine months ended September 30, 2011 were $30.0 million, a $14.1 million, or 88% increase from $15.9 million in capital expenditures for the nine months ended September 30, 2010. The capital expenditures for the nine months ended September 30, 2011 primarily relate to:

- Distribution system extension and upgrades - $7.4 million.
- Generating Unit 33 repairs - $5.7 million. The cost of these repairs is being funded by insurance proceeds.
- Generating Units 1 and 2 Piston and Liner Upgrade - $2.7 million.
- Other Plant Building Upgrades - $0.8 million.
- Generation Replacement Cost - $5.24 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, 2011, a decrease of $0.02 million was allocated to Transmission and a decrease of $0.27 million was allocated to Distribution, totalling a decrease of $0.29 million reallocated from inventories to capital work in progress. As at September 30, 2011, inventories totalling $4.8 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 $2.6 million was capitalised in the nine months ended September 30, 2011.

Capital expenditures *($ Millions)*	Three Months Ended Sept 30, 2011	Three Months Ended Sept 30, 2010	Nine months Ended Sept 30, 2011	Nine months Ended Sept 30, 2010
Transmission	**0.3**	-	**0.5**	1.4
Distribution	**3.6**	3.0	**9.0**	8.3
Generation	**7.0**	1.4	**19.7**	5.5
Other	**0.3**	0.3	**0.8**	0.7
Total	**11.2**	4.7	**30.0**	15.9

Off Balance-Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at September 30, 2011.

Business Risks

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

Operational Risks

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

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

Economic Conditions

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

Regulation

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

Weather

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

Environmental Matters

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

In 2004, CUC was initially registered to the ISO 14001, which is the international standard for Environmental Management System ("EMS"). The Company continuously adheres with the standard and the renewal of the registration occurred in May 2010. In March 2007, the Kyoto Protocol was signed by the Cayman Islands; this framework aims to reduce Greenhouse Gas ("GHG") emissions produced by certain industries. Specific details on the regulations have yet to be released by the Government and are required to assess the financial impact of compliance by the Company with the framework.

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

Insurance – Terms and Coverage

The Company renewed its insurance policy as at July 1, 2011 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include $100.0 million in property and machinery breakdown insurance and business interruption insurance per annum with a 24-month indemnity period and a waiting period on Non-Named Wind, Quake and Flood of 60-days. Any named Wind, Quake and Flood deductible has a 45-day waiting period. All T&D assets outside of 1,000 feet from the boundaries of the main Power Plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of $100 million. Each "loss occurrence" is subject to a deductible of $1.0 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of $1.0 million and maximum deductible of $4.0 million for all interests combined.

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

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

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

Transition to New Accounting Standards

Effective January 1, 2012, the Company will be required to adopt a new set of accounting standards. Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards ("IFRS") effective January 1, 2011; however, qualifying entities with rate regulated activities were granted an optional one-year deferral for the adoption of IFRS, due to continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the International Accounting Standards Board ("IASB"). As a qualifying entity with rate-regulated activities, CUC has elected to opt for the one-year deferral and, therefore, will continue to prepare its financial statements in accordance with Part V of the Canadian Institute of Chartered Accountants Handbook for all interim and annual periods ending on or before December 31, 2011.

On June 6, 2011 Fortis Inc. filed an application with the Ontario Securities Commission (the "OSC") seeking relief, pursuant to National Policy 11-203 – Process for Exemptive Relief Applications in Multiple Jurisdictions, to permit Fortis Inc. and its reporting issuer subsidiaries (of which CUC is one) to prepare their financial statements in accordance with US GAAP without qualifying as a U.S. Securities and Exchange Commission ("SEC") Issuer ("the Exemption"). On June 9, 2011 the OSC issued its decision and granted the Exemption for financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (a) January 1, 2015; or (b) the date on which the Company ceases to have activities subject to rate regulation.

The Company will apply US GAAP for the purpose of meeting financial and regulatory reporting requirements in Canada effective January 1, 2012. For a full discussion of the Company's adoption of new accounting standards see the section on *"Future Accounting Pronouncements"*.

Defined Benefit Pension Plan

The Company maintains a defined benefit pension plan. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The assumed long-term rate of return on pension plan assets, for the purposes of estimating pension expense for 2011, is 5%. This compares to assumed long-term rates of return of 5% used during 2010. The gain on pension plan assets during 2010 was 22%.

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

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

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

Future Accounting Pronouncements

Adoption of New Accounting Standards: Due to continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the International Accounting Standards Board, CUC has evaluated the option of adopting United States generally accepted accounting principles ("US GAAP"), as opposed to International Financial Reporting Standards ("IFRS"), and has decided to adopt US GAAP effective January 1, 2012.

Canadian securities rules allow a reporting issuer to prepare and file its financial statements in accordance with US GAAP by qualifying as a US Securities and Exchange Commission ("SEC") Issuer. An SEC Issuer is defined under the Canadian rules as an issuer that: (i) has a class of securities registered with the SEC under Section 12 of the *US Securities Exchange Act of 1934*, as amended (the "Exchange Act"); or (ii) is required to file reports under Section 15(d) of the Exchange Act. The Company is currently not an SEC Issuer. Therefore, on June 6, 2011 Fortis Inc. filed an application with the Ontario Securities Commission (the "OSC") seeking relief, pursuant to National Policy 11-203 – *Process for Exemptive Relief Applications in Multiple Jurisdictions,* to permit Fortis Inc. and its reporting issuer subsidiaries (of which CUC is one) to prepare their financial statements in accordance with US GAAP without qualifying as an SEC Issuer ("the Exemption"). On June 9, 2011 the OSC issued its decision and granted the Exemption for financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (a) January 1, 2015; or (b) the date on which the Company ceases to have activities subject to rate regulation.

The Company's application of Canadian GAAP currently relies on US GAAP for guidance on accounting for rate-regulated activities. The adoption of US GAAP in 2012 is, therefore, expected to result in fewer significant changes to the Company's accounting policies as compared to accounting policy changes that may have resulted from the adoption of IFRS. US GAAP guidance on accounting for rate-regulated activities allows the economic impact of rate-regulated activities to be recognized in the financial statements in a manner consistent with the timing by which amounts are reflected in customer rates. CUC believes that the continued application of rate-regulated accounting, and the associated recognition of regulatory assets and liabilities under US GAAP, accurately reflects the impact that rate regulation has on the Company's financial position and results of operations. The Company has received approval from the regulator for the use of US GAAP during the exemption period.

Fortis Inc. as project lead has developed a three-phase plan to adopt US GAAP effective January 1, 2012. CUC is an active participant in this project with focus on the impact to the Company. The following is an overview of the activities under each phase and their current status.

Phase I - Scoping and Diagnostics: Phase I consisted of project initiation and awareness; project planning and resourcing; and identification of high-level differences between US GAAP and Canadian GAAP in order to highlight areas where detailed analysis would be needed to determine and conclude as to the nature and extent of financial statement impacts. External accounting and legal advisors were engaged during this phase to assist the Company's internal US GAAP conversion team and to provide technical input and expertise as required. Phase I commenced in the fourth quarter of 2010 and is now complete.

Phase II - Analysis and Development: Phase II consists of detailed diagnostics and evaluation of the financial statement impacts of adopting US GAAP based on the high-level assessment conducted under Phase I; identification and design of any new, or changes to, operational or financial business processes; initial staff training and audit committee orientation; and development of required solutions to address identified issues.

Phase II of the plan commenced in January 2011. Based on the research and analysis completed to date, and the Company's continued ability to apply rate-regulated accounting policies under US GAAP, the differences between US GAAP and Canadian GAAP are not expected to have a material impact on earnings and are expected to be mostly limited to changes in balance sheet classifications and additional disclosure requirements. The impact on information systems and internal controls over financial reporting is expected to be minimal.

Phase III - Implementation and Review: Phase III is currently ongoing and has involved the implementation of financial reporting systems and internal control changes required by the Company to prepare and file its financial statements prepared in accordance with US GAAP beginning in 2012, and the communication of associated impacts.

The Company will prepare and file, in accordance with Canadian GAAP, its annual audited financial statements for the year ending December 31, 2011 and the comparative period. The Company intends to voluntarily prepare and file, in accordance with US GAAP, its annual audited financial statements for the year ending December 31, 2011 with 2010 comparatives. The Company's voluntary filing of audited US GAAP financial statements for the year ending December 31, 2011, subsequent to the filing of its audited Canadian GAAP financial statements for the year ending December 31, 2011, has been approved by the OSC and is expected to be completed by March 31, 2012. Beginning with the first quarter of 2012, the Company's unaudited interim financial statements will be prepared and filed in accordance with US GAAP.

Phase III will conclude when the Company files its annual audited financial statements for the year ending December 31, 2012 prepared in accordance with US GAAP.

Financial Statement Impacts - US GAAP: The area identified to date where differences between US GAAP and Canadian GAAP is expected to have the most significant financial statement impacts is outlined below. The identified impacts are unaudited and are subject to change based on further analysis.

Employee future benefits: Under Canadian GAAP, the accrued benefit asset or liability associated with defined benefit plans is recognised on the balance sheet with a reconciliation of the recognized asset or liability to the funded or unfunded status being disclosed in the notes to the financial statements. The accrued benefit asset or liability excludes unamortized balances related to past service costs, actuarial gains or losses and transitional obligations which have not yet been expensed.

US GAAP requires recognition of the funded or unfunded status of defined benefit plans on the balance sheet, with the opening unamortized balances related to past service costs, actuarial gains or losses and transitional obligations recognised on the balance sheet as a component of accumulated other comprehensive income. Changes to past service costs, actuarial gains or losses and transitional obligations which are not immediately recognised as components of net pension expense are required to be recognised in other comprehensive income. Upon adoption of US GAAP, the Company will recognize the unfunded status of its defined benefit plan on the balance sheet.

Additional differences between Canadian GAAP and US GAAP in the accounting for defined benefit plans include the determination of the measurement date and the period over which pension expense is recognised. Canadian GAAP allows the use of a measurement date up to three months prior to the date of an entity's fiscal year end. US GAAP requires the entity's fiscal year end to be used as the measurement date. Canadian GAAP allows the use of an attribution period that extends beyond the date when the credited service period ends, under specific circumstances, for defined benefit pension plans. US GAAP allows the use of an attribution period up to the date when credit service ends for defined benefit pension plans.

The above differences are expected to impact the calculation and recognition of the Company's benefit obligation which will be mostly offset by a corresponding change to Accumulated Other Comprehensive Income.

The above items do not represent a complete list of expected differences between US GAAP and Canadian GAAP, and are subject to change. Other less significant differences have also been identified. Analysis also remains ongoing and additional areas where the Company's financial statements may be materially impacted may be identified prior to the Company's voluntary preparation and filing of its audited US GAAP financial statements for the year ending December 31, 2011. A detailed reconciliation between the Company's audited Canadian GAAP and US GAAP financial statements for 2011, including 2010 comparatives, and any additional areas where significant adjustments may be required in accordance with US GAAP, will be disclosed as part of that voluntary filing.

The unaudited, estimated quantification and reconciliation of the Company's balance sheet as of December 31, 2010 prepared in accordance with US GAAP versus Canadian GAAP, and based on the differences identified to date, may be summarised as follows.

Total liabilities as of December 31, 2010 are estimated to increase by approximately $1.6 million. The estimated increase is due to the expected increase in the pension liability in accordance with US GAAP.

Shareholders' equity as of December 31, 2010 is estimated to decrease by approximately $1.6 million. The estimated decrease is due to the expected recognition of the past service costs and net actuarial losses related to the defined benefit plan in accordance with US GAAP,

Other assets as of December 31, 2010 are estimated to increase by approximately $1.2 million. The estimated increase is due to the reclassification of deferred debt costs in accordance with US GAAP.

Long-term debt as of December 31, 2010 is estimated to increase by approximately $1.2 million. The estimated increase is due to the reclassification of deferred debt costs in accordance with US GAAP.

The audited quantification and reconciliation of the Company's financial statements from Canadian GAAP to US GAAP for 2011 interim and annual reporting periods is expected to be completed by March 31, 2012.

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, 2011, the amount of unbilled revenue recorded in Electricity Sales was $5.2 million (September 30, 2010: $5.5 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, 2011, the amount of estimated kWh sales was 38.4 million kWh (September 30, 2010: 37.2 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, 2011, the Company had an accrued benefit liability of $0.1 million (December 31, 2010: $0.1 million).

Property, Plant and Equipment Depreciation

Depreciation, by its very nature is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at September 30, 2011, the net book value of the Company's PP&E was $364.1 million compared to $352.5 million as at December 31, 2010, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the nine months ended September 30, 2011 was $15.4 million ($15.3 million September 31, 2010). Due to the value of the Company's PP&E,

changes in depreciation rates can have a significant impact on the Company's depreciation expense.

Quarterly Results

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended September 30, 2009 through September 30, 2011. This information has been obtained from CUC's unaudited interim Financial Statements which, in the opinion of Management, have been prepared in accordance with Canadian GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

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, 2011	62,453	6,253	6,140	0.22	0.22
June 30, 2011	53,945	5,924	5,811	0.20	0.20
March 31, 2011	43,967	3,131	3,044	0.11	0.11
December 31, 2010	47,442	4,666	4,048	0.15	0.15
September 30, 2010	49,095	6,568	6,455	0.23	0.23
June 30, 2010	43,182	6,188	6,075	0.21	0.21
March 31, 2010	40,377	2,456	2,346	0.08	0.08
December 31, 2009	43,851	5,893	5,528	0.20	0.20

September 2011/September 2010

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

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

June 2011/June 2010

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

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

March 2011/March 2010

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

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

December 2010/December 2009

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

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

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, 2011 and information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls over Financial Reporting ("ICFR")

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

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). There was no material weakness relating to design existing as of September 30, 2011.

There has been no change in the Company's ICFR that occurred during the period beginning on July 1, 2011 and ended on September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

In March 2011 the ERA approved the Company's application to delay retirement of the two 7.59 MW Mirrlees generating units and also provided approval of the $134 million of proposed non-generation installation expenditures in the CIP. The remaining $85 million of the CIP relates to new generation installation which would be subject to a competitive solicitation process with the next generating unit scheduled for installation in 2014. With the continued impact of recessionary conditions on the local economy and electricity sales, the Company continues to focus on controlling discretionary expenditures.

Outstanding Share Data

At October 31, 2011 the Company had issued and outstanding 28,576,876 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

October 31, 2011

Balance Sheets

(expressed in thousands of United States Dollars)

Unaudited	Note	As at September 30, 2011	As at December 31 2010
Assets			
Current Assets			
Cash and Cash Equivalents		3,017	2,363
Accounts Receivable	4	18,205	11,917
Other Receivable - Insurance	5	278	2,188
Regulatory Assets	6	27,974	21,683
Inventories	7	4,474	3,074
Prepayments		3,771	2,462
		57,719	43,687
Property, Plant and Equipment	8	364,115	352,509
Other Assets		151	173
Intangible Assets	9	2,783	2,595
Total Assets		424,768	398,964
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank Overdraft		610	-
Accounts Payable and Accrued Expenses		38,373	24,985
Regulatory Liabilities	6	247	670
Short-Term Debt	10	-	17,000
Current Portion of Long-Term Debt		15,500	15,500
Consumers' Deposits and Advances for Construction		4,335	4,178
		59,065	62,333
Long-Term Debt		189,898	162,790
Total Liabilities		248,963	225,123
Shareholders' Equity			
Share Capital	12	1,951	1,944
Share Premium	12	76,390	75,355
Contributed Surplus	13	408	372
Retained Earnings		97,056	96,170
Total Shareholders' Equity		175,805	173,841
Total Liabilities and Shareholders' Equity		424,768	398,964

See accompanying Notes to Interim Financial Statements

Statements of Earnings and Comprehensive Income

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

Unaudited	Note	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating Revenues					
Electricity Sales		18,961	19,126	52,927	53,400
Fuel Factor		43,492	29,969	107,439	79,254
Total Operating Revenues		**62,453**	**49,095**	**160,366**	**132,654**
Operating Expenses					
Power Generation		44,376	30,688	109,920	81,503
General and Administration		2,329	2,111	6,825	6,292
Consumer Services		440	631	1,272	1,424
Transmission and Distribution		602	515	1,602	1,567
Depreciation		5,207	5,210	15,446	15,276
Maintenance		1,817	1,922	6,087	6,499
Amortization of Intangible Assets		79	68	227	267
Total Operating Expenses		**54,850**	**41,145**	**141,379**	**112,828**
Operating Income		**7,603**	**7,950**	**18,987**	**19,826**
Other (Expenses)/Income:					
Finance Charges	14	(2,264)	(2,198)	(6,557)	(6,893)
Foreign Exchange Gain	15	558	465	1,501	1,298
Other Income		356	351	1,377	981
Total Net Other (Expenses)/Income		(1,350)	(1,382)	(3,679)	(4,614)
		-	-		
Earnings and Comprehensive Income for the Period		**6,253**	**6,568**	**15,308**	**15,212**
Preference Dividends Paid- Class B		(113)	(113)	(313)	(335)
Earnings on Class A Ordinary Shares		**6,140**	**6,455**	**14,995**	**14,877**
Weighted-Average Number of Class A Ordinary Shares Issued and Fully Paid (in thousands)	16	28,542	28,382	28,523	28,329
Earnings per Class A Ordinary Share	16	0.22	0.23	0.53	0.52
Diluted Earnings per Class A Ordinary Share	16	0.22	0.23	0.53	0.52
Dividends Declared per Class A Ordinary Share		0.165	0.165	0.495	0.495

See accompanying Notes to Interim Financial Statements

Statements of Retained Earnings

(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Balance at beginning of period	95,625	95,037	96,170	95,955
Earnings for the period	6,253	6,568	15,308	15,212
Dividends Declared	(4,822)	(4,795)	(14,422)	(14,357)
Balance at end of period	97,056	96,810	97,056	96,810

See accompanying Notes to Interim Financial Statements

Statements of Cash Flows

(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating Activities				
Earnings for the period	6,253	6,568	15,308	15,212
Items not affecting cash:				
Depreciation	5,207	5,210	15,446	15,276
Amortisation of Intangible Assets	79	68	227	267
Amortisation of Deferred Financing Costs	49	43	138	139
Stock-based compensation	12	12	35	36
	11,600	**11,901**	**31,154**	**30,930**
Net change in non-cash working capital balances related to operations	(4,116)	(318)	2,602	2,939
Net Change in Regulatory Deferrals	2,107	215	(6,714)	(765)
Cash flow related to operating activities	**9,591**	**11,798**	**27,042**	**33,104**
Investing Activities				
Purchase of property, plant and equipment	(11,090)	(4,648)	(29,729)	(15,670)
Costs related to intangible assets	(181)	(9)	(416)	(259)
Insurance funds received	920	-	6,492	-
Proceeds on sale of property, plant and equipment	5	3	19	13
Cash flow related to investing activities	**(10,346)**	**(4,654)**	**(23,634)**	**(15,916)**
Financing Activities				
Proceeds from debt financing	10,000	-	40,000	9,000
Repayment of debt	(9,000)	-	(29,500)	(14,000)
Increase/Decrease in bank overdraft	610	(657)	610	-
Dividends paid	(4,816)	(4,795)	(14,907)	(14,357)
Net proceeds from share issues	334	342	1,043	1,236
Cash flow related to financing activities	**(2,872)**	**(5,110)**	**(2,754)**	**(18,121)**
(Decrease)/Increase in net cash	(3,627)	2,034	654	(933)
Cash and cash equivalent - Beginning of period	6,644	1,960	2,363	4,927
Cash and cash equivalent - End of period	**3,017**	**3,994**	**3,017**	**3,994**
Supplemental disclosure of cash flow information:				
Interest paid during the period	46	93	5,859	6,291

See accompanying Notes to Interim Financial Statements

Notes to Interim Financial Statements

Unaudited - September 30, 2011 (expressed in thousands of United States dollars unless otherwise stated)

1. Nature of Operations and Financial Statement Presentation

These unaudited financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for interim financial statements and reflect the decisions of the Electricity Regulatory Authority ("ERA"). These decisions affect the timing of the recognition of certain transactions resulting in the recognition of regulatory assets and liabilities, which Caribbean Utilities Company Ltd., ("CUC" or "the Company") considers it is probable to recover or settle subsequently through the rate-setting process. These interim financial statements do not include all of the disclosures normally found in the Company's annual financial statements and should be read in conjunction with the Company's financial statements for the period ended December 31, 2010. These interim financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual financial statements.

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

Rate Regulated Operations

CUC's base rates are designed to recover and earn a return on all non-fuel and non-regulatory costs and include per kWh electricity charges and fixed facilities charges. Fuel cost charges and licence and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the rate cap and adjustment mechanism ("RCAM"). After the requisite review in 2011, the Company confirmed to the ERA that the RCAM yielded no rate adjustment; therefore there was no rate adjustment in June 2011. All fuel and lubricating oil costs are passed through to customers without mark-up as a per kilowatt-hour ("kWh") charge.

For regulatory purposes fixed assets comprise the Property, Plant and Equipment ("PP&E") and intangible assets acquired or constructed by the Company as reported in the Company's financial statements. The original book value of these fixed assets include an Allowance for Funds Used During Construction ("AFUDC") (see Note 8) and an allowance for General Expenses Capitalised ("GEC") (see 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. <u>Future Accounting Changes</u>

Effective January 1, 2012, the Company will be required to adopt a new set of accounting standards. Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards ("IFRS") effective January 1, 2011; however, qualifying entities with rate regulated activities were granted an optional one-year deferral for the adoption of IFRS, due to continued uncertainty around the adoption of a rate-regulated accounting standard by the International Accounting Standards Board ("IASB"). As a qualifying entity with rate-regulated activities, CUC has elected to opt for the one-year deferral and, therefore, continues to prepare its financial statements in accordance with Part V of the Canadian Institute of Chartered Accountants Handbook for all interim and annual periods ending on or before December 31, 2011.

Due to continued uncertainty around the adoption of a rate-regulated accounting standard by the IASB, CUC has evaluated the option of adopting United States generally accepted accounting principles ("US GAAP"), as opposed to IFRS, and has decided to adopt US GAAP effective January 1, 2012. Canadian securities rules allow a reporting issuer to prepare and file its financial statements in accordance with US GAAP by qualifying as a U.S. Securities and Exchange Commission ("SEC") Issuer. An SEC Issuer is defined under the Canadian rules as an issuer that: (i) has a class of securities registered with the SEC under Section 12 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"); or (ii) is required to file reports under Section 15(d) of the Exchange Act. The Company is not currently an SEC Issuer. On June 6, 2011 Fortis Inc. filed an application with the Ontario Securities Commission (the "OSC") seeking relief, pursuant to National Policy 11-203 – Process for Exemptive Relief Applications in Multiple Jurisdictions, to permit Fortis Inc. and its reporting issuer subsidiaries (of which CUC is one) to prepare their financial statements in accordance with US GAAP without qualifying as an SEC Issuer ("the Exemption"). On June 9, 2011 the OSC issued its decision and granted the Exemption for financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (a) January 1, 2015; or (b) the date on which the Company ceases to have activities subject to rate regulation.

The Company's application of Canadian GAAP currently relies on US GAAP for guidance on accounting for rate-regulated activities. The adoption of US GAAP in 2012 is, therefore, expected to result in fewer significant changes to the Company's accounting policies as compared to accounting policy changes that may have resulted from the adoption of IFRS. US GAAP guidance on accounting for rate-regulated activities allows the economic impact of rate-regulated activities to be recognized in the financial statements in a manner consistent with the timing by which amounts are reflected in customer rates. CUC believes that the continued application of rate regulated accounting, and the associated recognition of regulatory assets and liabilities under US GAAP, accurately reflects the impact that rate regulation has on the Company's financial position and results of operations. The Company has received approval from the regulator for the use of US GAAP during the exemption period.

4. Accounts Receivable

	As at September 30, 2011	As at December 31, 2010
Billings to consumers	10,779	6,521
Unbilled revenues	5,183	4,400
Other receivables	2,223	922
Employee Share Purchase Plan	20	74
Total Accounts Receivable	18,205	11,917

Unbilled Revenues

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

Other receivables

Other receivables relate to amounts due outside of the normal course of operations. Items in other accounts receivable include pole rental fees, sale of meter sockets, sale of recyclable materials and amounts due from related parties (see Note 20). Other receivables at September 30, 2011 also include an amount in relation to a billing adjustment for a commercial customer.

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.

5. Other Receivable - Insurance

Other Receivable - Insurance	September 30, 2011	December 31, 2010
Unit 33 claim	-	2,119
Other Insurance claims	278	69
Total	**278**	**2,188**

On September 23, 2010 there was an over speed failure damaging Unit 33, a MAN B&W 16 megawatt ("MW") engine. The costs associated with bringing this generating unit back on-line have been completed and the unit was placed into service in July 2011. The costs of the repairs are covered by the Company's insurance policy subject to a deductible of $0.5 million.

6. Regulatory Assets and Liabilities

Asset/Liability	Description	As at September 30, 2011	As at December 31, 2010
Regulatory Assets	Fuel Tracker Account (a)	26,625	21,192
Regulatory Assets	Derivative contract (b)	895	-
Regulatory Assets	Miscellaneous Regulatory Assets (c)	454	491
Total Regulatory Assets		**27,974**	**21,683**
Regulatory Liabilities	Government & Regulatory Tracker Account (d)	39	(670)
Regulatory Liabilities	Miscellaneous Regulatory Liabilities (e)	(286)	-
Total Regulatory Liabilities		**(247)**	**(670)**

a) Fuel Tracker Account – The 2008 T&D Licence established a fuel tracker mechanism to ensure the Company and the consumers neither gain nor lose from the pass through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from or reimbursed to the consumers. The receivable or payable value represents a regulatory asset or liability. The net position of the fuel tracker accounts fluctuates monthly and is affected by fuel prices and electricity consumption. 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 nine month period ended September 30, 2011 would have been $5.4 million lower.

b) Derivative contract - The Company's purpose of hedging is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers in the face of price volatility for the fuel that the Company must purchase in order to provide electric service. This account represents the fair value adjustments for the call options. In the absence of rate regulation and governmental controls the unrealised loss for the derivative contract line item would have been expensed and earnings for the nine month period ended September 30, 2011 would have been $0.9 million lower (see Note 17).

c) Miscellaneous regulatory assets represent costs incurred by the Company, other than fuel and the specifically itemised licence and regulatory fees, to be recovered through the Company's base rates on terms as agreed with the ERA. In the absence of rate regulation and governmental controls the balance in the miscellaneous regulatory assets would have been recognized in earnings and earnings for the nine month period ended September 30, 2011 would have been $0.04 million higher.

d) Government and Regulatory Tracker Account - A licence fee of 1% of gross revenues applies to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per kWh basis. Additionally, a regulatory fee of ½ of 1% is charged on gross revenues then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The tracker account is the actual fee incurred less the amount of funds received from consumers. The per kWh charge is then adjusted quarterly for the balance of this account. There is no impact in the absence of rate regulation.

e) Miscellaneous regulatory liabilities represent costs owed by the Company, other than licence and regulatory fees, to be recovered through the Company's base rates on terms as agreed with the ERA. In the absence of rate regulation and governmental controls the balance in the miscellaneous regulatory liabilities would have been recognized in earnings and earnings for the three month period ended September 30, 2011 would have been $0.02 million lower.

7. Inventories

($ Thousands)	**As at September 30, 2011**	**As at December 31, 2010**
Fuel	3,761	2,593
Line spares	94	97
Other	619	384
Total	**4,474**	**3,074**

The inventory amounts expensed for the three month period ended September 30, 2011 totalled $42.1 million which includes $41.9 million in fuel and lube costs, $0.1 million in vehicle fuel and $0.1 million in line spares. The inventory amounts expensed for the three month period ended 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 spares.

The inventory amounts expensed for the nine month period ended September 30, 2011 totalled $117.0 million which includes $116.4 million in fuel and lube costs, $0.2 million in vehicle fuel and $0.4 million in line spares. The inventory amounts expensed for the nine month period 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 spares.

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

Property, Plant and Equipment	Cost	Accumulated Depreciation	Net Book Value September 30, 2011
Transmission & Distribution (T&D)	249,977	77,219	172,758
Generation	267,022	98,417	168,605
Other:			
Land	5,304	-	5,304
Buildings	19,904	8,645	11,259
Equipment, motor vehicles and computers	19,195	13,006	6,189
Total Other	**44,403**	**21,651**	**22,752**
Property, plant and equipment	**561,402**	**197,287**	**364,115**

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

Included in PP&E are a number of capital projects in progress with a total cost to date of $39.2 million (December 31, 2010: $21.1 million). These projects primarily relate to various improvements to the Distribution System.

Also included in Generation and T&D is freehold land with a cost of $4.7 million (December 31, 2010:$4.7 million). In addition, line inventory with a cost of $4.8 million (December 31, 2010: $5.1 million) is included in T&D. Engine spares with a net book value of $16.1 million (December 31, 2010: $15.0 million) are included in Generation.

The capitalisation of 'Financing Costs' is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for fiscal 2011 is 8.75% (2010:8.75%) and will be adjusted annually. As a result, during the nine month period ended September 30, 2011, the Company recognised $2.6 million in AFUDC. The Company recognised an amount of $2.3 million for the nine month period ended September 30, 2010 under the provision for AFUDC.

The Company capitalised an amount of $2.1 million (September 30, 2010: $1.7 million) for the nine month period ended September 30, 2011 under the provision for GEC (see Note 1).

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

9. Intangible Assets

Intangible Assets	Cost	Accumulated Depreciation	Net Book Value September 30, 2011
Deferred licence renewal costs	1,890	320	1,570
Computer Software	4,205	3,298	907
Other Intangible Assets in progress	306	-	306
Total	**6,401**	**3,618**	**2,783**

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

Included in Intangible Assets are a number of capital projects in progress with a total cost of $0.3 million.

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

10. Short-Term Debt

The Royal Bank of Canada ("RBC") credit facility agreement provides for $32.9 million and the total available was $31.4 million at September 30, 2011 ($15.0 million at December 31, 2010).

Credit Facilities	Total Credit Financing Facilities September 30, 2011	Total Utilised September 30, 2011	Total Available September 30, 2011
Corporate Credit Card Line*	300	300	-
Letters of Credit – 1% per annum	595	595	-
Operating, Revolving Line of Credit – Libor plus 1.5% per annum	7,500	610	6,890
Catastrophe Standby Loan - Libor plus 1.5% per anuum	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures – Libor plus 1.5% per annum	17,000	-	17,000
Total	**32,895**	**1,505**	**31,390**

**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 such as the rights offering that occurred in the 2008 Transitional Period. The capital managed by the Company is composed of debt (short-term debt, long-term debt and bank overdraft) and shareholders' equity (including: capital stock, share premium, contributed surplus and retained earnings).

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65% of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at September 30, 2011, the Company was in compliance with all debt covenants.

The Company's capital structure is shown below:

Capital structure	September 30, 2011	%	December 31, 2010	%
Total debt	205,398	54	195,290	53
Shareholder's equity	175,805	46	173,841	47
Total	**381,203**	**100**	**369,131**	**100**

12. Capital Stock

Authorised:

a) 60,000,000 (December 31, 2010: 60,000,000) Class A Ordinary Shares of CI$0.05 each
b) 250,000 (December 31, 2010: 250,000) 9% Cumulative, Participating Class B Preference Shares of CI$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, 2011 Number of shares	Three months ended September 30, 2011 Amount *($ Thousands)*	Nine months ended September 30, 2011 Number of shares	Nine months ended September 30, 2011 Amount *($ Thousands)*	Twelve months ended December 31, 2010 Number of shares	Twelve months ended December 31, 2010 Amount *($ Thousands)*
Balance, beginning of period	28,541,855	1,699	28,464,853	1,694	28,277,139	1,683
Consumer Share Purchase and Dividend Reinvestment Plans	35,021	2	110,303	6	170,964	10
Employee Share Purchase, Employee Long Service Bonus Plans and Employee Stock Options	-	-	1,720	1	16,750	1
Class A Ordinary Shares issued & outstanding	**28,576,876**	**1,701**	**28,576,876**	**1,701**	**28,464,853**	**1,694**
9%Cumulative, Participating Class B	250,000	250	250,000	250	250,000	250
Total		**1,951**		**1,951**		**1,944**

Share proceeds for the three month period ended September 30, 2011 totalled $0.334 million, of which $0.332 million was recorded as an increase to share premium and $0.002 million as an increase to share capital.

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

Share Options	September 30, 2011 Number of options	September 30, 2011 Weighted average exercise price per share	December 31, 2010 Number of options	December 31, 2010 Weighted average exercise price per share
Outstanding at beginning of period	850,403	11.59	904,903	11.59
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(382,303)	11.46	(54,500)	(11.60)
Outstanding at end of period	468,100	11.70	850,403	11.59

The position with respect to outstanding unexercised options as at September 30, 2011 was as follows:

Date of Grant	Number of Class A Ordinary Shares under option	Number of Exercisable Class A Ordinary Shares	Exercise Price ($)	Term of option	Weighted Avg. Remaining Life of Option
22-Sep-03	174,100	174,100	13.78	10 years	
11-Apr-08	145,200	72,600	12.22	10 years	
27-Feb-09	148,800	74,400	8.76	10 years	
Outstanding at end of period & Weighted Avg.	**468,100**	**321,100**	**11.70**		**5.19 years**

On February 27, 2009; 161,300 options were granted under the Executive Stock Option Plan at an exercise price of $8.76. The options vest on the basis of one quarter of the grant on each of the first through fourth anniversaries of the dates of the grant and bear a term of 10 years from the date of the grant, thereby expiring on February 27, 2019. The fair value of each option granted was calculated to be $0.78 per option. The fair value was estimated on the date of the grant using the Black-Scholes fair value option pricing model and the following assumptions:

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

Under the fair value method, the compensation expense was $0.01 million for the three month period ended September 30, 2011 (September 30, 2010: $0.01 million), resulting in a corresponding increase of the contributed surplus.

14. Finance Charges

The composition of finance charges were as follows:

($ thousands)	**Three Months Ended September 30, 2011**	**Three Months Ended September 30, 2010**	**Nine Months Ended September 30, 2011**	**Nine Months Ended September 30, 2010**
Interest costs - long-term debt	3,092	2,820	8,768	8,844
Other interest costs	94	137	356	334
AFUDC *	(922)	(759)	(2,567)	(2,285)
Total	2,264	2,198	6,557	6,893

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

15. Foreign Exchange

The closing rate of exchange on September 30, 2011 as reported by the Bank of Canada for the conversion of US dollars into Canadian dollars was Cdn$1.05 per US$1.00. The official exchange rate for the conversion of Cayman Islands 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, 2011 for conversion of Cayman Islands dollars into Canadian dollars was Cdn$1.26 per CI$1.00 (December 31, 2010: Cdn$1.19).

16. 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 28,541,855 and 28,381,560 for the three month period ended September 30, 2011 and September 30, 2010 respectively. The weighted average Class A Ordinary Shares outstanding were 28,522,668 and 28,328,826 for the nine month period ended September 30, 2011 and September 30, 2010 respectively. The weighted average of Class A Ordinary Shares used for determining diluted earnings were 28,552,663 and 28,381,560 for the three month period ended September 30, 2011 and September 30, 2010 respectively. The weighted average of Class A Ordinary Shares used for determining diluted earnings were 28,531,613 and 28,328,826 for the nine month period ended September 30, 2011 and September 30, 2010 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at September 30, 2011 the outstanding options are not dilutive as the market price of common shares is below exercise price.

	Earnings (in thousands) September 30, 2011	Weighted average shares (in thousands) September 30, 2011	Earnings per Common Shares September 30, 2011
Net earnings applicable to common shares	6,140		
Weighted Average share outstanding		28,542	
Basic Earnings Per Common Share			0.22
Effect of potential dilutive securities:			
Stock Options	-	11	-
Diluted Earnings per Common Share	6,140	28,553	0.22

	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

17. Financial Instruments

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

	September 30, 2011 Carrying Value	September 30, 2011 Estimated Fair Value	December 31, 2010 Carrying Value	December 31, 2010 Estimated Fair Value
Held for trading				
Cash and cash equivalents	3,017	3,017	2,363	2,363
Loans and receivables				
Accounts Receivable	18,205	18,205	11,917	11,917
Other Receivables - Insurance Proceeds	278	278	2,188	2188
Other Assets	151	151	173	173
	18,634	18,634	14,278	14,278
Other financial liabilities				
Bank Overdraft	610	610	-	-
Accounts payable and accrued expenses	38,373	38,373	24,985	24,985
Short-term borrowings	-	-	17,000	17,000
Customer deposits	4,335	4,335	4,178	4,178
Long term debt, including current portion[1]	205,398	204,054	178,290	167,768
	248,716	247,372	224,453	213,931

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

Fair Values

The fair value of long-term debt, including current portion, is calculated by discounting the future cash flows of each debt instrument at the estimated yield to maturity for the same or similar debt instruments at the balance sheet date. The fair value of long-term debt as at September 30, 2011 totalled $204.1 million, (December 31, 2010: $167.8 million). The fair value of the Company's remaining financial instruments approximates their carrying value, reflecting either their nature or short-term maturity.

Fuel Option Contracts

Financial Liability	September 30, 2011 Total Fair Value	Level 1 - Quoted Prices in active markets for identical assets	Level 2 - Significant Other inputs	Level 3 - Significant unobservable inputs
Option Contracts[1]	(895)	-	(895)	-

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

The objective of the Fuel Volatility Programme is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers for the fuel that the Company must purchase in order to provide electricity service. The programme utilises call options to promote transparency in pricing.

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

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

Credit Risk

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

Trade and other accounts receivables	As at September 30, 2011	As at December 31, 2010
Current	13,312	9,556
Past due 31-60 days	1,355	809
Past due 61-90 days	575	348
Past due over 90 days	3,214	1,423
Total Accounts Receivables	**18,456**	**12,136**
Less: allowance for doubtful accounts	(251)	(219)
Less: Consumer Deposits and Advances for Construction	(4,335)	(4,178)
Net Exposure	**13,870**	**7,739**

As at September 30, 2011, the net exposure on the balance sheet is $13.9 million.

Liquidity Risk

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

($millions)	Total	2011	2012-2013	2014-2015	2016 Onward
Bank Overdraft	0.6	0.6	-	-	-
Accounts payable and accrued expenses	38.4	38.4	-	-	-
Consumer's Deposits and Advances for Construction	4.3	4.3	-	-	-
Short term debt	0.0	0.0	-	-	-
Letter of credit	0.6	0.6	-	-	-
Total debt	207.0	15.5	39.5	28.0	124.0
Long term debt interest	91.8	6.0	22.7	18.5	44.6
Total	342.7	65.4	62.2	46.5	168.6

Interest Rate Risk

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

18. Pension Plan

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. As at September 30, 2011, the Company had an accrued benefit liability of $0.1 million (December 31, 2010: $0.1 million) which is included within Accounts Payable and Accrued Expenses in the Balance Sheets.

During the nine month period ended September 30, 2011, the Company recorded net compensation expense in relation to its defined contribution plan of $0.6 million (September 30, 2010: $0.6 million).

19. Taxation

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

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

20. Transactions with Related Parties

Miscellaneous receivables from Fortis Turks & Caicos, also a subsidiary of Fortis Inc. totalling $0.01 million were outstanding at September 30, 2011 ($0.04 million as at December 31, 2010) for engineering assistance and are included within Accounts Receivable on the Balance Sheet. Miscellaneous payables to Fortis Inc., the Company's majority shareholder, totalled $0.007 million were outstanding at September 30, 2011 ($0.03 million as at December 31, 2010) for travel, insurance and membership expenses and is included within Accounts Payable and Accrued Expenses on the Balance Sheet.

21. Commitments

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

As a result of the Company's purchase of the bulk fuel inventory, the value of CUC's closing stock of fuel at September 30, 2011 was $3.8 million (December 31, 2010: $2.6 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Plant.

22. Comparative Figures

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

Shareholder Information

Shareholder Plans

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

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

Shareholder Information

Duplicate Annual Reports

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

Our Registrar and Transfer Agents are as follows:

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

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

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

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