



July 31, 2012

FOR IMMEDIATE RELEASE

CUC Announces Second Quarter Results for the Period Ended June 30th, 2012

Caribbean Utilities Company, Ltd. is listed for trading in United States dollars on the Toronto Stock Exchange.

Grand Cayman, Cayman Islands- Caribbean Utilities Company, Ltd. (TSX: CUP.U) (“CUC” or “the Company”) announced today its unaudited results for the Second Quarter ended June 30, 2012 (all figures in United States dollars).

Net earnings for the three months ended June 30, 2012 (“Second Quarter 2012”) totalled \$5.1 million, a decrease of \$0.8 million, or 14%, when compared to \$5.9 million for the three months ended June 30, 2011 (“Second Quarter 2011”). A 3% decline in kilowatt-hour (“kWh”) sales and higher depreciation costs and finance charges were partially offset by decreased general and administration, consumer service and maintenance costs for the Second Quarter 2012 when compared to the Second Quarter 2011.

Sales for the Second Quarter 2012 totalled 139.9 million kWh, a decrease of 5.0 million kWh, or 3%, in comparison to 144.9 million kWh for the Second Quarter 2011. Sales were negatively impacted by rainy weather conditions that reduced customer air-conditioning load. The average monthly rainfall for the Second Quarter 2012 was 9.3 inches as compared to an average rainfall of 4.2 inches for the same period last year and May 2012 saw a record breaking 17.7 inches of rainfall, the highest level on record in one month in over 9 years and the highest level on record for the month of May in 20 years.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2012 were \$5.0 million, or \$0.18 per Class A Ordinary Share, a decrease of \$0.8 million from the \$5.8 million, or \$0.20 per Class A Ordinary Share for the Second Quarter 2011.

Caribbean Utilities Company, Ltd.

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President and CEO, Mr. Richard Hew, says, “With a continuing weak economy, relatively high fuel prices and wetter than normal months, electricity sales and earnings for the quarter under review were negatively impacted. We continue to focus on controlling costs while meeting our obligations to provide a safe and reliable electricity service to our customers. A stronger economy with real economic growth is required to provide any material improvement in financial performance.”

The Company continues with the installation of its Advanced Metering Infrastructure (AMI) system. Over five thousand new AMI meters have been installed which allows CUC to measure, collect and analyze energy usage, and communicate with the meters, either on request or on a schedule from its central office. Customers will be able to use the information provided by the AMI system to become more energy efficient.

“We are pleased to offer this new technology to our customers. We anticipate that there will be significant benefits to CUC in terms of efficiency in operation as well as the enhanced service to electricity consumers.” Mr. Hew added.

CUC’s Second Quarter 2012 results and related Management’s Discussion and Analysis (“MD&A”) for the period ended June 30, 2012 are attached to this release and incorporated by reference.

The MD&A section of this report contains a discussion of CUC’s unaudited Second Quarter 2012 results, the Cayman Islands economy, liquidity and capital resources, capital expenditures and the business risks facing the Company. The release and Second Quarter MD&A can be accessed at www.cuc-cayman.com (Investor Relations/Press Releases) and at www.sedar.com.

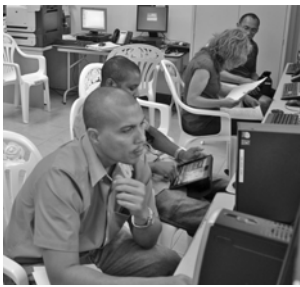
CUC provides electricity to Grand Cayman, Cayman Islands, under an Electricity Generation Licence expiring in 2029 and an exclusive Electricity Transmission and Distribution Licence expiring in 2028. Further information is available at www.cuc-cayman.com.

Certain statements in the 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 labeled “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.

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Caribbean Utilities Company, Ltd.

2012 Second Quarter Report

June 30, 2012



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 149.540 megawatts (MW) and a record peak load of 102.086 MW was experienced on June 03, 2010.

CUC is committed to providing a safe and reliable supply of electricity to over 26,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman’s 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 186 employees.

About the Cayman Islands

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 55,000, 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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Fellow Shareholders

Dear Shareholder,

A continuing weak economy and relatively high fuel prices, combined with abnormally high rainfall during the quarter under review negatively impacted electricity sales and earnings.

Net earnings for the three months ended June 30, 2012 ("Second Quarter 2012") were \$5.1 million, a decrease of \$0.8 million, or 14%, when compared to \$5.9 million for the three months ended June 30, 2011 ("Second Quarter 2011"). A 3% decline in kilowatt-hour ("kWh") sales and higher depreciation costs and finance charges were partially offset by decreased general and administration, consumer service and maintenance costs for the Second Quarter 2012 when compared to the Second Quarter 2011.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2012 were \$5.0 million, or \$0.18 per Class A Ordinary Share, a decrease of \$0.8 million from the \$5.8 million, or \$0.20 per Class A Ordinary Share for the Second Quarter 2011.

The 2011 Annual Economic Report, which was released by the Cayman Islands Government in June 2012, stated that the Cayman Islands economy is projected to improve this year. However, this growth is conditional on continued growth in the two major industries; tourism and financial services, which are the bedrock of the local economy. According to the Report, 2011 Gross Domestic Product (GDP) for the Cayman Islands increased by 1.1%, the first increase since 2007, and the GDP is projected to expand by 1.8% in 2012.

As at June 30, 2012, the total number of customers on record at the company was 26,830, an increase of 443 customers, or 2%, compared to 26,387 customers as at June 30, 2011. The Company had a net increase of 75 customers for the Second Quarter 2012, comprising 39 residential connections and 36 commercial connections.

Sales for the Second Quarter 2012 totalled 139.9 million kWh, a decrease of 5.0 million kWh, or 3%, in comparison to 144.9 million kWh for the Second Quarter 2011. Sales were negatively impacted by rainy weather conditions that affected customer air conditioning load. The average monthly rainfall for the Second Quarter 2012 was 9.30 inches as compared to an average rainfall of 4.23 inches for the same period last year.

May 2012 saw a record breaking 17.70 inches of rainfall, the highest level experienced in one month since 2003 and the highest level for the month of May in 20 years.

The Company's average price per imperial gallon ("IG") of fuel for the Second Quarter 2012 at \$4.79 was comparable to \$4.80 for the Second Quarter 2011. The Company's average price per IG of fuel for the six months ended June 30, 2012 increased 5% to \$4.77, compared to \$4.54 for the six months ended June 30, 2011. With a two-month lag in the pass through of fuel costs to consumers, the benefit of the market reduction in prices that occurred during the Second Quarter will be more pronounced in the third quarter.

In late March 2012 CUC's wholly owned subsidiary, DataLink, Ltd. ("DataLink") received its licence from the Information and Communication Technology Authority ("ICTA"). This licence permits DataLink to provide fibre optic infrastructure and other information and communication technology (ICT) services to the ICT industry. During the Second Quarter 2012, CUC and DataLink executed management and maintenance, pole attachment and fibre optic agreements.

During the period under review CUC commenced discussions with two renewable energy developers who were selected through a competitive bid process to provide renewable energy to CUC's grid under power purchase agreements. The proposals being considered are two 5 megawatts ("MW") solar photovoltaic power plants and one 3 MW small scale wind turbine project. The developers will finance, construct, own and operate renewable energy generation facilities. Negotiations towards power purchase agreements with the two developers are ongoing. Once the negotiations are completed, and the necessary regulatory approvals received, final power purchase agreements will be established with the two successful bidders who will then start construction of the projects. It is anticipated that the projects will be completed within a two-year period.

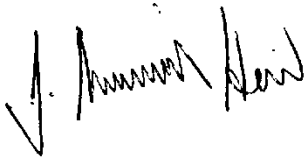
In March 2012 the Electricity Regulatory Authority ("ERA") solicited Request for Proposals (RFP) for additional generation capacity from six Qualified Bidders (including CUC). CUC submitted its bid on July 16, 2012. This competitive solicitation process is in response to the Certificate of Need issued by the Company in November 2011, driven primarily by the upcoming retirements of some of the Company's generating units. The projected commissioning date for 18 MW of additional generation capacity is July 2014, with a second increment of 18 MW of capacity in 2015 or 2016 with timing dependent on

economic growth and development of the Grand Cayman economy and the related growth in demand for electricity. The ERA's selection of the successful bidder is expected by mid-September to meet the projected commissioning date of July 2014.

The Company continues to roll out its new Advanced Metering Infrastructure (AMI) system, with over 5,000 new customer meters now installed. This new system allows CUC to measure, collect and analyse energy usage, and communicate with metering devices such as electricity meters, either on request or on a schedule.

Customers will be able to use the information provided by the AMI system to monitor and manage their energy usage. The AMI project is expected to be completed by the end of 2013.

The Company honoured 29 employees at its Long Service Awards luncheon held in May. Together these employees have given 475 years of service to the Company and their loyalty and dedication is certainly appreciated and deserving of recognition. This loyalty and dedication by employees plays a significant role in the Company's ability to provide safe and reliable electricity service at least cost to our customers while delivering long-term value to shareholders.



J.F. Richard Hew
President & Chief Executive Officer

July 30, 2012

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"): (i) interim unaudited consolidated financial statements and notes thereto for the six months ended June 30, 2012 prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"); (ii) audited financial statements and notes thereto for the year ended December 31, 2011, with 2010 comparatives, prepared in accordance with US GAAP and voluntarily filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") on March 19, 2012; (iii) "Supplemental Interim Financial Statements for the Year Ended December 31, 2011 (Unaudited)" contained in the above-noted voluntary filing which provides a detailed reconciliation between the Company's interim unaudited 2011 Canadian GAAP and interim unaudited 2011 US GAAP financial statements; and (iv) the MD&A for the year ended December 31, 2011 included in the Company's 2011 Annual Report. 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 US GAAP, including certain accounting practices unique to rate-regulated entities. These accounting practices, which are disclosed in the notes to the Company's 2011 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 consolidated financial statements and MD&A in this interim report were approved by the Audit Committee.

Financial and Operational Highlights

<i>(\$ thousands, except basic earnings per ordinary share, dividends paid per ordinary share and where otherwise indicated)</i>	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Change	% Change
Electricity Sales	17,581	18,188	33,502	33,966	(464)	-1%
Fuel Factor Revenues	36,359	35,757	72,091	63,946	8,145	13%
Operating Revenues	53,940	53,945	105,593	97,912	7,681	8%
Fuel and Lube Costs	36,359	35,757	72,091	63,946	8,145	13%
Other Operating Expenses	11,136	11,372	23,528	22,582	946	4%
Total Operating Expenses	47,495	47,129	95,619	86,528	9,091	11%
Earnings for the Period	5,146	5,924	7,052	9,055	(2,003)	-22%
Basic Earnings per Class A Ordinary Share	0.18	0.20	0.24	0.31	(0.07)	-23%
Dividends paid per Class A Ordinary Share	0.165	0.165	0.330	0.330	-	0%
Peak Load Gross (MW)	94.9	98.2	94.9	98.2	(3.3)	-3%
Net Generation (millions of kWh)	149.9	155.3	285.4	289.6	(4.2)	-1%
Kilowatt-Hour Sales (millions of kWh)	139.9	144.9	266.3	270.2	(3.9)	-1%
Total Customers	26,830	26,387	26,830	26,387	443	2%
Customers per Employee (#)	144	135	144	135	9	7%
Sales per employee (millions of kWh)	0.75	0.74	1.43	1.38	0.05	4%

Corporate and Regulatory Overview

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

The Licences contain the provision for a rate cap and adjustment mechanism ("RCAM") based on published consumer price indices. CUC's return on rate base ("RORB") for 2011 was 7.6% (2010: 7.9%). CUC's RORB for 2012 is targeted in the 7.25% to 9.25% range (2011: 7.75% to 9.75%).

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kWh electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. In June 2012, following review and approval by the Electricity Regulatory Authority ("ERA"), the Company increased its base rates by 0.7% as a result of the 2011 RORB and the slight increase in the applicable United States and Cayman Islands

consumer price indices, adjusted to exclude food and fuel, for calendar year 2011. 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"). US\$122.0 million of proposed non-generation installation expenditures in the 2012-2016 CIP were approved by the ERA. The remaining \$62.0 million of the CIP relates to new generation installation which is subject to a competitive bid process and would only be incurred if CUC were the successful bidder. The 2012- 2016 CIP has been prepared in line with the Certificate of Need that was filed with the ERA in November 2011 for 18 megawatts ("MW") of new generating capacity to be installed in 2014 and an additional 18 MW to be installed in either 2015 or 2016, contingent on growth over the next two years.

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. A Z Factor is the amount, expressed in cents per kwh, approved by the ERA to recover the costs of items deemed to be outside of the constraints of the RCAM.

In late March 2012 CUC's wholly owned subsidiary, DataLink Ltd. ("DataLink"), received its license from the Information and Communication Technology Authority ("ICTA") which permits DataLink to provide fibre optic infrastructure and other information and communication technology (ICT) services to the ICT industry. The license is 15 years in term and expires on March 27, 2027.

The ICTA is an independent statutory body which was created by the enactment of the Information and Communications Technology Authority Law on 17th May 2002 and is responsible for the regulation and licensing of Telecommunications, Broadcasting, and all forms of radio. The ICTA sets the standards under which ICT networks must be developed and operated.

Consolidation Policy

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary DataLink. All significant intercompany balances and transactions have been eliminated on consolidation.

Earnings

Net earnings for the three months ended June 30, 2012 ("Second Quarter 2012") totalled \$5.1 million, a decrease of \$0.8 million, or 14%, when compared to \$5.9 million for the three months ended June 30, 2011 ("Second Quarter 2011"). A 3% decline in kWh sales and higher depreciation costs and finance charges were partially offset by decreased general and administration, consumer service and maintenance costs for the Second Quarter 2012 when compared to the Second Quarter 2011.

Net earnings in the Second Quarter 2011 were positively impacted by the temporary cessation of depreciation expenses on a damaged generating unit which has since been returned to service (see "Depreciation" section of this MD&A for further details). In mid-2011, the Company closed on \$40 million of long-term financing resulting in higher interest costs for the Second Quarter 2012 when compared to the Second Quarter 2011 (see "Other Income and Expenses" section of this MD&A for further details).

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2012 were \$5.0 million, or \$0.18 per Class A Ordinary Share, a decrease of \$0.8 million from the \$5.8 million, or \$0.20 per Class A Ordinary Share for the Second Quarter 2011.

Net earnings for the six months ended June 30, 2012 were \$7.0 million, a decrease of \$2.1 million, or 23%, compared to net earnings of \$9.1 million for the six months ended June 30, 2011. This decrease is attributable to a 1% decrease in kWh sales, increased general and administration, transmission and distribution and depreciation costs and increased finance charges. These items were partially offset by decreased consumer service and maintenance costs and increased foreign exchange gains.

General and administration expenses for the three months ended March 31, 2012 included a one-time charge of \$0.3 million related to restructuring costs incurred to further streamline the Company's organizational structure (see "General and Administrative" section of this MD&A for further details). These costs were partially recovered during the Second Quarter 2012.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the six months ended June 30, 2012 were \$6.8 million, or \$0.24 per Class A Ordinary Share, a decrease of \$2.1 million from the \$8.9 million, or \$0.31 per Class A Ordinary Share for the six months ended June 30, 2011.

Sales

Sales for the Second Quarter 2012 totalled 139.9 million kWh, a decrease of 5.0 million kWh, or 3%, in comparison to 144.9 million kWh for the Second Quarter 2011. Sales were negatively impacted by rainy weather conditions that affected customer air conditioning load. The average monthly rainfall for the Second Quarter 2012 was 9.30 inches as compared to an average rainfall of 4.23 inches for the same period last year.

May 2012 saw a record breaking 17.7 inches of rainfall, the highest level recorded in one month in over 9 years and the highest level on record for the month of May in 20 years.

Sales for the six months ended June 30, 2012 totalled 266.3 million kWh, a decrease of 3.9 million kWh, or 1%, in comparison to 270.2 million kWh for the six months ended June 30, 2011. Sales for the six month period were negatively impacted by rainy weather conditions in the Second Quarter 2012. The average monthly rainfall for the first six months of 2012 was 5.73 inches as compared to an average rainfall of 0.96 inches for the same period last year.

Caribbean Utilities Company, Ltd.

Sales for the six months ended June 30, 2012 were positively impacted by an additional leap year sales day in February. Excluding the impact of this additional day, the Company's kWh sales were 264.8 million kWh, for the six months ended June 30, 2012 when compared to 270.2 million kWh for the six months ended June 30, 2011.

Total customers as at June 30, 2012 were 26,830, an increase of 443 customers, or 2%, compared to 26,387 customers as at June 30, 2011. The Company had a net increase of 75 customers for the Second Quarter 2012, comprising 39 residential connections and 36 commercial connections.

The following tables present sales and customer highlights:

Customers (#)	June 2012	June 2011
Residential	22,933	22,582
Commercial	<u>3,897</u>	<u>3,805</u>
Total Customers	26,830	26,387

Sales (thousands kWh)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	% Change
Residential	64,459	67,504	120,357	122,502	-1.8%
Commercial	73,858	75,920	142,751	144,621	-1.3%
Other (street lighting, etc.)	<u>1,580</u>	<u>1,506</u>	<u>3,154</u>	<u>3,051</u>	3.4%
Total Sales	139,897	144,930	266,262	270,174	-1.4%

Operating Revenues

Operating revenues for the Second Quarter 2012 at \$53.9 million were comparable to operating revenues for the Second Quarter 2011.

Operating revenues increased \$7.7 million, or 8%, to \$105.6 million for the six months ended June 30, 2012, from \$97.9 million for the six months ended June 30, 2011, due to 13% higher fuel factor revenues.

Electricity sales revenues decreased \$0.6 million, or 3%, to \$17.6 million for the Second Quarter 2012, from \$18.2 million for the Second Quarter 2011. Electricity sales revenues decreased as a result of a 3% kWh sales decline experienced quarter-over-quarter.

Electricity sales revenues decreased \$0.5 million, or 1%, to \$33.5 million for the six months ended June 30, 2012, from \$34.0 million for the six months ended June 30, 2011. Electricity sales revenues declined as a result of a 1% kWh sales reduction experienced period over period driven by heavy rainfall.

Fuel factor revenues for the Second Quarter 2012 totalled \$36.4 million, a \$0.6 million, or 2%, increase from the \$35.8 million in fuel factor revenues for the Second Quarter 2011. Fuel factor revenues increased due to an increase in the cost of fuel.

Fuel factor revenues for the six months ended June 30, 2012 totalled \$72.1 million, an \$8.1 million, or 13%, increase from the \$63.9 million in fuel factor revenues for the six months ended June 30, 2011. Fuel factor revenues increased due to an increase in the cost of fuel (see "Power Generation" section of this MD&A for further detail). The average Fuel Cost

Caribbean Utilities Company, Ltd.

Charge for the six months ended June 30, 2012 was \$0.27 per kWh, an 8% increase from \$0.25 per kWh for the six months ended June 30, 2011. 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 June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Change	% Change
Residential	8,391	8,824	15,724	16,087	(363)	-2%
Commercial	9,078	9,298	17,556	17,757	(201)	-1%
Other (street lighting, etc.)	112	66	222	122	100	82%
Electricity Sales Revenues	17,581	18,188	33,502	33,966	(464)	-1%
Fuel Factor Revenues	36,359	<u>35,757</u>	<u>72,091</u>	<u>63,946</u>	8,145	13%
Total Operating Revenues	53,940	53,945	105,593	97,912	7,681	8%

Operating Expenses

Operating expenses for the Second Quarter 2012 totalled \$47.5 million, a \$0.4 million, or 1%, increase from \$47.1 million for the Second Quarter 2011. The major contributing factors to this increase are higher depreciation costs, which were partially offset by decreased general and administration, consumer service and maintenance costs for the Second Quarter 2012 when compared to the Second Quarter 2011.

Operating expenses for the six months ended June 30, 2012 totalled \$95.7 million, a \$9.2 million, or 11%, increase from \$86.5 million for the six months ended June 30, 2011. The major contributing factors to this increase are increased general and administration, transmission and distribution and depreciation costs. These items were partially offset by decreased consumer service and maintenance costs.

Caribbean Utilities Company, Ltd.

Operating expenses were as follows:

<i>Operating Expenses (\$ thousands)</i>	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Change	% Change
Power Generation Expenses	37,147	36,606	73,791	65,544	8,247	13%
General and Administration	2,213	2,379	4,990	4,496	494	11%
Consumer Service	352	405	737	832	(95)	-11%
Transmission and Distribution	624	593	1,239	1,000	239	24%
Depreciation	5,583	5,018	11,260	10,239	1,021	10%
Maintenance	1,474	2,052	3,401	4,269	(868)	-20%
Amortization of Intangible Assets	102	<u>76</u>	201	<u>148</u>	53	36%
Total Operating Expenses	47,495	47,129	95,619	86,528	9,091	11%

Power Generation

Power generation costs for the Second Quarter 2012 increased \$0.5 million, or 1%, to \$37.1 million when compared to \$36.6 million for the Second Quarter 2011. The increase is a result of an increase in the cost of fuel. The peak load for the Second Quarter 2012 was 94.9 MW, a 3% decrease compared to the peak load for the same period last year of 98.2 MW.

Power generation costs for the six months ended June 30, 2012 increased \$8.2 million, or 13%, to \$73.8 million when compared to \$65.5 million for the six months ended June 30, 2011. The increase is a result of an increase in the cost of fuel.

Power generation expenses were as follows:

<i>Power Generation (\$ thousands)</i>	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Change	% Change
Fuel costs (net of deferred fuel charges)	35,627	35,047	70,581	62,647	7,934	13%
Lubricating Oil costs (net of deferred lubricating oil charges)	732	710	1,510	1,299	211	16%
Other generation expenses	788	<u>849</u>	1,700	<u>1,598</u>	102	6%
Total power generation expenses	37,147	36,606	73,791	65,544	8,247	13%

The Company's average price per imperial gallon ("IG") of fuel for the Second Quarter 2012 at \$4.79, was comparable to \$4.80 for the Second Quarter 2011. The Company's average price per IG of fuel for the six months ended June 30, 2012 increased 5% to \$4.77, compared to \$4.54 for the six months ended June 30, 2011.

The Company's average price per IG of lubricating oil for the Second Quarter 2012 increased 9% to \$14.45, compared to \$13.29 for the Second Quarter 2011. The Company's average

price per IG of lubricating oil for the six months ended June 30, 2012 increased 8% to \$14.19, compared to \$13.19 for the six months ended June 30, 2011.

The Fuel Tracker Account (see Note 6 of the financial statements) is comprised of total diesel fuel and lubricating oil costs to be recovered from consumers.

In March 2011 the ERA approved the Fuel Price Volatility Management Program. The objective of the program 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. Contracts initiated in May 2012 utilize call spreads to promote transparency in pricing. The monthly hedging costs and returns are also included within the Fuel Tracker Account.

Other generation expenses for the Second Quarter 2012 totalled \$0.8 million an 11% decrease when compared to \$0.9 million for the Second Quarter 2011. Additional costs related to the disposal of lubricating oils were incurred in the Second Quarter 2011.

Other generation expenses for the six months ended June 30, 2012 totalled \$1.7 million, an increase of \$0.1 million or 6% when compared to \$1.6 million for the six months ended June 30, 2011.

General and Administration ("G&A")

G&A expenses for the Second Quarter 2012 totalled \$2.2 million, a decrease of \$0.2 million or 8% when compared to G&A expenses of \$2.4 million for the Second Quarter 2011. The decrease was the result of lower legal and administrative payroll expenses. General Expenses Capitalised ("GEC") totalled \$0.6 million for the Second Quarter 2012, \$0.2 million lower than \$0.8 million for the Second Quarter 2011.

G&A expenses for the six months ended June 30, 2012 totalled \$5.0 million, an increase of \$0.5 million or 11% when compared to G&A expenses of \$4.5 million for the six months ended June 30, 2011. The increase was the result of higher payroll, pension and insurance expenses.

The increased payroll costs are temporary in nature and relate to redundancy and early retirement payments to four employees made in First Quarter 2012. From time to time the Company will review its organizational structure and reorganize and streamline it to meet the demands of stakeholders in a more efficient and effective manner.

The Company established a defined benefit pension plan for the retired Chairman during 2003 and in May 2005, CUC's Board of Directors approved the establishment of a defined benefit pension plan for the retired President and Chief Executive Officer. The pension costs of the defined benefit pension plans are actuarially determined using the projected benefits method. A defined pension expense of \$0.5 million has been recorded for the six months ended June 2012, an increase of \$0.3 million when compared to \$0.2 million the six months ended June 2011. These higher defined benefit plan expenses are expected to continue throughout 2012.

GEC totalled \$1.4 million for the six months ended June 30, 2012, comparable to GEC for the six months ended June 30, 2011.

Consumer Services ("CS")

CS expenses for the Second Quarter 2012 totalled \$0.4 million, comparable to CS expenses for the Second Quarter 2011.

CS expenses for the six months ended June 30, 2012 totalled \$0.7 million, a decrease of \$0.1 million or 11% when compared to \$0.8 million for the six months ended June 30, 2011. This decrease was partially due to increased capitalised labour as the CS Division focused on capital

projects during the six months ended June 30, 2012 and partially due to decreased customer claims.

Transmission and Distribution (“T&D”)

T&D expenses for the Second Quarter 2012 totalled \$0.6 million, comparable to T&D expenses for the Second Quarter 2011.

T&D expenses for the six months ended June 30, 2012 totalled \$1.2 million, a \$0.2 million, or 20% increase compared to \$1.0 million for the six months ended June 30, 2011. This increase was partially due to a decline in capitalised labour as the T&D Division focused on maintenance projects during the first three months of the year.

Depreciation

Depreciation expenses for the Second Quarter 2012 totalled \$5.6 million, an increase of \$0.6 million, or 12%, from \$5.0 million for the Second Quarter 2011. Depreciation expenses for the six month period ended June 30, 2012 totalled \$11.3 million, an increase of \$1.1 million, or 11%, from \$10.2 million for the six month period ended June 30, 2011.

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 overspeed 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 refurbishment for the 16 MW unit was covered by the Company's insurance policy subject to the deductible (see 'Insurance – Terms & Coverage' in the Business Risks section of the MD&A for greater detail).

In accordance with the Licences when an asset is impaired or disposed of, within the original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with the rate regulation standard under US GAAP and differs from non-regulatory 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 is to be depreciated as per the remaining life of the asset based on the original life when the unit was initially placed into service.

In the case of the 16 MW unit, as required by the T&D Licence, insurance proceeds have been applied to accumulated depreciation. The costs associated with the refurbishment of the asset were capitalized. The damaged 7.59 MW unit was retired in the Second Quarter 2012 in accordance with the Company's Generation Licence (see Note 5 of the financial statements for further detail).

The Company currently has an installed generating capacity of 149.54 MW. In the first quarter 2012 the Company purchased an additional 3 MW of mobile generation capacity to facilitate on-going planned generator maintenance and repairs. The purchase of these units ensures that the Company is in compliance with capacity requirements.

Maintenance

Maintenance expenses for the Second Quarter 2012 totalled \$1.5 million, a decrease of \$0.6 million or 30% when compared to \$2.1 million for the Second Quarter 2011.

Maintenance expenses for the six months ended June 30, 2012 totalled \$3.4 million, a decrease of \$0.9 million from \$4.3 million for the six months ended June 30, 2011. Maintenance expenses for the six months ended June 30, 2012 were expected to be lower

than those seen in 2011 due to the nature of certain scheduled projects for 2012 which are deemed to result in upgrades to generating units. The costs of such upgrades are considered capital in nature as the upgrades extend the life or increase the output of the unit.

Amortization

Amortization of intangible assets for the Second Quarter 2012 totalled \$0.10 million, an increase of \$0.02 million or 3% when compared to \$0.08 million for the Second Quarter 2011.

Amortization of intangible assets for the six months ended June 30, 2012 totalled \$0.20 million, an increase of \$0.05 million, or 33% when compared to \$0.15 million for the six months ended June 30, 2011.

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 negotiations for the Company's electricity licence ceased in 2008 and the costs associated with the negotiations are being amortized over 20 years on a straight-line basis. The negotiations associated with DataLink's ICT licence ceased in 2012 and are being amortized over 15 years on a straight-line basis.

Other Income and Expenses

Net Other Expenses for the Second Quarter 2012 totalled \$1.3 million, an increase of \$0.4 million from \$0.9 million for the Second Quarter 2011. Net Other Expenses for the six months ended June 30, 2012 totalled \$2.9 million, an increase of \$0.6 million from \$2.3 million for the six months ended June 30, 2011.

<i>Other Income & Expenses (\$ thousands)</i>	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Change	% Change
Total interest costs	(3,182)	(3,013)	(6,372)	(5,940)	(433)	7%
AFUDC	657	875	1,402	1,647	(245)	-15%
Total finance charges	(2,525)	(2,138)	(4,970)	(4,293)	(678)	16%
Foreign exchange gain	518	542	1,017	943	74	8%
Other income	708	704	1,031	1,021	10	1%
Total Net Other Expense	(1,299)	(892)	(2,922)	(2,329)	(594)	26%

Finance charges for the Second Quarter 2012 totalled \$2.5 million, a \$0.4 million, or 19% increase from \$2.1 million for the Second Quarter 2011. Finance charges increased as a result of additional debt financing in June and July 2011 (see "Financing Activities" section of this MD&A for further details). Finance charges for the six months ended June 30, 2012 totalled \$5.0 million, a \$0.7 million decrease or 16% from \$4.3 million for the six months ended June 30, 2011.

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 2012 is 8.25% as agreed with the ERA, in accordance with the T&D Licence, and will be reviewed annually. The cost of capital rate for 2011 was 8.75%. The AFUDC amount for the Second Quarter 2012 totalled \$0.7 million, a \$0.2 million decrease when compared to AFUDC of \$0.9 million for the Second Quarter 2011. The AFUDC amount for the six months ended June 30, 2012 totalled \$1.4 million, a \$0.2 million decrease when compared to AFUDC of \$1.6 million for the six months ended June 30, 2011.

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 Second Quarter 2012 totalled \$0.5 million, comparable to foreign exchange gains of \$0.5 million for the Second Quarter 2011.

Foreign exchange gains totalled \$1.0 million for the six months ended June 30, 2012 a \$0.1 million, or 11% increase when compared to foreign exchange gains of \$0.9 million for the six months ended June 30, 2011.

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 \$0.7 million for the Second Quarter 2012, comparable to Other Income for the Second Quarter 2011.

Other Income for Second Quarter 2012 includes a billing adjustment for three commercial customers. The impact of this adjustment on earnings totalled \$0.4 million.

Other income totalled \$1.0 million for the six months ended June 30, 2012, comparable to \$1.0 million for the six months ended June 30, 2011.

In March 2012 the ERA approved the creation of CUC's wholly owned subsidiary; DataLink Ltd. Subsequently the ICTA granted Datalink a licence to provide fibre optic infrastructure in Grand Cayman.

CUC and DataLink have entered into three agreements; the management and maintenance, pole attachment and fibre optic agreements, all agreements have been approved by the ERA. The ICTA licence will now allow DataLink to assume full responsibility for the existing Pole Attachment Agreements and Optical Fiber Lease Agreement currently held by CUC with third party information and communications technology service providers. The novation and reassignment of existing contracts is in progress and expected to be completed during the second half of 2012.

The Economy

Financial services and tourism are the two main industries of the Cayman Islands. The recession that has impacted the global economy has also impacted the Cayman Islands and these sectors. In June 2012 Government released the 2011 Annual Economic Report. In the aforementioned report it was stated that the Cayman Islands economy is projected to improve in 2012, conditional on continued growth in major source markets for tourism and financial services. Inflation for 2012 is also projected to be higher due to higher global oil prices.

The 2011 Gross Domestic Product ("GDP") for the Cayman Islands increased by 1.1%, the first increase since 2007. Government is projecting GDP expansion by 1.8% in 2012. This anticipated growth is attributed to growth in the stay-over tourism and financial services sectors. The consumer price index is forecasted at 2.1% for 2012. The March 2012 CPI report was released in June 2012. The CPI for the three months ended March 2012 increased by 0.1% when compared to March 2011 and decreased by 1.1% when compared to December 2011. The overall CPI stood at 99.3 in March 2012 and at 100.4 in December 2011. The downward pressure to inflation was attributed to the housing price index which declined by 3.9%. The declines in this index were all related to housing rentals.

The 2011 Annual Economic Report also indicated that the Cayman Islands population increased to 55,517 when compared to 55,036 in 2010. Cayman has a high proportion of foreign nationals that provide labour in various sectors of the economy. Foreign workers as at

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March 2012 totalled 20,309 a 2% increase when compared to 19,927 at the close of 2011 and a 6% increase when compared to 19,106 at the close of 2010.

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

	As at June 2012	As at December 2011	As at December 2010	As at December 2009	As at December 2008
Bank Licences	235	234	245	266	278
Mutual Funds	10,871	9,258	9,438	9,523	9,870
Mutual Fund Administrators	125	129	134	141	155
Captive Insurance Companies	758	739	738	780	777

Construction is gauged by the value of building permits which decreased 11% to \$218.0 million in 2011, the lowest figure seen in 7 years. Building permits are a good indication of future development but not of future energy requirements from CUC. Customers may 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"). For the first six months of 2012 80% of air arrivals to the country were citizens of the US. As such the US economy largely impacts that of the Cayman Islands. Second Quarter 2012 air arrivals were up 5% when compared to Second Quarter 2011 and cruise arrivals were relatively stable when compared to Second Quarter 2011. 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 June 30:

Arrivals	2012	2011	2010	2009	2008
By Air	84,921	81,224	74,229	73,560	83,671
By Sea	325,843	<u>325,947</u>	<u>394,304</u>	<u>381,068</u>	<u>347,481</u>
Total	410,764	407,171	468,533	454,628	431,152

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:

<i>Cash Flows (\$ thousands)</i>	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Change	% Change
Beginning cash	1,598	1,363	424	2,363	(1,939)	-82%
Cash provided by/(used in):						
Operating activities	5,846	4,288	16,060	14,923	1,137	-8%
Investing activities	(7,262)	(4,054)	(13,193)	(10,808)	(2,385)	-22%
Financing activities	5,347	5,048	2,238	167	2,071	1,240%
Ending cash	5,529	6,645	5,529	6,645	(1,116)	-17%

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for the Second Quarter 2012, was \$5.8 million, an increase of \$1.5 million from \$4.3 million for the Second Quarter 2011. This increase is attributable to the movement in regulatory deferrals.

Cash flow provided by operations, after working capital adjustments, for the six months ended June 30, 2012, was \$16.1 million, an increase of \$1.2 million from \$14.9 million for the six months ended June 30, 2011. This increase is attributable to the movement in regulatory deferrals and the change in non-cash working capital.

Investing Activities:

Cash used in investing activities for the Second Quarter 2012 totalled \$7.3 million, an increase of \$3.2 million from \$4.1 million for the Second Quarter 2011. This increase is attributable to insurance related proceeds received in Second Quarter 2011 which offset capital expenditure.

Cash used in investing activities for the six months ended June 30, 2012 totalled \$13.2 million, an increase of \$2.4 million from \$10.8 million for the six months ended June 30, 2011. This increase is attributable to insurance related proceeds received in the six months ended June 30, 2011 which offset capital expenditure.

Financing Activities:

Cash received from financing activities for the Second Quarter 2012 totalled \$5.3 million compared to cash received from financing activities of \$5.0 million for the Second Quarter 2011. This increase is attributable to the receipt of short term debt proceeds of \$25.0 million in June 2012 net of \$15.5 million in current payments of long term debt. Debt proceeds in June 2011 totalled \$30.0 million and debt payments for the Second Quarter 2011 included current payments for long term debt in addition to the repayment of \$8.0 million of short term debt.

Cash received from financing activities for the six months ended June 30, 2012 totalled \$2.2 million compared to cash received in financing activities of \$0.2 million for the six months ended June 30, 2011. This increase is attributable to the receipt of short term debt proceeds of \$25.0 million in June 2012 and lower debt repayments in the Second Quarter 2012. Debt payments in 2011 included current payments for long term debt in addition to the repayment of \$8.0 million of short term debt.

Transactions with Related Parties

Miscellaneous receivables from FortisTCI, also a subsidiary of Fortis Inc. totalling \$0.01 million were outstanding at June 30, 2012 (\$0.01 million December 31, 2011) for engineering assistance and are included within Accounts Receivable on the Balance Sheet. Miscellaneous payables to Fortis Inc., the Company's majority shareholder, were \$0.01 million at June 30, 2012 (nil as at December 31, 2011) for travel and hurricane preparedness and are included within Accounts Payable on the Balance Sheet.

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at June 30, 2012, are outlined in the following table:

	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
<i>(\$ millions)</i>					
Total debt	222.5	50.5	31.0	25.0	116.0
Defined benefit pension	0.5	0.5			
Total	223.0	51.0	31.0	25.0	116.0

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: 2012 – 10.1. The contract contains an automatic renewal clause for the years 2010 through to 2012. The Company has renewed the contract until July 2012 and is in the process of negotiating terms of a new contract.

Financial Position

The following table is a summary of significant changes to the Company's balance sheet from December 31, 2011 to June 30, 2012:

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Significant changes in Balance Sheets between December 31, 2011 and June 30, 2012 (\$ millions)	Increase (Decrease)	Explanation
Cash and Cash Equivalents	5.1	Increase due to cash provided by operating activities of \$16.1 million and cash provided by financing activities of \$2.2 million offset by cash used in investing activities of \$13.2 million.
Accounts Receivable	3.8	Increase due to higher fuel rate and consumption in June 2012 when compared to December 2011.
Regulatory Assets	2.2	In accordance with regulatory treatment the fuel tracker account is classified as a regulatory asset. This amount represents fuel costs incurred by the Company that are recoverable from the customer.
Property, Plant and Equipment	1.8	Net increase is comprised of capital expenditures of (1) \$14.3 million (2) depreciation expense of \$11.3 million and (3) \$1.2 million of insurance and asset sale proceeds.
Bank Overdraft	(1.1)	Decrease in bank overdraft with funds received from short term debt.
Short-Term Debt	25.0	Increase is due to an additional drawdown of \$25.0 million on the RBC credit facilities.
Long-Term Debt	(16.5)	Decrease due to principal repayments of \$12.5 million made in June and \$4.0 million allocated to current debt.
Share Premium	1.0	The Company issued 102,225 shares through its share purchase plans.

Capital Resources

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

To help ensure access to capital, the Company targets a long-term capital structure containing approximately 45 per cent equity, including preference shares, and 55 per cent debt. The Company's objective is to maintain investment-grade credit ratings. The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the rights offering that occurred in 2008 and through the Company's Share Purchase Plans.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65 per cent of the Company's consolidated capital structure, as defined by the long-term debt agreements. As at June 30, 2012, the Company was in compliance with all debt covenants.

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

Capital structure	June 30, 2012 (\$ millions)	%	December 31, 2011 (\$ millions)	%
Total debt	222.5	56	210.0	55
Shareholders' equity	<u>172.0</u>	<u>44</u>	<u>173.3</u>	<u>45</u>
Total	394.5	100	383.3	100

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The Company's capital structure at June 30, 2012 shows an increase in debt when compared to December 31, 2011 due to \$25 million of debt proceeds received on June 1, 2012. The Company anticipates achieving its target capital structure by the end of fiscal year 2012.

The Company's credit ratings are as follows:

S&P A-/Stable

DBRS A (low)

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

In March 2012 S&P affirmed the Company's A Negative rating and stable outlook. This rating reflects S&P's positive view of the Company's current position as the sole provider of generation services, and the Company's licensed position as the sole provider of T&D services. The rating also reflects S&P's positive view of regulatory support and stable cash flows offset by the economic uncertainty and the limited history of the regulator. The stable outlook reflects S&P's expectation of predictable cash flows and credit metrics in a stabilizing environment.

In July 2012 DBRS affirmed the Company's 'A' credit rating while maintaining the categorisation of low with a Stable trend. Considerations for the rating were a supportive regulatory framework, solid credit metrics and a good economic area with stable load growth. Impacting the rating were such factors as hurricane event risk and small size of customer base.

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 \$47.0 million of unsecured credit financing facilities with the Royal Bank of Canada ("RBC"). In the Second Quarter 2012 the Company renegotiated and increased the credit facilities agreement with RBC. The financing facilities are comprised of:

Credit Facilities	(\$ millions)
Corporate Credit Card Line	\$0.4
Letters of Credit	\$0.6
Operating, Revolving Line of Credit	\$7.5
Catastrophe Standby Loan	\$7.5
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>\$31.0</u>
Total	\$47.0

Of the total above, \$15.0 million was available at June 30, 2012.

Capital Expenditures

Capital expenditures for the three months ended June 30, 2012 were \$7.2 million, a \$0.4 million, or 5% decrease from \$7.6 million in capital expenditures for the three months ended June 30, 2011.

Capital expenditures for the six months ended June 30, 2012 were \$14.1 million, a \$2.1 million, or 13% decrease from \$16.2 million in capital expenditures for the six months ended June 30, 2011. The capital expenditures for the six months ended June 30, 2012 primarily relate to:

- Distribution system extension and upgrades - \$4.8 million
- Generation Replacement Cost – \$3.1 million
- Purchase of two mobile Generating units (utilizing insurance proceeds) to replace a damaged 7.59 MW unit - \$1.9 million
- Purchase AMI Meters and meter equipment - \$1.8 million
- AFUDC of \$1.4 million was capitalized in the six months ended June 30, 2012

Capital expenditures (\$ Millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six months Ended June 30, 2012	Six months Ended June 30, 2011
Transmission	0.1	0.2	0.1	0.2
Distribution	3.4	2.8	6.2	5.3
Generation	3.6	4.5	7.2	10.4
Other	0.1	0.1	0.6	0.3
Total	7.2	7.6	14.1	16.2

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 June 30, 2012.

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 factors. These risks could lead to longer-than-forecast equipment downtimes for maintenance and repair, disruptions of power generation, customer service interruptions and could result in injury to employees and the public. Accordingly, to ensure the continued safe and efficient performance of the physical assets, the Company determines expenditures that must be made to maintain and replace the assets.

The Company continually develops capital expenditure, safety management and risk controls programs and assesses current and future operating and maintenance expenses that will be incurred in the ongoing operation of its systems. The Company also has an insurance program that provides coverage for business interruption, liability and property damage,

although the coverage offered by this program is limited. (See "Insurance" for discussion of insurance terms and coverage). In the event of a large uninsurable loss, the Company would apply to the ERA for recovery of these costs through higher rates. However, there is no assurance that the ERA will approve any such application (See "Regulation" for discussion of regulatory risk).

Economic Conditions

The general economic condition of CUC's service area, Grand Cayman, influences electricity sales as with most utility companies. Changes in consumer income, employment and housing are all factors in the amount of sales generated. As the Company supplies electricity to all hotels and large properties, its sales are therefore partially based on tourism and related industry and seasonal 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. The next scheduled renewal is 2013, renewals occur every three years. 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 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, 2012 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 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 T&D Licence when an asset is impaired or disposed of, within the original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with rate regulated accounting and differs from the GAAP treatment of a loss being recognized on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. 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.

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 2012, is 5%. This compares to assumed long-term rates of return of 5% used during 2011. The loss on pension plan assets during 2011 was 6% (2010: gain of 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 2012 is 4.5% compared to the discount rate assumed during 2011 which was 5.5%.

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

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

CHANGES IN ACCOUNTING POLICIES

Transition to US GAAP: Effective January 1, 2012, CUC retroactively adopted US GAAP with the restatement of comparative reporting periods. The area of most significant financial statement impacts upon adopting US GAAP relates to the recognition of the funded status of the defined benefit plan on the balance sheet.

The above-noted item does not represent the only difference between US GAAP and Canadian GAAP. Other less significant differences have also been identified and accounted for. A detailed description of the differences and a detailed reconciliation between the Company's

annual audited Canadian GAAP and annual audited US GAAP financial statements for 2011 is disclosed in Note 27 to the Company's voluntarily filed annual audited US GAAP financial statements with accompanying notes thereto for the year ended December 31, 2011, with 2010 comparatives. A detailed reconciliation between the Company's interim unaudited 2011 Canadian GAAP and interim unaudited 2011 US GAAP financial statements is provided in the above-noted voluntarily filed document under the section "2011 Supplemental Interim Financial Statement Reconciliations" (Unaudited).

The audited quantification and reconciliation of the Company's balance sheet as at December 31, 2011, prepared in accordance with US GAAP versus Canadian GAAP, may be summarized as follows.

Liabilities as of December 31, 2011 increased by \$2.8 million. The increase is due to the increase in the pension liability in accordance with US GAAP.

Shareholders' equity as of December 31, 2011 decreased by \$2.8 million. The decrease is due to the 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, 2011 increased by \$1.6 million. The increase is due to the reclassification of deferred debt costs in accordance with US GAAP.

Long-term debt as of December 31, 2011 increased by \$1.6 million. The increase is due to the reclassification of deferred debt costs in accordance with US GAAP.

There were no adjustments to the Company's 2011 earnings under US GAAP due to the Company's continued ability to apply rate-regulated accounting policies.

New US GAAP Accounting Pronouncements: The following new US GAAP accounting pronouncements that are applicable to, and were adopted by, CUC effective beginning January 1, 2012 are described as follows:

Presentation of Comprehensive Income

The Company retroactively adopted the amendments to Accounting Standards Codification ("ASC") Topic 220, *Comprehensive Income*. The amended standard requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. CUC continues to report the components of comprehensive income in two separate but consecutive statements.

Fair Value Measurement

The Company retroactively adopted the amendments to ASC Topic 820, *Fair Value Measurements and Disclosures*. The amended standard improves comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP. The amendment does not change what items are measured at fair value but instead makes various changes to the guidance pertaining to how fair value is measured. The above-noted changes did not materially impact the Company's consolidated financial statements for the six months ended June 30, 2012.

Critical Accounting Estimates

The preparation of the Company's financial statements in accordance with US 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 June 30, 2012, the amount of unbilled revenue recorded in Electricity Sales was \$5.0 million (June 30, 2011: \$5.7 million).

Kilowatt Hour ("kWh") Sales

KWh sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. The kWh accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for electricity consumption will result in adjustments of kWh sales statistics in the periods they become known when actual results differ from the estimates. As at June 30, 2012, the amount of estimated kWh sales was 36.5 million kWh (June 30, 2011: 42.2 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 June 30, 2012, the Company had a long term liability of \$2.5 million (December 31, 2011: \$2.8 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 June 30, 2012, the net book value of the Company's PP&E was \$371.7 million compared to \$369.8 million as at December 31, 2011, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for the Second Quarter 2012 was \$5.6 million (\$5.0 million Second Quarter 2011). Due to the value of the Company's property, plant and equipment, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

Quarterly Results

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended September 30, 2010 through June 30, 2012. This information has been obtained from CUC's unaudited interim Financial Statements which, in the opinion of Management, have been prepared in accordance with US 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
June 30, 2012	53,940	5,146	5,033	0.18	0.18
March 31, 2012	51,653	1,907	1,794	0.06	0.06
December 31, 2011	57,733	5,082	4,489	0.15	0.15
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 2012/June 2011

Net earnings for the three months ended June 30, 2012 ("Second Quarter 2012") totalled \$5.1 million, a decrease of \$0.8 million, or 14%, when compared to \$5.9 million for the three months ended June 30, 2011 ("Second Quarter 2011"). A 3% decline in kWh sales and higher depreciation costs and finance charges were partially offset by decreased general and administration, consumer service and maintenance costs for the Second Quarter 2012 when compared to the Second Quarter 2011.

Net earnings in the Second Quarter 2011 were positively impacted by the temporary cessation of depreciation expenses on a damaged generating unit which has since been returned to service (see "Depreciation" section of this MD&A for further details). In mid-2011, the Company closed on \$40 million of long-term financing resulting in higher interest costs for the First Quarter of 2012 when compared to the First Quarter 2011 (see "Other Income and Expenses" section of this MD&A for further details).

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Second Quarter 2012 were \$5.0 million, or \$0.18 per Class A Ordinary Share, a decrease of \$0.8 million when compared to \$5.8 million, or \$0.20 per Class A Ordinary Share for the Second Quarter 2011.

March 2012/March 2011

Net earnings for the three months ended March 31, 2012 ("First Quarter 2012") totalled \$1.9 million, a decrease of \$1.2 million, or 39%, when compared to \$3.1 million for the three months ended March 31, 2011 ("First Quarter 2011"). A 1% increase in kWh sales and lower maintenance costs were offset by an increase in general and administration, financing and depreciation costs for the First Quarter 2012 when compared to the First Quarter 2011.

Net earnings in the First Quarter 2011 were positively impacted by the temporary cessation of depreciation expenses on a damaged generating unit which has since been returned to service (see "Depreciation" section of this MD&A for further details). General and administration expenses for the First Quarter 2012 included a one-time charge of \$0.3 million related to restructuring costs incurred to further streamline the Company's organizational structure (see "General and Administrative" section of this MD&A for further details). In mid-2011, the Company closed on \$40 million of long-term financing resulting in higher interest costs for the First Quarter of 2012 when compared to the First Quarter 2011 (see "Other Income and Expenses" section of this MD&A for further details).

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the First Quarter 2012 were \$1.8 million, or \$0.06 per Class A Ordinary Share, a decrease of \$1.3 million when compared to \$3.1 million, or \$0.11 per Class A Ordinary Share for the First Quarter 2011.

December 2011/December 2010

Net earnings for Fourth Quarter 2011 were \$5.1 million, a 9% or \$0.4 million increase when compared to \$4.7 million Fourth Quarter 2010. Operating Income for the Fourth Quarter 2011 decreased when compared to Fourth Quarter 2010 due to increased General and Administrative (G&A) and Depreciation costs partially offset by increased Electricity Sales. This change in Operating Income was offset by a decrease in Finance Charges and an increase in Other Income resulting in an overall increase in earnings quarter over quarter.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2011 were \$4.5 million, or \$0.15 per Class A Ordinary Share, as compared to \$4.0 million, or \$0.15 per Class A Ordinary Share for the Fourth Quarter 2010. 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 28,523,127 and 28,351,734 for the years ended December 31, 2011 and December 31, 2010, respectively.

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.

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 June 30, 2012 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 US 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 June 30, 2012. There has been no change in the Company's ICFR that occurred during the period beginning on April 1, 2012 and ended on June 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

In April 2012 the ERA provided approval of US\$122 million of proposed non-generation installation expenditures in the CIP. The remaining \$62 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. Proposals for installation of the new generation were due from six qualified bidders including CUC on July 16, 2012. The ERA's decision on the successful bidder is expected during the second half of 2012. 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 July 30, 2012 the Company had issued and outstanding 28,726,902 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
July 30, 2012

Consolidated Balance Sheets
(expressed in thousands of United States Dollars)

Unaudited	Note	As at June 30, 2012	As at December 31, 2011
Assets			
<i>Current Assets</i>			
Cash and Cash Equivalents		5,529	424
Accounts Receivable	4	19,688	15,910
Other Receivable - Insurance	5	62	438
Regulatory Assets	6	27,995	25,759
Inventories	7	3,847	3,807
Prepayments		<u>682</u>	<u>2,636</u>
		57,803	48,974
Property, Plant and Equipment	8	371,671	369,832
Other Assets	9	1,488	1,714
Intangible Assets	10	2,906	2,819
Total Assets		<u>433,868</u>	<u>423,339</u>
Liabilities and Shareholders' Equity			
<i>Current Liabilities</i>			
Bank Overdraft		-	1,059
Accounts Payable and Accrued Expenses	11	31,318	31,576
Regulatory Liabilities	6	339	281
Short-Term Debt	13	31,000	6,000
Current Portion of Long-Term Debt		19,500	15,500
Consumers' Deposits and Advances for Construction		4,432	4,357
Insurance Advances	12	765	-
		<u>87,354</u>	<u>58,773</u>
Defined Benefit Pension Liability	19	2,472	2,811
Long-Term Debt		<u>172,000</u>	<u>188,500</u>
Total Liabilities		261,826	250,084
Shareholders' Equity			
Share Capital (Authorised: 60,000,000 Class A Ordinary Shares of C\$0.05 each)		1,960	1,954
Share Premium		77,759	76,806
Additional Paid in Capital	14	436	415
Retained Earnings		94,198	96,827
Accumulated Other Comprehensive Income		<u>(2,311)</u>	<u>(2,747)</u>
Total Shareholders' Equity		172,042	173,255
Total Liabilities and Shareholders' Equity		<u>433,868</u>	<u>423,339</u>

See accompanying Notes to Interim Consolidated Financial Statements

Consolidated Statements of Earnings

(expressed in thousands of United States Dollars, except basic and diluted earnings per ordinary share and the Weighted Average of Class A Ordinary Shares issued and fully paid)

Unaudited	Note	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating Revenues					
Electricity Sales		17,581	18,188	33,502	33,966
Fuel Factor		<u>36,359</u>	<u>35,757</u>	<u>72,091</u>	<u>63,946</u>
<i>Total Operating Revenues</i>		53,940	53,945	105,593	97,912
Operating Expenses					
Power Generation		37,147	36,606	73,791	65,544
General and Administration		2,213	2,379	4,990	4,496
Consumer Services		352	405	737	832
Transmission and Distribution		624	593	1,239	1,000
Depreciation		5,583	5,018	11,260	10,239
Maintenance		1,474	2,052	3,401	4,269
Amortization of Intangible Assets		<u>102</u>	<u>76</u>	<u>201</u>	<u>148</u>
<i>Total Operating Expenses</i>		47,495	47,129	95,619	86,528
Operating Income		6,445	6,816	9,974	11,384
Other (Expenses)/Income:					
Finance Charges	18	(2,525)	(2,138)	(4,970)	(4,293)
Foreign Exchange Gain	20	518	542	1,017	943
Other Income		<u>708</u>	<u>704</u>	<u>1,031</u>	<u>1,021</u>
<i>Total Net Other (Expenses)/Income</i>		(1,299)	(892)	(2,922)	(2,329)
Earnings for the Period		5,146	5,924	7,052	9,055
<i>Preference Dividends Paid- Class B</i>		<u>(113)</u>	<u>(113)</u>	<u>(224)</u>	<u>(200)</u>
<i>Earnings on Class A Ordinary Shares</i>		5,033	5,811	6,828	8,855
Weighted-Average Number of Class A Ordinary Shares					
Issued and Fully Paid (in thousands)	15	28,677	28,507	28,689	28,514
<i>Earnings per Class A Ordinary Share</i>	15	0.18	0.20	0.24	0.31
Diluted Earnings per Class A Ordinary Share	15	0.18	0.20	0.24	0.31
Dividends Declared per Class A Ordinary Share		0.165	0.165	0.330	0.330

See accompanying Notes to Interim Consolidated Financial Statements

Caribbean Utilities Company, Ltd.

Consolidated Statements of Comprehensive Income
(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net Income for the Period	5,146	5,924	7,052	9,055
Other Comprehensive Income:				
Defined Benefit Pension plans:				
Amortization of prior service costs	62	62	124	124
Amortization of net actuarial loss	<u>156</u>	<u>10</u>	<u>312</u>	<u>20</u>
Total Other Comprehensive Income	218	72	436	144
Comprehensive Income	5,364	5,996	7,488	9,199

See accompanying Notes to the Interim Consolidated Financial Statements

Caribbean Utilities Company, Ltd.

Consolidated Statements of Shareholders' Equity

(expressed in thousands of United States Dollars except Common Shares)

	Class A Ordinary Shares	Common Shares Value (\$)	Preference Shares (\$)	Shares premium (\$)	Additional paid-in capital (\$)	Accumulated Other Comprehensive Loss (\$)	Retained Earnings (\$)	Total Equity (\$)
As At January 1, 2012	28,625	1,704	250	76,806	415	(2,747)	96,827	173,255
Net Earnings	-	-	-	-	-	-	7,052	7,052
Common Share Issuance & stock options plans	102	6	-	953	21	-	-	980
Defined benefit plans	-	-	-	-	-	436	-	436
Dividends on common shares	-	-	-	-	-	-	(9,457)	(9,457)
Dividends on preference shares	-	-	-	-	-	-	(224)	(224)
As At June 30, 2012	28,727	1,710	250	77,759	436	(2,311)	94,198	172,042
As At January 1, 2011	28,465	1,694	250	75,281	372	(1,551)	96,170	172,216
Net Earnings	-	-	-	-	-	-	9,055	9,055
Common Share Issuance & stock options plans	77	5	-	735	24	-	-	764
Defined benefit plans	-	-	-	-	-	144	-	144
Dividends on common shares	-	-	-	-	-	-	(9,400)	(9,400)
Dividends on preference shares	-	-	-	-	-	-	(200)	(200)
As At June 30, 2011	28,542	1,699	250	76,016	396	(1,407)	95,625	172,579

See accompanying Notes to Interim Consolidated Financial Statements

Consolidated Statements of Cash Flows

(expressed in thousands of United States Dollars)

Unaudited	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
<i>Operating Activities</i>				
Earnings for the period	5,146	5,924	7,052	9,055
Items not affecting cash:				
Depreciation	5,583	5,018	11,260	10,239
Amortization of Intangible Assets	102	76	201	148
Non-cash Pension Expenses	-	97	22	35
Amortization of Deferred Financing Costs	51	45	101	88
Stock-based compensation	9	12	20	24
	10,891	11,172	18,656	19,589
Net change in non-cash working capital balances related to operations	(2,907)	(2,609)	3,588	4,156
Net Change in Regulatory Deferrals	<u>(2,138)</u>	<u>(4,275)</u>	<u>(2,177)</u>	<u>(8,822)</u>
<i>Cash flow related to operating activities</i>	5,846	4,288	16,060	14,923
<i>Investing Activities</i>				
Purchase of property, plant and equipment	(7,181)	(7,571)	(14,083)	(16,159)
Costs related to intangible assets	(114)	(136)	(194)	(235)
Insurance funds received	-	3,642	1,051	5,572
Proceeds on sale of property, plant and equipment	<u>33</u>	<u>11</u>	<u>33</u>	<u>14</u>
<i>Cash flow related to investing activities</i>	(7,262)	(4,054)	(13,193)	(10,808)
<i>Financing Activities</i>				
Proceeds from debt financing	25,000	30,000	25,000	30,000
Repayment of debt	(12,500)	(20,500)	(12,500)	(20,500)
Decrease in bank overdraft	(2,773)	-	(1,059)	-
Dividends paid	(4,845)	(4,784)	(10,161)	(10,074)
Net proceeds from share issues	<u>465</u>	<u>332</u>	<u>958</u>	<u>741</u>
<i>Cash flow related to financing activities</i>	5,347	5,048	2,238	167
Increase in net cash	3,931	5,282	5,105	4,282
Cash and cash equivalents - Beginning of period	<u>1,598</u>	<u>1,363</u>	<u>424</u>	<u>2,363</u>
Cash and cash equivalents - End of period	5,529	6,645	5,529	6,645
Supplemental disclosure of cash flow information:				
Interest paid during the period	6,202	5,729	6,331	5,813

See accompanying Notes to Interim Consolidated Financial Statements

Notes to Interim Consolidated Financial Statements

Unaudited - June 30, 2012 (expressed in thousands of United States dollars unless otherwise stated)

1. Nature of Operations and Consolidated Financial Statement Presentation

These consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP") and reflect the decisions of the Electricity Regulatory Authority ("ERA"). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary DataLink. 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.

The principal activity of the Company is to generate and distribute electricity in its licence area of Grand Cayman, Cayman Islands, pursuant to a 20-year exclusive Transmission & Distribution ("T&D") Licence and a 21.5 year non-exclusive Generation Licence (collectively the "Licenses") with the Cayman Islands Government ("Government"), which expire in April 2028 and September 2029 respectively. These consolidated 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 (i) audited financial statements and notes thereto for the year ended December 31, 2011, with 2010 comparatives, prepared in accordance with US GAAP and voluntarily filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") on March 19, 2012; (ii) "Supplemental Interim Financial Statements for the Year Ended December 31, 2011 (Unaudited)" contained in the above noted voluntary filing which provides a detailed reconciliation between the Company's interim unaudited 2011 Canadian GAAP and interim unaudited 2011 US GAAP financial statements; and (iii) the MD&A for the year ended December 31, 2011 included in the Company's 2011 Annual Report.

In late March 2012 CUC's wholly owned subsidiary, DataLink Ltd. ("DataLink"), received its license from the ICTA which permits DataLink to provide fibre optic infrastructure and other information and communication technology (ICT) services to the ICT industry.

The ICTA is an independent statutory Authority which was created by the enactment of the Information and Communications Technology Authority Law on 17th May 2002 and is responsible for the regulation and licensing of Telecommunications, Broadcasting, and all forms of radio. The ICTA sets the standards by which ICT networks must be developed and operated under.

All significant intercompany balances and transactions have been eliminated on consolidation.

Rate Regulated Operations

CUC's base rates are designed to recover and earn a return on all non-fuel and regulatory costs and include per kWh electricity charges and fixed facilities charges. Fuel cost charges and license and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the rate cap and adjustment mechanism ("RCAM"). The Electricity Regulatory Authority ("ERA") reviewed and approved a rate increase for June 2012 of 0.7% as a result of the 2011 RORB and the slight increase in the applicable United States and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2011. All fuel and lubricating oil costs are passed through to customers without markup as a per kWh charge.

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

10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity.

Seasonality

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

2. Summary of Significant Accounting Policies

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

3. Changes in Accounting Policies

The following new US GAAP accounting pronouncements that are applicable to, and were adopted by, CUC effective beginning January 1, 2012 are described as follows:

Presentation of Comprehensive Income

The Company retroactively adopted the amendments to Accounting Standards Codification ("ASC") Topic 220, *Comprehensive Income*. The amended standard requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. CUC continues to report the components of comprehensive income in two separate but consecutive statements.

Fair Value Measurement

The Company retroactively adopted the amendments to ASC Topic 820, *Fair Value Measurements and Disclosures*. The amended standard improves comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP and IFRS. The amendment does not change what items are measured at fair value but instead makes various changes to the guidance pertaining to how fair value is measured.

The above-noted changes did not materially impact the Company's consolidated financial statements for the six months ended June 30, 2012.

4. Accounts Receivable

	As at June 30, 2012	As at December 31, 2011
Billings to consumers	11,895	9,275
Unbilled revenues	4,972	4,602
Other receivables	2,991	2,189
Allowance for doubtful accounts	<u>(170)</u>	<u>(156)</u>
Total Accounts Receivable	19,688	15,910

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

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consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. Consumers are billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue.

Other receivables

Other receivables relate to amounts due outside of the normal course of operations. Items in other accounts receivable include sale of inventory, machine break-down costs covered by warranties and amounts due from related parties. Other receivables at June 30, 2012 also include billing adjustments for commercial customers.

5. Other Receivable - Insurance

	June 30, 2012	December 31, 2011
Unit 1 claim	-	250
Other Insurance claims	<u>62</u>	<u>188</u>
Total	62	438

On January 28, 2011, equipment associated with a MaK 9 MW diesel generating unit (Unit 1) was damaged due to an explosion during a start process. 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 June 30, 2012	As at December 31, 2011
Regulatory Assets	Fuel Tracker Account (a)	25,888	24,369
Regulatory Assets	Derivative contract (b)	856	468
Regulatory Assets	Miscellaneous Regulatory Assets (c)	412	440
Regulatory Assets	Government & Regulatory Tracker Account (d)	<u>839</u>	<u>482</u>
Total Regulatory Assets		27,995	25,759
Regulatory Liabilities	Miscellaneous Regulatory Liabilities (e)	(339)	(281)
Total Regulatory Liabilities		<u>(339)</u>	<u>(281)</u>

- 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.
- 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. The Company's call option contracts will expire on March 31, 2013.

- 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.
- 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 government and regulatory 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.
- 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.

7. Inventories

The composition of inventories is shown in the table below:

	As at June 30, 2012	As at December 31, 2011
Fuel	3,033	3,055
Lubricating Oil	704	608
Line spares	90	104
Other	<u>20</u>	<u>40</u>
Total	3,847	3,807

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

	Cost	Accumulated Depreciation	Net Book Value June 30, 2012
Transmission & Distribution (T&D)	265,931	83,593	182,338
Generation	269,094	101,383	167,711
Other:			
Land	5,304	-	5,304
Buildings	19,961	9,143	10,818
Equipment, motor vehicles and computers	<u>18,986</u>	<u>13,486</u>	<u>5,500</u>
<i>Total Other</i>	<u>44,251</u>	<u>22,629</u>	<u>21,622</u>
Property, plant and equipment	579,276	207,605	371,671

	Cost	Accumulated Depreciation	Net Book Value December 31, 2011
Transmission & Distribution (T&D)	256,752	79,346	177,406
Generation	271,069	100,854	170,215
Other:			
Land	5,304	-	5,304
Buildings	19,913	8,812	11,101
Equipment, motor vehicles and computers	<u>19,136</u>	<u>13,330</u>	<u>5,806</u>
<i>Total Other</i>	<u>44,353</u>	<u>22,142</u>	<u>22,211</u>
Property, plant and equipment	572,174	202,342	369,832

Included in PP&E are a number of capital projects in progress with a total cost to date of \$36.4 million (December 31, 2011: \$20.4 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 \$5.0 million (December 31, 2011: \$5.0 million). In addition, line inventory with a cost of \$5.2 million (December 31, 2011: \$5.6 million) is included in T&D. Engine spares with a net book value of \$15.6 million (December 31, 2011: \$16.3 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 2012 is 8.25% (2011: 8.75%) and will be adjusted annually. As a result, during the period ended June 30, 2012, the Company recognised \$1.4 million in AFUDC. The Company recognised an amount of \$1.6 million for the period ended June 30, 2011 under the provision for AFUDC.

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 the rate regulations standard under US GAAP and differs from non-regulatory treatment of a loss being recognized on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. This amount within accumulated depreciation is to be depreciated as per the remaining life of the asset based on the original life when the unit was initially placed into service. During the Second Quarter 2012, the Company retired a 7.59 MW unit, with an original book value of \$6.7 million. The remaining net book value of the unit was charged to accumulated depreciation.

9. Other Assets

	June 30, 2012	December 31, 2011
Deferred debt issue costs	1,453	1,552
Miscellaneous other assets	<u>35</u>	<u>162</u>
Total	1,488	1,714

Deferred debt issue costs relate to transaction costs incurred in respect of financial liabilities. These costs are deferred on the balance sheet and are being amortized over the life of the related note using the effective-interest rate method.

10. Intangible Assets

	Cost	Accumulated Depreciation	Net Book Value June 30, 2012
Deferred licence renewal costs	1,890	392	1,498
Computer Software	4,495	3,483	1,012
Other Intangible Assets in progress	321	-	321
Trademark Costs	<u>75</u>	-	<u>75</u>
Total	6,781	3,875	2,906

	Cost	Accumulated Depreciation	Net Book Value December 31, 2011
Deferred licence renewal costs	1,890	344	1,546
Computer Software	4,263	3,354	909
Other Intangible Assets in progress	289	-	289
Trademark Costs	<u>75</u>	-	<u>75</u>
Total	6,517	3,698	2,819

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.

11. Accounts Payable and Accrued Expenses

	As at June 30, 2012	As at December 31, 2011
Fuel Cost Payable	25,907	23,382
Trade Accounts Payable & Accrued expenses	2,891	5,983
Accrued Interest	893	951
Dividends Payable	111	593
Other Accounts Payable	<u>1,516</u>	<u>667</u>
Total Accounts Payable	31,318	31,576

Included in Other Accounts Payable is an amount related to fuel option contracts (see Note 16) \$0.9 million at June 30, 2012 (\$0.5 million at December 31, 2011).

12. Insurance Advances

	June 30, 2012	December 31, 2011
Other Insurance claims	765	-

Insurance advances are amounts related to ongoing insurance claims associated with the generating unit failures (See Note 5).

13. Short-Term Financing

The Company has \$47.0 million of unsecured credit financing facilities with the Royal Bank of Canada ("RBC"). In the Second Quarter 2012 the Company renegotiated and increased the credit facilities agreement with RBC. The total available was \$15.0 million at June 30, 2012 (\$24.9 million at December 31, 2011).

	Total Credit Financing Facilities June 30, 2012	Total Utilised June 30, 2012	Total Available June 30, 2012
Corporate Credit Card Line*	400	400	-
Letters of Credit	602	602	-
Operating, Revolving Line of Credit	7,500	-	7,500
Catastrophe Standby Loan	7,500	-	7,500
Demand Loan Facility- Interim Funding of Capital Expenditures	<u>31,000</u>	<u>31,000</u>	=
Total	47,002	32,002	15,000

*. Included in Accounts payable and accrued expenses

A stand-by fee of 1/5 of 1% per annum in arrears is applied to the unused portion of the capital expenditure and catastrophe lines of the facility. A review fee of 1/8 of 1% of the total credit facilities is incurred annually in arrears.

14. 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.

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	June 30, 2012 Number of options	June 30, 2012 Weighted average exercise price per share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$ millions)
Outstanding at beginning of period	462,600	11.74	-	-
Granted	187,000	9.66	-	-
Exercised	(13,700)	8.76	-	-
Forfeited	(8,400)	12.44	-	-
Expired	<u>(21,600)</u>	<u>8.76</u>	=	=
Outstanding, end of period	605,900	11.18	5.96	0.85
Vested, end of the period	388,600	12.10	5.96	0.90

On March 9, 2012; 187,000 options were granted under the Executive Stock Option Plan at an exercise price of \$9.66. 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 grant, thereby expiring on March 9, 2022. The fair value of each option granted was calculated to be \$0.02 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 (%):	7.00
Expected Volatility (%):	5.50
Risk-free interest rate (%):	2.00
Expected life (years):	7.00

Under the fair value method, the compensation expense was \$0.01 million for the three month period ended June 30, 2012 (June 30, 2011: \$0.02 million), resulting in a corresponding increase of Additional Paid in Capital.

15. Earnings per Share

The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average Class A Ordinary Shares outstanding were 28,677,121 and 28,507,089 for the three month period ended June 30, 2012 and June 30, 2011 respectively. The weighted average of Class A Ordinary Shares used for determining diluted earnings were 28,688,901 and 28,515,082 for the three month period ended June 30, 2012 and June 30, 2011 respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at June 30, 2012 the outstanding options are not dilutive as the market price of common shares is below exercise price.

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	Earnings (in thousands) June 30, 2012	Weighted average shares (in thousands) June 30, 2012	Earnings per Common Shares June 30, 2012
Net earnings applicable to common shares	5,033		
Weighted Average share outstanding		28,677	
Basic Earnings Per Common Share			0.18
Effect of potential dilutive securities:			
Stock Options	-	15	-
Diluted Earnings per Common Share	5,033	28,692	0.18

	Earnings (in thousands) June 30, 2011	Weighted average shares (in thousands) June 30, 2011	Earnings per Common Shares June 30, 2011
Net earnings applicable to common shares	5,811		
Weighted Average share outstanding		28,507	
Basic Earnings Per Common Share			0.20
Effect of potential dilutive securities:			
Stock Options	-	8	-
Diluted Earnings per Common Share	5,811	28,515	0.20

16. Fair Value Measurement

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists that prioritizes the inputs used to measure fair value. The Company is required to determine the fair value of all derivative instruments in accordance with the following hierarchy:

The three levels of the fair value hierarchy are defined as follows:

- Level 1: Fair value determined using unadjusted quoted prices in active markets.
- Level 2: Fair value determined using pricing inputs that are observable.
- Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

The fair values of the Company's financial instruments, including derivatives, reflect a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Company's future earnings or cash flows.

The estimated fair values of the Company's financial instruments, including derivative financial instruments, are as follows:

	As at June 30, 2012		As at December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long term debt, including current portion	191,500	221,523	204,000	233,231
Fuel Option Contracts ¹	856	856	468	468

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

The fair value of long-term debt is determined by discounting the future cash flows of each debt instrument at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

The Company measures the fair value of commodity contracts on a daily basis using the closing values observed on commodities exchanges and in over-the-counter markets, or through the use of industry-standard valuation techniques, such as option modelling or discounted cash flow methods, incorporating observable valuation inputs. The resulting measurements are the best estimate of fair value as represented by the transfer of the asset or liability through an orderly transaction in the marketplace at the measurement date.

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 derivatives' fair value shown in the below 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 Company's option contracts will expire on March 31, 2013.

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.

The following table summarizes the fair value measurements of the Company's long term debt and fuel derivative contracts based on the three levels that distinguish the level of pricing observability utilized in measuring fair value.

Financial Liability	June 30, 2012 Total Fair Value	Level 1 -	Level 2 -	Level 3 -
		Quoted Prices in active markets for identical assets	Significant Other inputs	Significant unobservable inputs
Long term debt, including current portion	221,523	-	221,523	-
Option Contracts ¹	(856)	-	(856)	-

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

17. Financial Risk Management

The Company is primarily exposed to credit risk, liquidity risk and interest rate risk as a result of holding financial instruments in the normal course of business.

Credit Risk

The Company is exposed to credit risk in the event of non-performance by counterparties to derivative financial instruments which include fuel option contracts. If a counterparty fails to perform on its contractual obligation to deliver payment when the market price of fuel is greater than the strike price, the Company may find it necessary to purchase diesel at the market price, which will be higher than the contract price. The Company manages this credit risk associated with counterparties by conducting business with high credit-quality institutions. The Company does not expect any counterparties to fail to meet their obligations.

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.

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.

<i>(\$millions)</i>	Total	2012	2013-2014	2015-2016	2017 Onward
Accounts payable and accrued expenses	31.3	31.3	-	-	-
Consumer's Deposits and Advances for Construction	4.4	4.4	-	-	-
Short term debt	31.0	31.0	-	-	-
Letter of credit	0.6	0.6	-	-	-
Long term debt	191.5	19.5	31.0	25.0	116.0
Long term debt interest	<u>79.7</u>	<u>11.4</u>	<u>19.4</u>	<u>16.0</u>	<u>32.9</u>
Total	338.5	98.2	50.4	41.0	148.9

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 \$31.0 million.

18. Finance Charges

The composition of finance charges were as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest costs - long-term debt	3,018	2,879	6,095	5,677
Other interest costs	164	134	277	263
AFUDC *	(657)	(875)	(1,402)	(1,647)
Total	2,525	2,138	4,970	4,293

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

19. Defined Benefit Pension Plan

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. Compensation expense of \$0.5 million was recognised for the six months ended June 30, 2012 (\$0.4 million June 30, 2011).

The composition of the expense was as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest cost	80	80	160	160
Expected return on plan assets	(56)	(55)	(112)	(110)
Amortisation of past service costs	62	62	124	124
Amortisation of actuarial losses	156	10	312	20
Total	242	97	484	194

20. Foreign Exchange

The closing rate of exchange on June 30, 2012 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn \$1.018 per US\$1.00. The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by the Cayman Islands Monetary Authority is fixed at C\$1.00 per US\$1.20. Thus, the rate of exchange as of June 30, 2012 for conversion of Cayman Islands dollars into Canadian dollars was Cdn \$1.222 per C\$1.00 (December 31 2011: Cdn 1.220).

21. 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 \$0.85 per IG of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports.

22. Commitments

In June 2007, the Company renewed its Primary Fuel Supply Contract with Esso Cayman Limited ("Esso"). As a condition of the new contract, the point of delivery for fuel billing purposes has moved from the Company's plant compound to the Esso terminal. CUC also assumed responsibility for the management of the fuel pipeline (fuel suppliers will continue to pay the regular throughput fee) and ownership of bulk fuel inventory at the North Sound Plant. The Company is committed to purchase 80% of the Company's fuel requirements for the running of the plant from Esso, the contract was for three years terminating in April 2010. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of IGs: 2012 – 10.1. The contract contains an automatic renewal clause for the years 2010 through to 2012. The Company has renewed the contract until July 2012 and is in the process of negotiating terms of a new contract.

As a result of the Company's bulk fuel inventory, the value of CUC's closing stock of fuel at June 30, 2012 was \$3.0 million (December 31, 2011: \$3.1 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.

23. 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 Company 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 4202
Postal Station A
Toronto, Ontario M5W 0E4, Canada
Tel: (416) 682-3825-5500
Fax: (888) 249-6189
E-mail: inquiries@canstockta.com

Caribbean Utilities Company, Ltd.

Company Secretary
P.O. Box 38
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CAYMAN ISLANDS
Tel: (345) 949-5200
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If you require further information or have any questions regarding CUC's Class A Ordinary Shares (listed in U.S. funds on the Toronto Stock Exchange), please contact:

Caribbean Utilities Company, Ltd.

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