

General Data

About the Company

Caribbean Utilities Company, Ltd., known locally as "CUC", commenced operations as the only electric utility in Grand Cayman on May 10, 1966. The Company currently has an installed generating capacity of 151.230 megawatts (MW), and the record peak load of 102.086 MW was experienced on June 3, 2010. CUC is committed to providing a safe and reliable supply of electricity to over 26,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's development for over 45 years.

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Cover Photo: The final phase of the 69 kilovolt Eastern Transmission Loop along Rum Point Drive and North Side Road was completed in 2011. The Loop will greatly enhance the reliability of electrical service and provide for future customer growth requirements in the eastern districts.

Highlights

Financial Results in Brief

(Expressed in thousands of United States dollars, unless stated otherwise)			
	Twelve months ended Dec. 31, 2011 \$	Twelve months ended Dec. 31, 2010 \$	Change %
Electricity sales	69,630	69,517	0%
Other operating expenses	44,613	43,603	2%
Finance charges	8,659	9,143	(5%)
Earnings for the year	20,390	19,879	3%
Total assets	421,820	398,964	6%
Total shareholders' equity	176,035	173,841	1%
Earnings per Class A Ordinary Share (\$ per share)	0.68	0.67	1%
Dividends per Class A Ordinary Share (paid and declared) (\$ per share)	0.66	0.66	0%
Book value per Class A Ordinary Share (\$ per share)	6.01	5.96	1%
Class A Ordinary Shares (\$ per share)			
Market price: High	9.80	9.80	0%
Low	8.86	8.00	11%
Year-end	9.46	8.93	6%

Performance

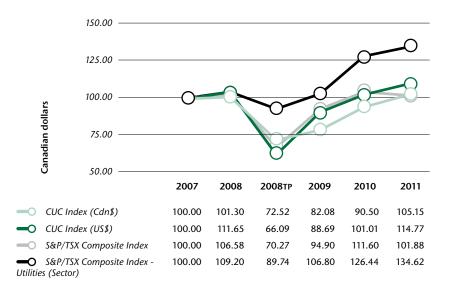
Net earnings for the twelve months ended December 31, 2011 were \$20.4 million. With kilowatt-hour sales flat, a decrease in Finance Charges and an increase in Other Income resulted in an overall increase to earnings year over year from \$19.9 million for the twelve months ended December 31, 2010. Dividends paid and declared on Class A Ordinary Shares were \$0.66 per share. The Class A Ordinary Shares (CUP.U) traded on the Toronto Stock Exchange at a high of \$9.80 per share in 2011.

Rate of Exchange

The closing rate of exchange as of December 31, 2011 as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was Cdn\$1.017 per US\$1.00. The official exchange rate for conversion of Cayman Islands dollars into United States dollars, as determined by the Cayman Islands Monetary Authority, has been fixed since April 1974 at US\$1.20 per CI\$1.00. Thus, the rate of exchange as of December 31, 2011 for the conversion of Cayman Islands dollars into Canadian dollars was Cdn\$1.220 per CI\$1.00.

Share Performance

Comparison of five-year cumulative total returns between Cdn\$100.00 and US\$100.00 invested in CUC Class A Ordinary Shares and the S&P/TSX Composite Index - Utilities and S&P/TSX Composite Index.



Information reflected in this Highlights section should be read in conjunction with the disclosure contained in the Management's Discussion and Analysis and its associated cautions beginning on page eight. All dollar amounts in this 2011 Annual Report are stated in United States dollars unless otherwise indicated.

Fellow Shareholders

It is our pleasure to report the financial and operational progress of Caribbean Utilities Company, Ltd. ("CUC" or the "Company") for the twelve month period ended December 31, 2011 ("Fiscal 2011").

Financial Performance

In spite of the relatively stagnant economic environment, and consecutive years without an increase in sales, CUC was able to improve its financial performance in 2011.

Kilowatt-hour ("kWh") sales for Fiscal 2011 were 554.0 million comparable to 553.8 million for the twelve months ended December 31, 2010 ("Fiscal 2010"). Warmer weather, particularly in the three months ended December 31, 2011, increased electricity consumption for that period and helped to offset reduction in customer demand due to increased fuel prices and a declining population. The average temperature for 2011 was 82.3 degrees Fahrenheit compared to 81.9 degrees Fahrenheit for 2010.

Net earnings for Fiscal 2011 were \$20.4 million, representing a 3% or \$0.5 million increase from net earnings of \$19.9 million for the twelve months ended December 31, 2010 ("Fiscal 2010"). This increase in earnings was due to lower financing charges and increased Other Income.



In July, CUC successfully closed on a \$40 million private placement debt financing with terms between 15 and 20 years and very competitive coupon rates of 4.85% to 5.10%. We believe the competitive pricing was as a result of the Company's strong balance sheet and credit rating. However, in September 2011 Standard & Poor's lowered its rating of CUC's debt to "A-" from "A" as a reflection of the continued weak economic environment in the Cayman Islands.

After the adjustment for dividends on the Class B Preference Shares ("preference shares") of the Company, earnings on Class A Ordinary Shares for Fiscal 2011 were \$19.5 million, or \$0.68 per Class A Ordinary Share, when compared to \$18.9 million, or \$0.67 per Class A Ordinary Share for Fiscal 2010.

We are pleased that the Company was able to maintain an annualized dividend of \$0.66 per Class A Ordinary Share.

Caribbean Utilities Company, Ltd. 2011 Annual Report To Our Shareholders

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Electricity sales revenue for Fiscal 2011 was relatively flat at \$69.6 million compared to \$69.5 million for Fiscal 2010. There was an increase in kWh sales in the commercial sector, which was offset by a decrease in sales to residential customers.

Rising world fuel prices continue to impact CUC's fuel costs and electricity rates to consumers. The average Fuel Cost Charge rate per kWh charged to consumers for Fiscal 2011 was \$0.27, a 35% increase from \$0.20 per kWh for Fiscal 2010. CUC passes through 100% of fuel and lubricating oil costs to consumers on a two-month lag basis without mark-up. Management believes that the increasing fuel factor is negatively impacting electricity sales as consumers reduce electricity use.

In March 2011 the Electricity
Regulatory Authority ("ERA")
approved the Fuel Price Volatility
Management Programme. This
fuel hedging programme utilises
call options to create a ceiling price
for fuel costs at pre-determined
contract premiums and is currently
structured to cover 40% of expected
fuel consumption. The call options
were purchased in an effort to provide
consumers protection from a rapid
increase in fuel pricing, and the
monthly premiums are included in
fuel costs.

The current options expire in March 2012. Options will be renewed if approved by the ERA.

Operating Income declined in Fiscal 2011 due to increased Depreciation and General and Administration

("G&A") costs. The higher G&A was driven by transitional costs which we expect will result in improved efficiencies and a stronger, safer performance.

As the economy and electricity demand remain flat going into the third consecutive year, CUC continues to focus on containing discretionary expenditures while operating in a prudent and efficient manner.

Customer Service and Operations

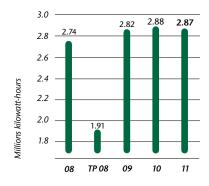
CUC is committed to providing its customers with a safe and reliable service.

At December 31, 2011, there were 26,636 customers, an increase of 2% compared to 26,151 customers as at December 31, 2010. An average of 40 customers were connected per month for Fiscal 2011 as compared to an average of 58 customers per month for Fiscal 2010. The Company continues to see an increase in customer numbers but also continues to see a decline in the average customer kWh consumption that began in 2009.

With the decline in the construction sector, and general weakness in the economy, the number of work permit holders on the Island decreased significantly since 2009 according to information released by the Government of the Cayman Islands (the "Government"). This has led to high vacancy levels for rental properties, many of which continue to maintain active electricity accounts with little electricity consumption. The

Sales per Employee

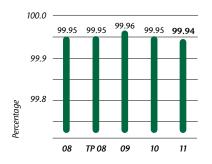
(millions of kiloWatt-hours)



TP - Transitional Period

System Availability

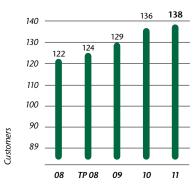
(data for years ended December 31)



TP - Transitional Period

Customers per Employee

(number of customers)



TP - Transitional Period

net growth in residential customer numbers from 22,311 to 22,731 in 2011 has therefore not produced overall growth in sales as the average kWh consumption for this class has decreased.

With the Government projecting modest Gross Domestic Product gains for 2011, we remain cautiously optimistic about future growth in the economy. We also see the most recent Government reports on the slowdown in the decline of work permit holders as a positive sign.

In an effort to maintain a safe and efficient service, the Company continued to invest in infrastructure and equipment during 2011.

Excluding capital expenditures related to the repair of three generating units damaged in 2010 and early 2011 and for which the cost was covered by insurance proceeds net of a deductible, major capital expenditure initiatives for 2011 totalled \$33.4 million, a \$12.2 million or 58% increase from \$21.2 million. These initiatives included the beginning of the Advanced Metering Infrastructure ("AMI") project rollout and completion of the Eastern Transmission Loop.

By the First Quarter 2012, the AMI project will bring efficiencies in meter reading and services such as disconnects and reconnects directly from CUC's offices, provide real-time electricity consumption information and a prepaid payment option to aid consumers in monitoring and controlling their electricity

consumption.

The Eastern Transmission Loop project will also bring customer benefits through an increase in the reliability and operational flexibility of the Transmission and Distribution ("T&D") system serving all areas of the Island from South Sound, east to the districts of East End and North Side.

The series of generating unit mechanical failures in the First Quarter 2011 left the Company without its normal generation reserve capacity. The margin was restored by the leasing of temporary mobile generation until the out-of-service generating units could be repaired. Despite some outages related to the loss of generation, overall reliability of service to customers in 2011, as measured by the Average System Availability Index, remained high at 99.94%. We believe reliable electricity supply is critical in supporting the established financial services and tourism industries as well as to attracting new development to Grand Cayman.

In November 2011 CUC issued a certificate of need to the ERA for 18 megawatts ("MW") of new generating capacity to be installed in 2014 and for an additional 18 MW of generating capacity to be installed in either 2015 or 2016 contingent on growth over the next two years. The primary driver for the new generating capacity in 2014 is the upcoming retirements of several of CUC's generating units which are reaching

the end of their useful lives. As a result of CUC expressing its need for replacement capacity, the ERA will be conducting a competitive solicitation in 2012 in accordance with CUC's licences which will allow all interested and qualified parties, including CUC, to submit bids to fill the Company's firm capacity requirement.

CUC submitted its 2012 - 2016
CIP, totalling approximately \$192.0
million, during the fourth quarter of
2011 for ERA approval. \$131.0 million
of the submission is proposed nongeneration installation expenditures.
Generation needs are subject to a
competitive bid process as described
above. The 2012 - 2016 CIP has been
prepared in-line with the Certificate
of Need that was filed with the ERA in
November 2011. ERA approval of the
2012 - 2016 CIP is expected during
the first three months of 2012.

We also conducted a competitive bidding process to fill 13 MW of non-firm renewable energy capacity. There are currently no viable renewable energy sources in Grand Cayman which meet CUC's reliability requirements for firm capacity; however, CUC expects that there are third parties that can build and maintain renewable energy plants on the Island and sell energy to CUC at a more competitive price than diesel.

There have been numerous responses to the August 2011 solicitation and the Company is now in the process of analyzing all of the proposals in an effort to select those offers which meet all of our criteria

Caribbean Utilities Company, Ltd. 2011 Annual Report To Our Shareholders

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and standards.

In this regard the Company continues to support the Feed-In Tariff ("FIT") programme. To date there are nine customers signed up to this ERA supported initiative. The programme will be reviewed in early 2012 as part of its one-year anniversary. We see this review as an opportunity to increase penetration of consumer-owned renewables and we look forward to the opportunity to supplement our reliable diesel supply with other cost-effective and environmentally friendly options.

Today, the Company remains fully dependent on diesel fuel for generation.

Human Resources and Training

The Company remained committed throughout 2011 to retaining our well qualified employee complement. CUC provided employees, 92% of whom are Caymanian, with the training necessary to excel in their respective fields and to ensure that they are afforded the opportunity to assume positions of responsibility within the organisation. The Company recognises that an ongoing human resource development programme is essential to ensuring the continued growth and success of the Company. While off-island training was reduced, employees were exposed to a number of training opportunities in-house

and attended various courses offered on Island. Training continued for supervisors, customer service representatives and all technical staff.

The Reward and Recognition Programme, specifically the "Shine the Light" Award which recognises and rewards employees' significant achievements and contributions, continued to highlight employees who went beyond the call of duty throughout 2011.

We congratulate our 2011 Employee of the Year, Ms. Angella McLean from the Customer Service Department.

CUC established its scholarship programme in 1989 and since



As part of the Eastern Transmission Loop project, the outdoor Rum Point Substation located in North Side was upgraded.

then has awarded full and partial scholarships to over 30 current and past employees in the fields of mechanical and electrical engineering, information technology, systems operations, environmental management and financial services.

Three of the Company's four executives and three of its 15 managers were educated through CUC scholarships.

We look forward to welcoming home in 2012 our latest scholarship recipient, Mr. Waide Watler, who is completing studies in Computer Science in the United States.

Safety and the Environment

Employee and public safety remains our number one priority and during 2011 we continued to strengthen our safety programme and improve our work methods and practices.

On January 28, 2011, an explosion occurred in Engine Room 4. This caused serious injuries to one employee and serious but non-life threatening injuries to another.

One employee remains in Miami where he continues to receive special outpatient treatment and physiotherapy. We look forward to welcoming him home in the near future. The other employee is fully recovered and was able to return to work soon after the incident.

The explosion is the first of its kind in the history of the Company and has been used as a catalyst to redouble our efforts in improving safe work practices, safety equipment, and awareness and the reinforcement of safety policies and rules.

Employee and contractor safety is critical in our business which is characterized by unique and ever present hazards, including risk of electrocution, explosions and falls from significant heights. Equipment inspection, employee and contractor orientation and continuous training in areas such as Personal Protective Equipment are the cornerstones of our successful programme.

The Company's safety programmes extend to our customers as well, with the promotion of electrical hazard awareness through school programmes and public safety demonstrations.

In the absence of environmental regulations governing CUC's operations, the Company established self-imposed standards to which it adheres under its International



Enployees continue to participate in a number of community involvement activities such as the Annual Lighthouse School Sports Day. The Community Involvement Team has shared a special relationship with the special needs students from the Lighthouse School over the years.

Organization for Standardization (ISO) 14001 certification. Significant Environmental Aspects, which are the focus of the programme, include air emissions, waste management, petroleum management, resource use, process water management, hazardous materials and chemical management, and noise emissions.

The Health & Safety and **Environmental Management System** (EMS) committees have been combined and Occupational Safety and Health Administration (OSHA) and ISO internal auditor training provided for the relevant staff. We believe this initiative will introduce the best practice of the ISO registered EMS system to the safety management process in order to improve the efficiency in the administration of these two critical management systems.

Community

CUC is committed to the Grand Cayman community and continues to participate in a number of community involvement activities through donations and employee volunteerism. These activities are primarily focused on youth development through sports, education, environmental awareness and protection.

The Company provides ongoing support to the Lighthouse School and Sunrise Adult Training Centre, two facilities which cater to special needs children and adults.

During 2011, our employees volunteered 1,565 hours to participate in the Company's Community Involvement projects. These included Big Brothers Big Sisters, Meals on Wheels, the Cadet Corps, CUC's Primary Football League, the Cayman Islands Scouts Association and the Positive Intervention Now programme, an after-school programme.

CUC also sponsors an educational programme which exposes primary school children to the Island's marine environment.

Summary

The year under review was CUC's 45th year of operation and could be considered a formative year in many respects with substantial work on projects such as AMI, the closing of the Eastern Loop and the tender for renewables, all of which have great potential to change the way we operate and bring significant benefits to customers in years to come.

The Company also finished the year on a positive note with earnings growth. This is a direct result of steps taken to maintain high levels of efficiency and service reliability to consumers while controlling the Company's discretionary expenditures. We anticipate that our focus will remain the same, as the economy slowly emerges from this recession.

We will continue to work at creating value for our shareholders, customers and employees by being best in class in the Caribbean in productivity and efficiency, quality

and reliability of service and safety and environmental performance.

We will continue to protect the brand, reinvent the Company continuously through the use of available technology and reinforce the CUC culture through our values which we live daily.

CUC receives guidance and support from its Board of Directors and we thank the directors for their ongoing contributions. Most importantly we thank all our employees for their loyalty, hard work and dedication to our mission: "To be a leader in the growth of our community by delivering safe and reliable energy services at competitive costs and with respect to the environment while being a model corporate citizen and providing a fair return to our shareholders."

David E. Ritch, OBE, JP Chairman of the Board of Directors

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J.F. Richard Hew President & Chief Executive Officer

March 9, 2012

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") financial statements for the twelve months ended December 31, 2011 ("Fiscal 2011"). The material has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to Management's Discussion and Analysis.

Additional information in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), including certain accounting practices unique to rate-regulated entities. These accounting practices, and their impact, which are disclosed in the notes to the 2011 financial statements, result in regulatory assets and liabilities which would not occur in the absence of rate regulation. In the absence of rate regulation the amount and timing of the recovery or refund would not be subject to regulatory approval.

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements concerning anticipated future events, results, circumstances, performance or expectations with respect to the Company and its operations, including its strategy and financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plan", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedule", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward-looking statements are based on underlying assumptions and management's beliefs, estimates and opinions, and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Some of the important risks and uncertainties that could affect forward-looking statements are described in the MD&A in



the section labelled "Business Risks" and include but are not limited to operational, general economic, market and business conditions, regulatory developments and weather. CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

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

Corporate and Regulatory Overview

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

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

7.75% to 9.75%).

CUC's base rates are designed to recover all non-fuel and regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM. Base rates were last adjusted in June 2009. In early May 2011, after the requisite review, the Company confirmed to the Electricity Regulatory Authority ("ERA") that the RCAM yielded no rate adjustment for June 2011 as the slight inflation in the applicable United States price index, adjusted to exclude food and fuel, was offset by deflation in the Cayman Islands consumer price index, also adjusted to exclude food and fuel,

for calendar year 2010. All fuel and lubricating oil costs are passed through to customers without markup 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 completed 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 licencees, establishes and enforces licence standards, enforces applicable

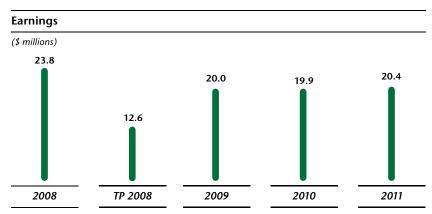
Financial and Operational Highlights

(in \$ thousands except basic earnings per	Class A Oudingam, Classes	dividende maid man Class A Ondinanu	· Chana andla ana athamiaa isadiaatad)
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	Twelve months ended December 31, 2011	Twelve months ended December 31, 2010	Change	Change %
Electricity sales	69,630	69,517	113	0%
Fuel factor revenues	148,469	110,579	37,890	34%
Operating revenues	218,099	180,096	38,003	21%
Fuel and lube costs	148,469	110,579	37,890	34%
Other operating expenses	44,613	43,603	1,101	2%
Total operating expenses	193,082	154,182	38,900	25%
Earnings for the period	20,390	19,879	511	3%
Basic earnings per Class A Ordinary Share	0.68	0.67	0.01	2%
Dividends paid per Class A Ordinary Share	0.660	0.660	-	0%
Peak load gross (MW)	99.0	102.1	(3.1)	(3%)
Net generation (millions kWh)	594.0	593.5	0.5	0%
Kilowatt-hour sales (millions kWh)	554.0	553.8	0.2	0%
Total customers	26,636	26,151	485	2%
Customers per employee (#)	138	136	2	1%
Sales per employee (millions kWh)	2.87	2.88	(0.01)	0%

environmental and performance standards, reviews the RCAM and sets the rate adjustment factors as appropriate.

The ERA also annually reviews and approves CUC's capital investment plan ("CIP"). In 2010, the Company submitted the 2011 - 2015 CIP totalling approximately \$219 million. In March 2011, the ERA approved the \$134 million of proposed non-generation installation expenditures in the 2011 - 2015 CIP. CUC submitted its 2012 - 2016 CIP, totalling approximately \$192 million, during the fourth quarter of 2011 for ERA approval. \$131.0 million of the submission is proposed nongeneration installation expenditures. Generation needs are subject to a competitive bid process. 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 for an additional 18 MW of generating capacity to be installed in either 2015 or 2016, contingent on growth over the next two years. ERA approval of the 2012 - 2016 CIP is expected during the first three



TP - Transitional Period

months of 2012.

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.

Residential and Commercial Sales

(Sales in thousands kWh)

28,346
28,346
28,346
28,346
28,346
28,346
28,346
28,346
28,346
28,346
28,346
28,346
28,346
28,346
28,346
29,043
2010
2011

TP - Transitional Period

Residential Commercial

Earnings

Net earnings for Fiscal 2011 were \$20.4 million, representing a 3% or \$0.5 million increase from net earnings of \$19.9 million for the twelve months ended December 31, 2010 ("Fiscal 2010"). Operating Income decreased for Fiscal 2011 when compared to the same period of 2010 as a result of increased G&A and Depreciation costs. This change in Operating Income was offset by a decrease in Finance Charges and an increase in Other Income resulting in an overall increase to earnings year over year.

After the adjustment for dividends on the Class B Preference Shares of the Company, earnings on Class A Ordinary Shares for Fiscal 2011 were \$19.5 million, or \$0.68 per Class A Ordinary Share, a \$0.6 million increase when compared to \$18.9 million, or \$0.67 per Class A Ordinary Share, for Fiscal 2010.

Sales

Kilowatt-hour sales for Fiscal 2011 were 554.0 million, comparable to 553.8 million for Fiscal 2010. The average temperature for 2011 was 82.3 degrees Fahrenheit ("°F") compared to 81.9 °F for 2010.

Total customers as at December 31, 2011 were 26,636, an increase of 2% compared to 26,151 customers as at December 31, 2010. An average of 40 customers were connected per month for Fiscal 2011 as compared to an average of 58 customers per month for Fiscal 2010. The Company continues to see an increase in customer numbers but also continues to see a decline in the average customer kWh consumption.

According to Government reports, the number of work permit holders on the Island has declined significantly since 2009 (see "The Economy" section for further details). This has caused some rental properties to remain vacant with an active electricity account. Vacant residences with active electricity accounts are included within customer numbers, however, these accounts result in lower average electricity sales.

Operating Revenues

Operating revenues increased 21%, or \$38.0 million, to \$218.1 million for Fiscal 2011 from \$180.1 million for Fiscal 2010. Operating revenues are higher due to higher fuel factor revenues in 2011 driven by higher fuel costs.

Electricity sales revenue increased by \$0.1 million to \$69.6 million in Fiscal 2011 from \$69.5 million for Fiscal 2010. Electricity sales revenues are higher mainly due to an increase in kWh sales in the Commercial category.

Fuel factor revenues for Fiscal 2011 totalled \$148.5 million, a 34% increase from the \$110.6 million in fuel factor revenues for Fiscal 2010. Fuel factor revenues increased due to an increase in the cost of fuel (see the "Power Generation" section for further details). The average Fuel Cost Charge rate per kWh charged to consumers for the twelve months ended December 31, 2011 was \$0.27, a 35% increase from \$0.20 per kWh for the twelve months ended December 31, 2010. CUC passes through 100% of fuel costs to consumers on a twomonth lag basis without mark-up.

Operating Expenses

Total operating expenses for Fiscal 2011 increased 25% to \$193.1 million from \$154.2 million for Fiscal 2010. The major contributing factor to the increase in operating expenses is higher power generation expenses which are comprised predominantly of fuel costs.

Power Generation

Power generation costs for Fiscal 2011 increased \$38.5 million, or 34%, to \$151.7 million when compared to \$113.2 million for Fiscal 2010. The increase is mainly due to higher fuel costs.

The Company's average price per imperial gallon ("IG") of fuel for Fiscal 2011 increased to \$4.63 from \$3.45 for Fiscal 2010. The Company's average price per IG of lubricating

Sales and Customer Highlights

	Twelve months ended December 31, 2011	Twelve months ended December 31, 2010
Customers (number) Residential	22,731	22,311
Commercial	3,905	3,840
Total Customers	26,636	26,151
Sales (in thousands kWh) Residential Commercial Other	258,765 289,043 6,174	262,545 284,966 6,240
Total sales	553,982	553,751
Revenues (in thousands of \$) Residential Commercial Other (street light, etc.) Fuel factor	33,592 35,596 442 148,469	34,088 35,077 352 110,579
Total operating revenues	218,099	180,096

Operating Expenses	Operating Expenses						
(\$ thousands)							
	Twelve months ended December 31, 2011	Twelve months ended December 31, 2010	Change	Change %			
Power generation expenses	151,714	113,214	38,500	34%			
General and administration	9,254	8,418	836	10%			
Consumer service and promotion	1,616	1,718	(102)	(6%)			
Transmission and distribution	1,998	2,178	(180)	(8%)			
Depreciation	20,570	20,034	536	3%			
Maintenance	7,622	8,284	(662)	(8%)			
Amortization of intangible assets	308	336	(28)	(8%)			
Total operating expenses	193,082	154,182	38,900	25%			

oil for Fiscal 2011 increased to \$14.12 from \$11.01 for Fiscal 2010.

The Fuel Tracker Account (see Note 6 of the Notes to 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 Programme. The objective of this hedging programme is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers for the fuel that the Company must purchase in order to provide electric service. The programme utilises call options creating a ceiling price for fuel costs at pre-determined contract premiums. The programme as it is currently structured covers 40% of expected

fuel consumption. The call options were purchased in an effort to assist consumers and promote certainty in pricing, as such the monthly hedging costs and returns are also included within the Fuel Tracker Account. The current options expire in March 2012.

Other generation expenses for Fiscal 2011 totalled \$3.2 million, a \$0.6 million increase when compared to \$2.6 million for Fiscal 2010. This difference is primarily due to an increase in waste oil disposal costs.

Diesel fuel and lubricating oil costs are recovered from consumers within the line items of fuel factor revenues. The Fuel Tracker Account (see Note 6 of the Notes to Financial Statements) is comprised of total diesel fuel and lubricating oil costs to be recovered from consumers.

General and Administration ("G&A")

G&A expenses for Fiscal 2011 totalled \$9.3 million, an increase of \$0.9 million, or 10%, from \$8.4 million for Fiscal 2010. This increase is the result of higher legal, administrative payroll and insurance expenses. The increased legal and payroll costs are expected to be temporary in nature. Fortis Inc. owns a controlling interest in CUC. The increase in insurance costs in 2011 was tempered as the Company purchases insurance collectively with the Fortis group of companies, which leads to efficiencies and more competitive rates.

These increases were partially offset by an increase in General Expenses

Power Generation Expenses

(\$ thousands)				
	Twelve months ended December 31, 2011	Twelve months ended December 31, 2010	Change	Change %
Fuel costs (net of deferred fuel charges) Lube costs (net of deferred lube charges) Other generation expenses	145,550 2,919 3,245	108,301 2,278 2,635	37,249 641 610	34% 28% 23%
Total power generation expenses	151,714	113,214	38,500	34%

Capitalised ("GEC") (see Note 1 of the Notes to Financial Statements). GEC totalled \$2.9 million for Fiscal 2011, \$0.7 million higher than \$2.2 million for Fiscal 2010. The Company capitalises certain overhead costs not directly attributable to specific capital assets but which do relate to the overall capital expenditure programme.

Consumer Services ("CS")

CS expenses for Fiscal 2011 totalled \$1.6 million a decrease of \$0.1 million, or 6%, from CS expenses of \$1.7 million for Fiscal 2010. The decrease was the result of lower customer claims in 2011.

Transmission and Distribution ("T&D")

T&D expenses for Fiscal 2011 totalled \$2.0 million a decrease of \$0.2 million, or 9%, when compared to \$2.2 million for Fiscal 2010. This decrease was partially due to increased capitalised labour as the T&D Division focused on capital projects and partially due to efforts to control discretionary costs.

Depreciation of Property, Plant and Equipment ("Depreciation")

Depreciation expenses for Fiscal 2011 were \$20.6 million, an increase of \$0.6 million, or 3%, from \$20.0 million for Fiscal 2010. Depreciation expenses increased as a result of growth-related additions to fixed assets in prior periods.

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 and has not been placed back in service. This unit was near the end of its estimated useful life and as at December 31. 2011 an economic analysis was in progress to determine if the unit should be repaired or retired. The cost of the repairs for both units is covered by the Company's insurance policy subject to the deductible (see "Insurance - Terms & Coverage" in the "Business Risks" section for greater detail).

In accordance with the Licences, when an asset is impaired or disposed of before the original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with rate regulated accounting and differs from the GAAP treatment of a loss being recognised on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. This amount within accumulated depreciation is to be depreciated as per the remaining life of the asset when the unit is placed into service. In the case of the 16 MW unit, which was taken out of service in October 2010, insurance proceeds will be applied to accumulated depreciation and as the asset is refurbished the costs incurred will be capitalised.

Maintenance

Maintenance expenses for Fiscal 2011 totalled \$7.6 million, a decrease of \$0.7 million from \$8.3 million for Fiscal 2010. Maintenance expenses for Fiscal 2011 were expected to be lower than those seen in Fiscal 2010 due to the cyclical nature of the maintenance schedule resulting in various capital projects being scheduled in Fiscal

2011. Certain upgrades to generating units are considered capital in nature as the upgrades extend the life or increase the output of the unit.

The Company currently has an installed generating capacity of 151.23 MW and in addition to this had installed 15 MW of leased temporary generation capacity for the summer to facilitate on-going planned generator maintenance and repairs. Of this leased capacity 12 MW have been returned and 3 MW remains in service. The rental cost for the temporary generation totalled \$1.6 million in 2011. This cost has been covered by the Company's property and machinery breakdown insurance. The temporary generation costs are not included within maintenance or any operating expenditure line item (see "Generator Failures and Insurance Claim" table on page 18).

Amortization

Amortization of intangible assets for Fiscal 2011 totalled \$0.3 million, comparable to \$0.3 million for Fiscal 2010.

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

Other Expenses and Income

Finance charges for Fiscal 2011 totalled \$8.7 million, a decrease of \$0.4 million from \$9.1 million for Fiscal 2010 largely due to an increase in the amount of finance costs capitalised as Allowance for **Funds Used during Construction** ("AFUDC").

Other Income and Expenses				
(\$ thousands)				
	Twelve months ended December 31, 2011	Twelve months ended December 31, 2010	Change	Change %
Total interest costs AFUDC	(12,332) 3,673	(12,122) 2,979	(210) 694	2% 23%
Total finance charges	(8,659)	(9,143)	484	(5%)
Foreign exchange gains Other income	2,125 1,907	1,785 1,323	340 584	19% 44%
Total net other expenses	(4,627)	(6,035)	1,408	(23%)

Under the T&D Licence there is a provision for an AFUDC. This capitalisation of the 'Financing Cost' is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for 2011 was 8.75% as agreed with the ERA in accordance with the T&D Licence and will be reviewed annually.

The AFUDC amount for Fiscal 2011 totalled \$3.7 million a \$0.7 million increase when compared to \$3.0 million for Fiscal 2010. This increase is attributable to increased capital expenditure.

Foreign exchange gains and losses are the result of monetary assets and liabilities denominated in foreign currencies that are translated into United States ("US") dollars at the exchange rate prevailing on the Balance Sheet date. Revenue and expense items denominated in foreign currencies are translated into US dollars at the exchange rate prevailing on the transaction date. Foreign exchange gains totalled \$2.1 million for Fiscal 2011 a \$0.3 million or 17% increase when compared to \$1.8 million for Fiscal 2010.

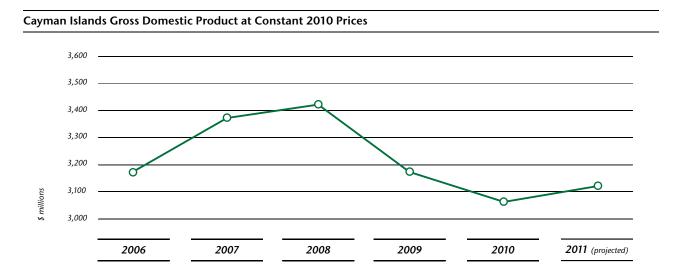
Other Income:

Other income is comprised of pole rental fees, income from pipeline operations, sales of meter sockets, sale of recyclable metals and other miscellaneous income. Other income totalled \$1.9 million for Fiscal 2011, a \$0.6 million or 44% increase from \$1.3 million for Fiscal 2010. Other Income for Fiscal 2011 includes billing adjustments for commercial

Tourist Arrivals to the Cayman Islands						
(for the twelve months ending December 31)						
	2011	2010	2009	2008	2007	
By air By sea	309,091 1,401,495	288,272 1,597,838	271,958 1,520,372	302,879 1,553,053	291,503 1,715,666	
Total	1,710,586	1,886,110	1,792,330	1,855,932	2,007,169	

Key Indicators for the Financial Services Industry

	As at December 2011	As at December 2010	As at December 2009	As at December 2008	As at December 2007
Bank licences	234	245	266	278	281
Registered companies	92,964	91,206	92,867	93,693	87,109
Mutual funds	9,258	9,348	9,523	9,870	9,413
Mutual fund administrators	129	134	141	155	152
Captive insurance companies	739	738	780	777	765



customers. The impact of these adjustments on earnings totalled \$0.4 million.

The Economy

The Cayman Islands have two main industries - financial services and tourism. These sectors were not immune to the effect of the global financial crisis. A fall in Gross Domestic Product ("GDP") of 4% occurred in 2010 (2010 Cayman Islands' Annual Economic Report; released July 2011) as compared to a decrease of 7.5% in 2009. The 2011 Semi-Annual Economic Report was released by the Government in late September 2011 and reported that the Cayman Islands' real GDP grew by an estimated annualised rate of 1.3% for the first half of 2011.

The tourist demographic is largely comprised of visitors from the US. In 2011, 79% of air arrivals to the country were citizens of the US. As such the US economy largely impacts that of the Cayman Islands. 2011 air arrivals were up 7% when compared to 2010 and cruise arrivals were down 12% when compared to 2010. Air arrivals have a direct impact on the Company's sales growth as these

visitors are stay-over visitors who occupy the hotels. Cruise arrivals have an indirect impact as they affect the opening hours of the establishments operating for that market.

The 2010 Cayman Islands' Annual Economic Report listed the 2010 population at 54,397 as compared to 57,009 estimated in 2008 due to declines in the non-Caymanian workforce. Cayman has a high proportion of foreign nationals that provide labour in various sectors of the economy. The 2011 Cayman Islands' Semi-Annual Economic Report listed work permits as at June 2011 at 19,920, a 7.5% decline when compared to the same period in the prior year but an increase when compared to the first quarter figure of 19,877. Government attributes this decrease to "the sharp slowdown in construction, the largest employer of foreign labour".

The Government's 2012/2013 Strategic Policy Statement document sets out its fiscal projections and the Government's medium-term poilicies and initiatives underlying these projections. The document details Government's key mediumterm strategies as agreed with the United Kingdom Foreign and Commonwealth Office. The agreement includes reform of the public sector through limiting new borrowings, reallignment of existing revenue base, reducing operating expenditure and consideration of private finance initiatives as an alternative source of capital funding. The document also states Government's commitment to enhancing tourism and financial services, supporting small businesses as well as maintaining a vibrant and stable economy.

(All data is sourced from the Cayman Islands Government, Cayman Islands Economics and Statistics Office, Cayman Islands Monetory 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 table "Summary of Cash Flows" on page 16 outlines the summary of cash flows for Fiscal 2011 and Fiscal 2010.

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for Fiscal 2011, was \$37.2 million, a decrease of \$3.6 million from \$40.8 million for Fiscal 2010. This decrease was primarily due to an increase in regulatory deferral balances.

Investing Activities:

Cash used in investing activities for Fiscal 2011 totalled \$35.4 million, an increase of \$15.0 million from \$20.4 for Fiscal 2010. This increase is due to increased capital related expenditures.

Financing Activities:

Cash used in financing activities totalled \$3.7 million for Fiscal 2011 as

compared to \$22.9 million for Fiscal 2010.

The Company received no proceeds from long-term debt in 2010 as compared to \$40.0 million in debt financing in 2011. Debt payments for 2011 included current payments for long-term debt in addition to the repayment of \$9.0 million of short-term debt. The Company borrowed \$6.0 million in short-term debt during the Fourth Quarter 2011.

Transactions with Related Parties

Miscellaneous receivables from FortisTCI, also a subsidiary of Fortis Inc. totalling \$0.01 million were outstanding at December 31, 2011 (\$0.04 million December 31, 2010) for engineering assistance and are included within Accounts Receivable on the Balance Sheet. Miscellaneous payables to Fortis Inc., the Company's majority shareholder, were nil at December 31, 2011 (\$0.03 million as at December 31, 2010). Prior year amounts related to travel expenses and were included within the Accounts Payable and Accrued Expenses on the Balance Sheet. Miscellaneous receivables from management were nil at December 31, 2011 (\$0.001 million as at December 31, 2010). Prior year amounts related to insurance

Contractual Obli	gations				
(\$ millions)					
	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Total debt	208.5	21.3	36.2	27.9	123.1
Defined benefit pension	0.1	0.1	-	-	-
Total	208.6	21.4	36.2	27.9	123.1

Capital Structure December 31, 2011 December 31, 2010 (\$ millions) (\$ millions) Total debt 208.4 54 195.3 53 Shareholder's equity 176.0 46 47 173.8 Total 384.4 100 369.1 100

Summary of Cash Flows

(\$ thousands)				
	Twelve months ended December 31, 2011	Twelve months ended December 31, 2010	Change	Change %
Beginning cash	2,363	4,927	(2,564)	(52%)
Cash provided by/(used in):				
Operating activities	37,152	40,767	(3,615)	(9%)
Investing activities	(35,388)	(20,439)	(14,949)	73%
Financing activities	(3,703)	(22,892)	19,189	(84%)
Ending cash	424	2,363	(1,939)	(82%)

expenses and were included within Accounts Receivable on the Balance Sheet.

Contractual Obligations

The contractual obligations of the Company over the next five years and periods thereafter, as at December 31, 2011, are outlined in the table "Contractual Obligations".

The Company has a primary fuel supply contract with Esso Cayman Limited ("Esso") and is committed to purchase 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 May 2012.

Financial Position

The table "Significant Changes in Balance Sheets" is a summary of significant changes to the Company's balance sheet from December 31, 2010 to December 31, 2011.

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 longterm capital structure containing approximately 45% equity, including preference shares, and 55% debt. The Company's objective is to maintain investment-grade credit ratings.

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

Certain of the Company's longterm debt obligations have covenants

Significant Changes in Ba	Significant Changes in Balance Sheets				
(from December 31, 2010 to Dec	(from December 31, 2010 to December 31, 2011)				
Balance Sheet Account	Increase/ (Decrease) (\$ millions)	Explanation			
Cash and cash equivalents	(1.9)	Decrease due to cash provided by operating activities of \$37.2 million and offset by cash used in financing activities of \$3.7 million and by cash used in investing activities of \$35.4 million.			
Accounts receivable	4.0	Increase due to a billing adjustment in 2011 for two commercial customers and higher fuel costs.			
Other receivable - Insurance	(1.8)	Decrease due to funds received in regards to insurance receivable in relation to over speed failure on a 16 MW unit.			
Regulatory assets	4.1	In accordance with the regulatory environment the fuel tracker account is classified as a regulatory asset. This increase represents fuel costs incurred by the Company that are recoverable from the customer.			
Property, plant and and equipment	17.3	Net increase is comprised of capital expenditures of (1) \$40.6 million; (2) depreciation expense of \$20.6 million and (3) \$2.7 of insurance and asset sale proceeds.			
Accounts payable and accrued expenses	6.7	Change mainly attributable to increase in fuel costs.			
Short-term debt	(11.0)	Decrease is a result of repayment of \$17.0 million for the RBC Capital Expenditure line of credit offset by a drawdown of \$6.0 million.			
Long-term debt	24.2	Increase due to \$40 million received in June and July 2011 offset by principal repayments made in June and December and portions allocated to current debt.			
Share premium	1.5	The Company issued 159,824 shares through its share purchase plans.			

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

The change in the Company's capital structure at December 31, 2011 is due to a net increase in total debt. In June 2011, the Company received debt proceeds of \$30 million and in July 2011, the Company received \$10 million of debt proceeds, which were offset by principal payments made in 2011.

The Company's credit ratings under Standard & Poor's ("S&P") and the Dominion Bond Rating System ("DBRS") 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 September 2011 S&P adjusted the Company's 'A' credit rating to 'A-' and adjusted the outlook from negative to stable. This adjustment reflects S&P's opinion of a weak customer market given the recent declines in population and the negative impact of high fuel costs. The stable outlook reflects S&P's expectation of relatively predictable forecast cash flows and credit metrics.

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

Credit Facilities

The Company has \$38.5 million of unsecured credit financing facilities with RBC (see the "Credit Facilities" table). Of the total, \$24.9 million was available at December 31, 2011.

In November 2011 the Company executed a new credit facility agreement due to the restructuring of the RBC group. The only significant change to the agreement relates to the named lender, now both RBC Royal Bank (Bahamas) Limited and RBC Royal Bank (Cayman) Limited, with RBC Royal Bank (Cayman) Limited named as agent.

Credit Facilities

	(\$ millions)
Corporate credit card line	0.4
Letters of credit	*6.1
Operating, revolving line of credit	7.5
Catastrophe standby loan	7.5
Demand loan facility - interim funding of capital expenditures	17.0
Total	38.5

^{*} Letters of Credit included those provided to rental generation supplier of \$5.5 million. This will be removed upon completion of the rental contracts.

Generating Unit Failures and Insurance Claim (\$\frac{millions}{}{}

	Cost	Insurance Proceeds (Net of deductible)	PP&E Impact	Earnings Impact	Capital Expenditures Impact
Generating Unit 1	1.0	(0.3)	0.7	-	1.0
Generating Unit 33 Temporary Generation and	6.2	(4.5)	1.7	-	6.2
Expediting Maintenance	3.0	(3.0)	-	-	-
Total	10.2	(7.8)	2.4	-	7.2

Capital Expenditures

Capital expenditures for Fiscal 2011 were \$40.6 million, a \$19.4 million, or 92% increase from \$21.2 million in capital expenditures for the previous year. The capital expenditures for Fiscal 2011 primarily relate to:

- » Distribution system extension and upgrades - \$10.0 million.
- » Generating Unit 33 refurbishment - \$6.2 million. This cost is being funded by insurance proceeds net of the deductible.
- » Generating Unit 1 refurbishment - \$1.0 million. This cost is being funded by insurance proceeds net of the deductible.
- » Generating Units 1 and 2 piston liner upgrade - \$2.7 million
- » Advanced Metering Infrastructure - \$1.1 million
- » Other Power Plant building upgrades - \$0.9 million
- » Generation replacement cost -\$7.6 million
- » Inventory that has met the criteria of Property, Plant and Equipment ("PP&E") in accordance with Canadian Institute of Chartered Accountants ("CICA") 3031 has been added to work in progress and is included in Capital Expenditure. For Fiscal 2011 \$0.04 million was allocated to Transmission and \$0.41 million was allocated to Distribution, totalling an increase of \$0.45 million reallocated from inventories to capital work in progress. As at December 31, 2011, engine spares totalling \$2.0 million were reclassified to PP&E from inventory on the balance sheet as they are held for the development, construction, maintenance and repair of other PP&E.
- » AFUDC of \$3.7 million was capitalised in Fiscal 2011.

Off Balance-Sheet Arrangements

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially effect liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at December 31, 2011.

Business Risks

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

Operational Risks

Operational risks are those risks normally inherent in the operation of generating, transmission and distribution facilities. The Company's facilities are subject to the risk of equipment failure due to deterioration of the asset from use or age, latent defects and design or operator error, among other things. These risks could lead to longer-thanforecast equipment downtimes for maintenance and repair, disruptions

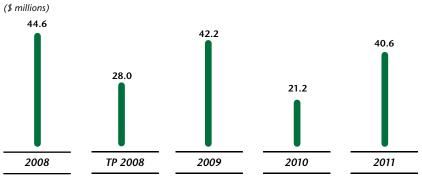
Capital Expenditures

(\$ millions)

(\$ mmons)				
	Twelve months ended December 31, 2011	Twelve months ended December 31, 2010	Change	Change %
Transmission	1.4	1.5	(0.1)	(7%)
Distribution	14.1	10.6	3.5	33%
Generation	24.2	8.4	15.8	188%
Other	0.9	0.7	0.2	29%
Total	40.6	21.2	19.4	92%

The above amounts are inclusive of accruals

Capital Expenditures



The above amounts are inclusive of accruals

of power generation, customer service interruptions, and could result in injury to employees and the public. Accordingly, to ensure the continued performance of the physical assets, the Company determines expenditures that must be made to maintain and replace the assets.

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

Economic Conditions

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

Regulation

The Company operates within a regulated environment. As such the operations of the Company are subject to the normal uncertainties

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

Weather

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

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 the Environmental Management System ("EMS"). The Company continuously adheres with the standard and 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 CUC's financial reporting including the recording of any Asset Retirement Obligations ("ARO's").

Insurance - Terms and Coverage

The Company renewed its insurance policy as at July 1, 2011 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include \$100 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 Company's Power Plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100 million. Each "loss occurrence" is subject to a deductible of \$1.0 million, except for windstorm (including hurricane) and earth movement for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of \$1.0 million and maximum deductible of \$4.0 million for all interests combined. The 2010/2011 insurance policy had a deductible of \$0.5 million for each loss occurrence.

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

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

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

Transition to New Accounting Standards

Effective January 1, 2012, the Company is required to adopt a new set of accounting standards. Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards ("IFRS") effective January 1, 2011; however, qualifying entities with rate regulated activities were granted an optional one-year deferral for the adoption of IFRS due to continued uncertainty around the timing and adoption of a rate-regulated accounting standard by the International Accounting Standards Board ("IASB"). As a qualifying entity with rate-regulated activities, CUC elected to opt for the

one-year deferral and, therefore, continued to prepare its financial statements in accordance with Part V of the Canadian Institute of Chartered Accountants Handbook for all interim and annual periods ending on or before December 31, 2011.

On June 9, 2011 the OSC granted **Exemptive Relief to qualifying entities** with rate-regulated activities including CUC for financial years commencing on or after January 1, 2012 but before January 1, 2015, and interim periods therein. The Exemption will terminate in respect of financial statements for annual and interim periods commencing on or after the earlier of: (a) January 1, 2015; or (b) the date on which the Company ceases to have activities subject to rate regulation.

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

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 longterm 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 for 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 past service costs 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 of 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.

Future Accounting Pronouncements

Adoption of New Accounting Standards:

Due to continued uncertainty around the timing and adoption of a rate regulated accounting standard by the International Accounting Standards Board, CUC has evaluated the option of adopting US GAAP, as opposed to IFRS, and has decided to adopt US GAAP effective January 1, 2012.

Canadian securities rules allow a reporting issuer to prepare and file its financial statements in accordance with US GAAP by qualifying as a US SEC Issuer. An SEC Issuer is defined

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

The Company's application of Canadian GAAP currently references US GAAP for guidance on accounting for rate regulated activities. The adoption of US GAAP in 2012 is, therefore, expected to result in fewer significant changes to the Company's accounting policies as compared to accounting policy changes that may have resulted from the adoption of IFRS. US GAAP guidance on accounting for rate-regulated activities allows the economic impact of rateregulated activities to be recognised in the financial statements in a manner consistent with the timing by which amounts are reflected in customer rates. CUC believes that the continued

application of rate regulated accounting, and the associated recognition of regulatory assets and liabilities under US GAAP, accurately reflects the impact that rate regulation has on the Company's financial position and results of operations. The Company has received approval from the ERA for the use of US GAAP during the exemption period.

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

Phase I - Scoping and Diagnostics:

Phase I consisted of project initiation and awareness; project planning and resourcing; and identification of high-level differences between US GAAP and Canadian GAAP in order to highlight areas where detailed analysis would be needed to determine and conclude as to the nature and extent of financial statement impacts. External accounting and legal advisors were engaged during this phase to assist the Company's internal US GAAP conversion team and to provide technical input and expertise as required. Phase I commenced in the fourth quarter of 2010 and was completed during 2011.

Phase II - Analysis and Development:

Phase II consisted of detailed diagnostics and evaluation of the financial statement impacts of adopting US GAAP based on the highlevel assessment conducted under Phase I; identification and design of any new, or changes to, operational or financial business processes; initial staff training and audit committee orientation; and development

of required solutions to address identified issues.

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

Phase III - Implementation and Review:

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

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

March 31, 2012. Beginning with the first quarter of 2012, the Company's unaudited interim financial statements will be prepared and filed in accordance with US GAAP.

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

Financial Statement Impacts -US GAAP:

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

Employee Future Benefits:

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

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

are required to be recognised in other comprehensive income. Upon adoption of US GAAP, the Company will recognise the unfunded status of its defined benefit plan on the balance sheet.

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

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

The above items do not represent a complete list of expected differences between US GAAP and Canadian GAAP, and are subject to change. Other less significant differences have also been identified. Analysis also remains ongoing and additional areas where the Company's financial statements may be materially impacted may be identified prior to the Company's voluntary preparation and filing of its audited US GAAP financial statements for the year ended December 31, 2011. A detailed reconciliation between the Company's audited Canadian GAAP

and US GAAP financial statements for 2011, including 2010 comparatives, and any additional areas where significant adjustments may be required in accordance with US GAAP, will be disclosed as part of that voluntary filing.

The unaudited, estimated quantification and reconciliation of the Company's balance sheest as at December 31, 2011 and December 31, 2010 prepared in accordance with US GAAP versus Canadian GAAP, and based on the differences identified to date, may be summarized as follows:

Liabilities impact to long-term debt stated seperately as of December 31, 2011 are estimated to increase by approximately \$2.8 million (December 31, 2010: \$1.6 million). The estimated increase is due to the expected increase in the pension liability in accordance with US GAAP.

Shareholders' equity as of December 31, 2011 is estimated to decrease by approximately \$2.8 million (December 31, 2010: \$1.6 million). The estimated decrease is due to the expected recognition of the past service costs and net actuarial losses related to the defined benefit plan in accordance with US GAAP.

Other assets as of December 31. 2011 are estimated to increase by approximately \$1.6 million (December 31, 2010: \$1.2 million). The estimated increase is due to the reclassification of deferred debt costs in accordance with US GAAP.

Long-term debt as of December 31, 2011 is estimated to increase by approximately \$1.6 million (December 31, 2010: \$1.2 million). The estimated increase is due to the reclassification of deferred debt costs in accordance with US GAAP.

Critical Accounting Estimates

The preparation of the Company's financial statements in accordance

with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from the current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they become known. The Company's critical accounting estimates relate to:

Revenue Recognition

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. Customer bills are

issued throughout the month based on meter readings that establish electricity consumption since the last meter reading. The unbilled revenue accrual for the period is based on estimated electricity sales to customers since the last meter reading. The estimation process for accrued unbilled electricity consumption will result in adjustments of electricity revenue in the periods they become known when actual results differ from the estimates. As at December 31, 2011, the amount of unbilled revenue recorded in Accounts Receivable - Trade was \$4.6 million (December 31, 2010: \$4.4 million). Consumers are billed at the beginning of each month leading to the accrual of approximately three weeks of unbilled revenue.

Kilowatt-hour Sales

Kilowatt-hour sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. The kWh accrual for the period is based on estimated electricity sales to

customers since the last meter reading. The estimation process for electricity consumption will result in adjustments of kWh sales statistics in the periods they become known when actual results differ from the estimates. As at December 31, 2011, the amount of estimated kWh sales was 33.2 million kWh (2010: 36.2 million kWh). As bills are generated at the beginning of each month it is necessary to accrue for kWh for accurate reporting.

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 utilised 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 December 31, 2011, the Company had an

Selected Annual Financial Information

(in \$ thousands except Basic Earnings per Class A Ordinary Share, dividends paid per Class A Ordinary Share and where otherwise indicated

Twelve months ended December 31, 2011	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009
218,099	180,096	158,809
20,390	19,879	20,013
19,484	18,926	18,831
421,820	398,964	399,546
208,448	195,290	200,159
250	250	250
176,035	173,841	171,942
0.68	0.67	0.67
0.68	0.67	0.67
0.660	0.660	0.660
3.72	3.72	4.73
	months ended December 31, 2011 218,099 20,390 19,484 421,820 208,448 250 176,035 0.68 0.68 0.660	months ended December 31, 2011 months ended December 31, 2010 218,099 180,096 20,390 19,879 19,484 18,926 421,820 398,964 208,448 195,290 250 250 176,035 173,841 0.68 0.67 0.660 0.660

accrued benefit liability of \$0.1 million (December 31, 2010: \$0.1 million).

Property, Plant and Equipment Depreciation

Depreciation, by its very nature is an estimate based primarily on the estimated useful life of the asset. Estimated useful lives are based on current facts and historical information and take into consideration the anticipated physical life of the assets. As at December 31, 2011, the net book value of the Company's PP&E was \$369.4 million compared to \$352.5 million as at December 31, 2010, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for Fiscal 2011 was \$20.6 million and \$20.0 million for Fiscal 2010. Due to the value of the Company's PP&E, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

Selected Annual Financial Information

The table "Selected Annual Financial Information" shows the Annual Financial Information for the financial years ended December 31, 2011, 2010 and 2009.

2011 Fourth Quarter Results

Net earnings for the three months ended December 31, 2011 ("Fourth Quarter 2011") were \$5.1 million, a 9% or \$0.4 million increase when compared to \$4.7 million for the three months ended December 31, 2010 ("Fourth Quarter 2010"). Operating Income for the Fourth Quarter 2011 decreased when compared to Fourth Quarter 2010 due to increased 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.

Kilowatt-hour sales for the Fourth Quarter 2011 increased 4% to 132.6 million in comparison to 127.8 million for the Fourth Quarter 2010. Sales were positively impacted by warmer weather conditions that affected customer air conditioning usage. The average temperature for the Fourth Quarter 2011 was 1.5 degrees Fahrenheit higher than the average temperature experienced for the Fourth Quarter 2010.

Total operating expenses for the Fourth Quarter 2011 increased 25% to \$51.7 million from \$41.4 million for the Fourth Quarter 2010. Total

operating expenses for Fiscal 2011 increased 25% to \$193.1 million from \$154.2 million for Fiscal 2010. The main contributing factor to the increase in operating expenses was higher power generation expenses which were comprised predominantly of fuel costs.

Cash flow provided by operations, after working capital adjustments, for the Fourth Quarter 2011, was \$9.8 million an increase of \$1.5 million when compared to \$8.3 million for the Fourth Quarter 2010. This increase was primarily due to increased earnings adjusted for increased depreciation. Cash used in investing activities totalled \$11.0 million for the Fourth Quarter 2011, an increase of \$5.5 million from \$5.5 million for the Fourth Quarter 2010. This increase is due to increased capital related expenditures. Cash utilised in financing activities totalled \$1.5 million for the Fourth Quarter 2011, a decrease of \$2.9 million from \$4.4 million used in financing activities for the Fourth Quarter 2010. The Company borrowed \$6.0 million in short-term debt during the Fourth Quarter 2011.

Capital expenditures for the Fourth Quarter 2011 were \$10.8 million, a \$5.3 million, or 96% increase from \$5.5 million in capital expenditures for the Fourth Quarter 2010.

Quarterly Results

(\$ thousands except basic and diluted earnings per Class A Ordinary Share)						
	Operating Revenue	Net Earnings	Income applicable to Class Ordinary A Shares	Earnings per Class A Ordinary Share	Diluted earnings per Class A Ordinary Share	
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 30, 2010	43,182	6,188	6,075	0.21	0.21	
March 31, 2010	40,377	2,456	2,346	0.08	0.08	

Quarterly Results

The table "Quarterly Results" summarises unaudited quarterly information for each of the eight quarters ended March 31, 2010 through December 31, 2011. This information has been obtained from CUC's unaudited interim Financial Statements, which in the opinion of Management, have been prepared in accordance with Canadian GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

December 2011/December 2010

Net earnings for the Fourth Quarter 2011 were \$5.1 million, a 9% or \$0.4 million increase when compared to \$4.7 million for the Fourth Quarter 2010. Operating Income for the Fourth Quarter 2010 due to increased when compared to Fourth Quarter 2010 due to increased 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 the three months ended September 2011 ("Third Quarter 2011"), totalled \$6.3 million, a decrease of \$0.3 million, or 5%, when compared to \$6.6 million for the three months ended September 2010 ("Third Quarter 2010"). A 1% decline in kWh sales and higher general and administration, transmission and distribution and finance costs were partially offset by a decrease in consumer service and maintenance costs for the Third Quarter 2011 when compared to the Third Quarter 2010.

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

June 2011/June 2010

Net earnings for the three months ended June 2011 ("Second Quarter 2011") totalled \$5.9 million, a decrease of \$0.3 million, or 5%, when compared to \$6.2 million for the three months ended June 2010 ("Second Quarter 2010"). A 3% decline in kWh sales and higher general and administration, consumer service and T&D costs were partially offset by an increase in Other Income and lower finance charges for the Second Quarter 2011 when compared to the Second Quarter 2010.

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

March 2011/March 2010

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

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

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 ("DC&P"), to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during Fiscal 2011; and information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Based on the evaluation performed over disclosure controls and procedures, it was concluded that the DC&P of CUC are adequately designed and operating effectively as of December 31, 2011.

Internal Controls over Financial Reporting ("ICFR")

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

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the Internal Control-Integrated Framework by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO"). Based on the assessment, it was concluded that CUC's internal controls over financial reporting are adequately designed and operating effectively as of December 31, 2011.

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

Outlook

In December 2011, the Company filed its 2012 - 2016 CIP totalling approximately \$192.0 million with the ERA. \$131.0 million of the submission is proposed non-generation installation expenditures. Generation needs are subject to a competitive bid process.

Subsequent Events

The Company's analysis of the cost effectiveness of refurbishing the damaged 7.59 MW unit was concluded in February 2012. The investigation indicated that refurbishment of the damaged unit would not be cost effective. The ERA has been provided with the results of the Company's assessement in order to approve the retirement of the unit.

In February 2012, the Company purchased two of the temporary generating units that were placed into service in the Second Quarter of 2011. The purchase of these units ensures that the Company is in compliance with capacity requirements.

Outstanding Share Data

At February 24, 2012 the Company had issued and outstanding 28,626,677 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

March 9, 2012

Management's Responsibility for Financial Reporting

The accompanying Financial Statements of Caribbean Utilities Company, Ltd. and all information in the 2011 Annual Report have been prepared by management, who are responsible for the integrity of the information presented, including the amounts that must of necessity be based on estimates and informed judgements. These Financial Statements were prepared in accordance with accounting principles generally accepted in Canada. Financial information contained elsewhere in the 2011 Annual Report is consistent with that in the Financial Statements.

In meeting its responsibility for the reliability and integrity of the Financial Statements, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure transactions are properly authorised and recorded, assets are safeguarded and liabilities are recognised. The Company focuses on the need for training of qualified and professional staff, effective communication between management and staff and management quidelines and policies.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee that is composed entirely of outside directors. The Audit Committee meets with the external auditors, with and without management present, to discuss the results of the audit, the adequacy of the internal accounting controls and the quality and integrity of financial reporting. The Audit Committee reviews the Company's annual Financial Statements before the statements are recommended to the Board of Directors for approval. The external auditors have full and free access to the Audit Committee.

The Audit Committee has the duty to review the adoption of, and changes in, accounting principles and practices which have a material effect on the Financial Statements, to review financial reports requiring Board approval prior to submission to securities commissions or other regulatory authorities, to assess and review management's judgments material to reported financial information and to review the external auditors' fees.

The Financial Statements and Management's Discussion and Analysis contained in the 2011 Annual Report were reviewed by the Audit Committee and, on their recommendation, were approved by the Board of Directors of the Company. Ernst & Young, independent auditors appointed by the shareholders of the Company upon recommendation of the Audit Committee, have performed an audit of the Financial Statements and their report follows.

Letitia T. Lawrence

Vice President Finance & Chief Financial Officer

Caribbean Utilities Company, Ltd.

J.F. Richard Hew

President & Chief Executive Officer

Last Samuel I.

Caribbean Utilities Company, Ltd.

Auditors' Report

To the Shareholders of Caribbean Utilities Company, Ltd.

We have audited the accompanying financial statements of Caribbean Utilities Company, Ltd., which comprise the balance sheets as at December 31, 2011 and 2010 and the statements of earnings, comprehensive income, retained earnings and cash flows for the periods then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Caribbean Utilities Company, Ltd. as at December 31, 2011 and 2010 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles

Ernst & Young Ltd. *Grand Cayman, Cayman Islands*

Ernst + Young Ltd.

March 9, 2012

Balance Sheets

(Expressed in thousands of United States dollars)

		As at December 31, 2011	As at December 31, 2010
	Note	\$	\$ December 31, 2010
Assets			
Current Assets			
Cash and cash equivalents		424	2,363
Accounts receivable	4	15,943	11,917
Other receivable - Insurance	5	438	2,188
Regulatory assets	6	25,759	21,683
Inventories	7	3,807	3,074
Prepayments		2,636	2,462
		49,007	43,687
Property, plant and equipment	8	369,832	352,509
Other assets		162	173
Intangible assets	9	2,819	2,595
Total Assets		421,820	398,964
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank overdraft	10	1,059	-
Accounts payable and accrued expenses		31,640	24,985
Regulatory liabilities	6	281	670
Short-term debt	10	6,000	17,000
Current portion of long-term debt	11	15,500	15,500
Consumers' deposits and advances for construction		4,357	4,178
		58,837	62,333
Long-term debt	11	186,948	162,790
Total Liabilities		245,785	225,123
Shareholders' Equity			
Share capital	13	1,954	1,944
Share premium	13	76,839	75,355
Contributed surplus	14	415	372
Retained earnings		96,827	96,170
Total Shareholders' Equity		176,035	173,841
Total Liabilities and Shareholders' Equity		421,820	398,964

See accompanying Notes to Financial Statements

Approved on behalf of the Board of directors by:

David E. Ritch, OBE, JP
Director

J.F. Richard Hew Director

Statements of Earnings and Comprehensive Income

(Expressed in thousands of United States dollars except Basic and Diluted earnings per Class A Ordinary Share and Weighted Average Number of Class A Ordinary Shares)

	Note	Twelve months ended December 31, 2011 \$	Twelve months ended December 31, 2010 \$
Operating Revenues			
Electricity sales		69,630	69,517
Fuel factor		148,469	110,579
Total Operating Revenues		218,099	180,096
Operating Expenses			
Power generation		151,714	113,214
General and administration		9,254	8,418
Consumer services		1,616	1,718
Transmission and distribution		1,998	2,178
Depreciation of property, plant and equipment		20,570	20,034
Maintenance		7,622	8,284
Amortization of intangible assets		308	336
Total Operating Expenses		193,082	154,182
Operating Income		25,017	25,914
Other (Expenses)/Income			
Finance charges	18	(8,659)	(9,143)
Foreign exchange gain	19	2,125	1,785
Other income		1,907	1,323
Total Net Other (Expenses)		(4,627)	(6,035)
Earnings and Comprehensive Income for the Period		20,390	19,879
Preference dividends paid on Class B Shares		(906)	(953)
Earnings on Class A Ordinary Shares		19,484	18,926
Weighted average number of Class A Ordinary Shares issued and fully paid	15	28,523	28,352
Basic Earnings per Class A Ordinary Share	15	0.68	0.67
Diluted Earnings per Class A Ordinary Share	15	0.68	0.67
Dividends declared per Class A Ordinary Share		0.660	0.660

Statements of Retained Earnings (Expressed in thousands of United States dollars)

	Twelve months ended December 31, 2011 \$	Twelve months ended December 31, 2010 \$
Balance at beginning of period	96,170	95,955
Earnings for the period	20,390	19,879
Dividends declared	(19,733)	(19,664)
Balance at end of period	96,827	96,170

Statements of Cash Flows

(Expressed in thousands of United States dollars)

	Twelve	Twelve
	months ended	months ended
	December 31, 2011	December 31, 2010
	\$	\$
Operating Activities		
Earnings for the period	20,390	19,879
Items not affecting cash:		,
Depreciation of property, plant and equipment	20,570	20,034
Amortization of intangible assets	308	336
Non-cash pension expenses	-	120
Amortization of deferred financing costs	187	182
Stock-based compensation	47	47
	41,502	40,598
Net change in non-cash working capital balances		
related to operations	116	159
Net change in regulatory deferrals	(4,466)	10
Cash flow related to operating activities	37,152	40,767
Investing Activities		
Purchase of property, plant and equipment	(39,624)	(20,173)
Costs related to intangible assets	(554)	(292)
Insurance funds received	4,771	-
Proceeds on sale of property, plant and equipment	19	26
Cash flow related to investing activities	(35,388)	(20,439)
Financing Activities		
Proceeds from debt financing	46,000	9,000
Repayment of debt	(32,500)	(14,000)
Increase in bank overdraft	1,059	-
Dividends paid	(19,757)	(19,529)
Net proceeds from share issues	1,495	1,637
Cash flow related to financing activities	(3,703)	(22,892)
Decrease in cash and cash equivalents	(1,939)	(2,564)
Cash and cash equivalents - beginning of period	2,363	4,927
Cash and cash equivalents - end of period	424	2,363
Supplemental disclosure of cash flow information:		
Interest paid during the period	12,079	11,995

Notes to Financial Statements

(Expressed in thousands of United States dollars)

1. Nature of Operations and Financial Statement Presentation

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") and reflect the decisions of the Electricity Regulatory Authority ("ERA"). These decisions affect the timing of the recognition of certain transactions resulting in the recognition of regulatory assets and liabilities, which Caribbean Utilities Company, Ltd., ("CUC" or the "Company") considers it is probable to recover or settle subsequently through the rate-setting process.

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

The Company was incorporated on April 30, 1966 under the laws of the Cayman Islands. On November 7, 2006, the Company announced that its majority shareholder, Fortis Inc. through its wholly-owned subsidiary, Fortis Energy (Bermuda) Ltd. ("Fortis"), acquired an additional 16% of the outstanding Class A Ordinary Shares of CUC from International Power Holdings Limited ("IPHL") and four other vendors associated with IPHL. Fortis owns a controlling interest in CUC by beneficially holding approximately 60% of the outstanding Class A Ordinary Shares of CUC.

The Company is levied custom duties of \$0.85 per imperial gallon ("IG") of diesel fuel it imports. In addition, the Company pays customs duties of 15% on all other imports. The T&D Licence requires the Company to pay a licence fee of 1% of gross revenues, which applies to customer billings for consumption over 1,000 kilowatt-hours ("kWh") per month as a pass-through charge on a per kWh basis. In addition to the licence fee, a regulatory fee of ½ of 1% of gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month.

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 licence and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the rate cap and adjustment mechanism ("RCAM"). After the requisite review in 2011, the Company confirmed to the ERA that the RCAM yielded no rate adjustment; therefore there was no rate adjustment in June 2011. All fuel and lubricating oil costs are passed through to customers without markup as a per kWh charge.

For regulatory purposes fixed assets comprise the Property, Plant and Equipment ("PP&E") and intangible assets acquired or constructed by the Company as reported in the Company's financial statements (see Note 2). 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.

2. Summary of Significant Accounting Policies

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

Revenue Recognition

Revenue is recognised in a manner approved by the utility's regulatory authority. Revenue is billed at rates approved by the ERA and is generally bundled to include service associated with generation, transmission and distribution.

Transmission is the conveyance of electricity at high voltages (generally at 69 kilovolts ("kV") and higher). Distribution networks convey electricity from transmission systems to end-use customers.

Revenue from the sale of electricity is recognised on an accrual basis. Electricity is metered upon delivery to customers and recognised as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings. At the end of each period, a certain amount of consumed electricity will not have

been billed. Electricity consumed but not yet billed to customers are estimated and accrued as unbilled revenue at each period end.

CUC passes through 100% of fuel costs to consumers on a two-month lag basis this is recorded as Fuel Factor Revenues.

Kilowatt-hour Sales

Kilowatt-hour sales throughout the month are based on meter readings that establish electricity consumption since the last meter reading. The kWh accrual for the period is based on estimated electricity sales to customers since the last meter reading.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, bank demand deposits and bank fixed deposits maturing within three months of the date of acquisition. At December 31, 2011, cash and cash equivalents consisted of all cash.

Accounts Receivable

Accounts receivable are included in the balance sheet net of the allowance for doubtful accounts. Insurance receivables are recorded when recovery becomes reasonably assured.

Inventories

Fuel and lube oil are carried at cost. Line inventory is carried at cost less provision for obsolescence. Inventories are consumed/utilised on an average cost basis. Inventories are valued at lower of cost and net realisable value.

Property, Plant and Equipment

PP&E are stated at cost.

The cost of additions to PP&E is the original cost of contracted services, direct labour and related overheads, materials, GEC and AFUDC. Line inventory that is foreseeable as capitalisable is included in PP&E less provision for obsolescence. Major spare parts and stand-by equipment to be used during more than one period qualify as PP&E. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of PP&E, they are accounted for as PP&E. Damaged PP&E are written off, or appropriate provision made, where damage relates to assets that will be reconstructed.

The Company capitalises certain overhead costs not directly attributable to specific PP&E but which do relate to the overall capital expenditure programme GEC. Per the Licence agreements these costs may not exceed 10% of non-fuel operating costs. In the absence of regulation, only those overhead costs directly attributable to construction activity would be capitalised under Canadian GAAP. Additionally, the Company capitalises an AFUDC, which represents the cost of debt and equity financing incurred during construction of PP&E. In the absence of rate regulation, this cost of equity financing would not be capitalised under Canadian GAAP.

Upon disposition of PP&E the original cost will be removed from the PP&E accounts, that amount net of salvage proceeds will also be removed from accumulated depreciation, as such, any resulting gain or loss will be charged to accumulated depreciation. In the absence of rate regulation, these gains or losses would be recognised as such upon disposition.

Depreciation is provided on the cost of PP&E, except for freehold land, capitalised projects in progress, line inventory and spare parts which is not depreciated, on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Transmission and distribution	20 to 50
Generation	20 to 50
Other: Buildings	20 to 50
Motor Vehicles	5 to 15
Equipment and computers	3 to 20

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.

Intangible Assets

Intangible assets include deferred licence renewal costs, computer software, and trademark expenses. Intangible assets, excluding trademark expenses and assets in progress are being amortized on a straight-line basis over the life of the asset. Deferred licence renewal costs are being amortized over 20 years on a straight-line basis. Computer software costs are being amortized over a range of 3 to 10 years on a straight-line basis.

Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies 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. Gains and losses on translation are included in the Statement of Earnings.

The Company translates its Cayman Islands Dollars to United States Dollars at a fixed rate of CI\$0.84 to US\$1.00.

Other Income

Other income is comprised of pole rental fees, income from pipeline operations, sale of meter sockets, sale of recyclable metals and other miscellaneous income.

Other Income is recognised when sales are delivered, services are rendered and rental fees are recognised on a linear basis on the period of the lease.

Segment Information

The Company operates in one business segment, electricity generation, transmission and distribution, in one geographic area, Grand Cayman, Cayman Islands.

Fair Values

The fair value of financial assets and liabilities has been determined from market values where available. Where fair values of financial instruments with an immediate or short-term maturity are considered to approximate cost, this fact is disclosed. Fair value of financial assets and liabilities for which no market value is readily available is determined by the Company using future cash flows discounted at an estimated market rate. In establishing an estimated market rate, the Company has evaluated the existing transactions, as well as comparable industry and economic data and other relevant factors such as pending transactions.

Capital Stock

Dividend Reinvestment Plan

All dividends payable on Class A Ordinary Shares recorded for participation in the Plan, including Class A Ordinary Shares acquired and retained under the Plan, will be used by CUC to purchase additional Class A Ordinary Shares for the Participant's account on the Investment Date.

Customer Share Purchase Plan ("CSPP")

The CSPP provides an opportunity for customers resident in Grand Cayman to invest in CUC. Customers may make cash payments of not less than \$30 per purchase and up to a total of \$14,000 per year for the purchase of Class A Ordinary Shares of CUC; and retain the Class A Ordinary Shares in the Plan and have the cash dividends on such shares reinvested in additional Class A Ordinary Shares. In both instances, the Class A Ordinary Shares are acquired from CUC at not more than 100% of the average market price which is calculated using the daily closing prices of CUC Class A Ordinary Shares on the Toronto Stock Exchange over a specified period.

Employee Share Purchase Plan ("ESPP")

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

Executive Stock Option Plan

The Company accounts for its executive stock option grants using the fair value method, where any compensation expense is amortised over the vesting period of the options.

The Company has a policy of measuring compensation expense upon the issuance of stock options. Using the fair value

method, the compensation expense is amortised over the four-year vesting period of the options. Upon exercise, the proceeds of the option are credited to capital stock at CI\$0.05 and the difference from the exercise price to share premium. Therefore an exercise of options below the current market price has a dilutive effect on capital stock and shareholders equity. Forfeitures are accounted for as they occur.

Employee Future Benefits

The Company maintains defined contribution pension plans for its employees and defined benefit pension plan for the retired Chairman of the Company's Board of Directors as well as the retired President and Chief Executive Officer. The pension costs of the defined contribution plan are recorded as incurred.

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. Past service costs from plan initiation are amortised on a straight-line basis over the remaining service period of the employee active at the date of initiation. The excess of any cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year, are deferred and amortized over the remaining service period of the employee. The balance of any such actuarial gain (loss) is also deferred. The Company's defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation.

Financial Instruments

The Company designates its financial instruments into one of the following three categories: (i) held for trading, (ii) loans and receivable, (iii) Other financial liabilities. All financial instruments are initially measured at fair value. Subsequent adjustment of held for trading instruments are taken to the Statement of Earnings, whereas loans and receivables and other financial liabilities are subsequently measured at cost using the effective interest rate method.

The Company's policy is to recognise transaction costs associated with financial assets and liabilities as an adjustment to the cost of those financial assets and liabilities recorded on the balance sheet. These transaction costs are amortized into earnings using the effective interest rate method over the life of the related financial instrument.

Derivatives

The Company uses derivatives to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers for the fuel that the Company must purchase in order to provide electricity service. The programme utilises call options to promote transparency in pricing. The use of call options creates a ceiling price for fuel costs at pre-determined contract premiums.

The derivatives entered into by the Company relate to regulated operations and all contracts are recognised as either regulatory assets or liabilities and are measured at fair value. Any resulting gains or losses and changes to fair value are recorded in the regulatory asset/regulatory liability accounts, subject to regulatory approval.

Cash inflows and outflows associated with the settlement of all derivative instruments are included in operating cash flows on the Company's statements of cash flows.

3. Future Accounting Changes

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

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

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

4. Accounts Receivable

Accounts Receivable		
(\$ thousands)		
	As at December 31, 2011	As at December 31, 2010
Billings to consumers Unbilled revenue Other receivables Employee Share Purchase Plan	9,119 4,602 2,189 33	6,521 4,400 922 74
Total accounts receivable	15,943	11,917

Unbilled Revenues

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

Other Receivables

Other receivables relate to amounts due outside of the normal course of operations. Items in other accounts receivable include pole rental fees, sale of meter sockets, sale of recyclable materials and amounts due from related parties (see Note 22). Other receivables at December 31, 2011 also include billing adjustments for commercial customers.

Employee Share Purchase Plan

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

5. Other Receivable - Insurance

Other Receivable - Insurance		
(\$ thousands)		
	As at December 31, 2011	As at December 31, 2010
Unit 33 claim Unit 1 claim Other insurance claims	250 188	2,119 - 69
Total	438	2,188

On September 23, 2010 there was an over speed failure damaging Unit 33, a MAN Diesel SE 16 megawatt ("MW") diesel generating unit. The unit was placed into service in July 2011. 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

Regulatory Assets and	l Liabilities		
(\$ thousands)			
	Description	As at December 31, 2011	As at December 31, 2010
Regulatory assets Regulatory assets	Fuel tracker account (a) Derivative contract (b)	24,369 468	21,192 -
Regulatory assets Regulatory assets	Miscellaneous regulatory assets (c) Government and Regulatory Tracker account (d)	440 482	491
Regulatory assets	Total	25,759	21,683
Regulatory liabilities Regulatory liabilities	Government and Regulatory Tracker account (d) Miscellaneous regulatory liabilities (e)	(281)	(670)
Regulatory liabilities	Total	(281)	(670)

- (a) Fuel Tracker Account The 2008 T&D Licence established a fuel tracker mechanism to ensure the Company and the consumers neither gain nor lose from the pass through of fuel costs. The purpose of the fuel tracker account is to accumulate actual fuel costs incurred less fuel factor revenues collected. This account represents deferred accumulated fuel costs to be recovered from or reimbursed to the consumers. The receivable or payable value represents a regulatory asset or liability. The net position of the fuel tracker accounts fluctuates monthly and is affected by fuel prices and electricity consumption. In the absence of rate regulation and governmental controls the balance in the fuel tracker account would have been expensed as opposed to deferred for two months to allow for regulatory review and earnings for the year ended December 31, 2011 would have been \$3.2 million lower.
- (b) Derivative Contract The Company's purpose of hedging is to reduce the impact of volatility in the Fuel Cost Charge paid by the Company's customers in the face of price volatility for the fuel that the Company must purchase in order to provide electric service. This account represents the fair value adjustments for the call options. In the absence of rate regulation and governmental controls the unrealised loss for the derivative contract line item would have been expensed and earnings for the year ended December 31, 2011 would have been \$0.5 million lower (see Note 16).
- (c) Miscellaneous regulatory assets represent costs incurred by the Company, other than fuel and the specifically itemised licence and regulatory fees, to be recovered through the Company's base rates on terms as agreed with the ERA. In the absence of rate regulation and governmental controls the balance in the miscellaneous regulatory assets would have been recognised in earnings and earnings for the year ended December 31, 2011 would have been \$0.05 million higher.
- (d) Government and Regulatory Tracker Account A licence fee of 1%, payable to the Government, is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month as a pass-through charge. In addition to the licence fee, a regulatory fee of ½ of 1% is charged on gross revenues, then prorated and applied only to customer billings with consumption over 1,000 kWh per month. The tracker account is the actual fee incurred less the amount of funds received from consumers. The per kWh charge is then adjusted quarterly for the balance of this account. There is no impact on earnings in the absence of rate regulation.
- (e) Miscellaneous regulatory liabilities represent costs owed by the Company, other than licence and regulatory fees, to be recovered through the Company's base rates on terms as agreed with the ERA. In the absence of rate regulation and governmental controls the balance in the miscellaneous regulatory liabilities would have been recognised in earnings and earnings for the year ended December 31, 2011 would have been \$0.3 million higher.

7. Inventories

Inventories		
(\$ thousands)		
	As at December 31, 2011	As at December 31, 2010
Fuel Line spares Other	3,055 104 648	2,593 97 384
Total	3,807	3,074

The inventory amounts expensed for the year ended December 31, 2011 totalled \$149.1 million which includes \$148.5 million in fuel and lube costs, \$0.3 million in vehicle fuel and \$0.3 million in line spares. The inventory amounts expensed for the year ended December 31, 2010 totalled \$112.3 million which includes \$111.8 million in fuel and lube costs, \$0.3 million in vehicle fuel and \$0.2 million in line spares.

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

Property, Plant and Equipment			
(\$ thousands)			
	Cost	Accumulated Depreciation	Net Book Value December 31, 2011
T&D	256,752	79,346	177,406
Generation Other:	271,069	100,854	170,215
Land	5,304	-	5,304
Buildings	19,913	8,812	11,101
Equipment, motor vehicles and computers	19,136	13,330	5,806
Total other	44,353	22,142	22,211
Property, plant and equipment	572,174	202,342	369,832
	Cost	Accumulated Depreciation	Net Book Value December 31, 2010
T&D	239,390	70,845	168,545
Generation	248,575	88,426	160,149
Other: Land	5,304	_	5,304
Buildings	19,971	8,145	11,826
Equipment, motor vehicles and computers	18,965	12,280	6,685
Total other	44,240	20,425	23,815
Property, plant and equipment	532,205	179,696	352,509

Included in PP&E are a number of capital projects in progress with a total cost to date of \$20.4 million (December 31, 2010: \$21.1 million). These projects primarily relate to various improvements to the Generation System.

Also included in Generation and T&D is freehold land with a cost of \$5.0 million (December 31, 2010: \$4.7 million). In addition, line inventory with a cost of \$5.6 million (December 31, 2010: \$5.1 million) is included in T&D. Engine spares with a net book value of \$16.3 million (December 31, 2010: \$15.0 million) are included in Generation.

The capitalisation of 'Financing Costs' is calculated by multiplying the Company's Cost of Capital rate by the average work in progress for each month. The cost of capital rate for fiscal 2011 is 8.75% (2010: 8.75%) and will be adjusted annually. As a result, during the year ended December 31, 2011, the Company recognised \$3.7 million in AFUDC. The Company recognised an amount of \$3.0 million for year ended December 31, 2010 under the provision for AFUDC.

The Company capitalised an amount of \$2.9 million (December 31, 2010: \$2.2 million) for the year ended December 31, 2011 under the provision for GEC (see Note 1).

In accordance with the Licences when an asset is impaired or disposed of, before the original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with rate regulated accounting and differs from the Canadian GAAP treatment of a loss being recognised on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. This amount within accumulated depreciation is to be depreciated as per the remaining life of the asset when the unit is placed into service. In the case of the 16 MW unit which was damaged in September 2010 (see Note 5 for greater detail), insurance proceeds are applied to accumulated depreciation and as the asset is repaired the costs incurred are being capitalised.

9. Intangible Assets

Intangible Assets			
(\$ thousands)			
	Cost	Accumulated Amortization	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	364	-	364
Total	6,517	3,698	2,819
	Cost	Accumulated Amortization	Net Book Value December 31, 2010
Deferred licence renewal costs	1,890	250	1,640
Computer software	3,857	3,139	718
Other intangible assets in progress	237	-	237
Total	5,984	3,389	2,595

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

10. Short-Term Financing

The Royal Bank of Canada ("RBC") credit facility agreement provides for \$38.5 million and the total available was \$24.9 million at December 31, 2011 (\$15.0 million at December 31, 2010). In November 2011 the Company executed a new credit facility agreement due to the restructuring of the RBC group. The only significant change to the agreement relates to the named lender, now both RBC Royal Bank (Bahamas) Limited and RBC Royal Bank (Cayman) Limited, with RBC Royal Bank (Cayman) Limited named as agent.

Short-Term Financing			
(\$ thousands)			
Credit Facilities	Total Credit Financing Facilities	Total Utilised December 31, 2011	Total Available December 31, 2011
Corporate credit card line *	400	400	-
Letters of credit - 1% per annum	**6,095	6,095	-
Operating, revolving line of credit - Prime plus 0.5% per annum	7,500	1,059	6,441
Catastrophe standby loan - Libor plus 1.5% per annum	7,500	-	7,500
Demand loan facility - interim funding of capital expenditures - Libor plus 1.5% per annum	17,000	6,000	11,000
Total	38,495	13,554	24,941

^{*} Included in Accounts payable and accrued expenses.

^{**} Letters of Credit include those provided to the rental generation supplier of \$5.5 million. These will be removed upon completion of the rental contracts.

11. Long-Term Debt

Long-Term Debt		
(\$ thousands)		
	As at December 31, 2011	As at December 31, 2010
6.47 % Senior Unsecured Loan Notes due 2013 7.64 % Senior Unsecured Loan Notes due 2014 6.67 % Senior Unsecured Loan Notes due 2016 5.09 % Senior Unsecured Loan Notes due 2018 5.96 % Senior Unsecured Loan Notes due 2020 5.65 % Senior Unsecured Loan Notes due 2022 7.50 % Senior Unsecured Loan Notes due 2024 4.85 % Senior Unsecured Loan Notes due 2026 5.10 % Senior Unsecured Loan Notes due 2031	5,000 9,000 15,000 28,000 27,000 40,000 40,000 15,000 25,000	7,500 12,000 18,000 32,000 30,000 40,000
Less: Current portion of long-term debt Less: Deferred debt issue costs	204,000 (15,500) (1,552) ———————————————————————————————————	179,500 (15,500) (1,210) 162,790

Long-term debt repayments per fiscal year are as follows:

Year	\$
2012	15,500
2013	19,500
2014	17,000
2015	14,000
2016	14,000
2017 and later	124,000

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

12. Capital Management

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

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

The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the rights offering that occurred in the 2008 Transitional Period and utilisation of the Share Purchase Plans. The capital managed by the Company is composed of debt (short-term debt, long-term debt and bank overdraft) and shareholders' equity (including: capital stock, share premium, contributed surplus and retained earnings).

The Company's capital structure is shown below:

Capital Structure				
	December 31, 2011 (\$ thousands)	%	December 31, 2010 (\$ thousands)	%
Total debt Shareholders' equity	208,448 176,035	54 46	195,290 173,841	53 47
Total	384,483	100	369,131	100

13. Capital Stock

Authorised:

- a) 60,000,000 (December 31, 2010: 60,000,000) Class A Ordinary Shares of CI\$0.05 each
- b) 250,000 (December 31, 2010: 250,000) 9% Cumulative, Participating Class B Preference Shares of CI\$0.84 each (non-voting)
- c) 419,666 (December 31, 2010: 419,666) Class C Preference Shares of CI\$0.84 each (non-voting)
- d) 1 Cumulative, Participating, Class D Preference Share of CI\$0.56 (non-voting)

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

Class A Ordinary Shares Issued				
	Year ended Dec. 31, 2011 Number of shares	Year ended Dec. 31, 2011 Amount (\$ thousands)	Year ended Dec. 31, 2010 Number of shares	Year ended Dec. 31, 2010 Amount (\$ thousands)
Balance, beginning of period	28,464,853	1,694	28,277,139	1,683
Customer Share Purchase and Dividend Reinvestment Plan Employee Share Purchase Plan, Employee Long	149,604	9	170,964	10
Service Bonus Plans and Employee Stock Options	10,220	1	16,750	1
Class A Ordinary Shares issued and outstanding 9% Cumulative, Participating Class B	28,624,677 250,000	1,704 250	28,464,853 250,000	1,694 250
Total		1,954		1,944

Total shares issued and purchased in 2011 were 159,824.

Share proceeds totalled \$1.5 million, of which \$1.49 million was recorded as an increase to share premium and \$0.01 million as an increase to share capital.

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.

Share Options				
	Dec. 31, 2011	Dec. 31, 2011 Weighted	Dec. 31, 2010	Dec. 31, 2010 Weighted
	Number of options	average exercise price per share	Number of options	average exercise price per share
Outstanding at beginning of period Granted	850,403	11.59	904,903	11.59
Exercised Forfeited/Cancelled Expired	(5,500) - (382,303)	(8.76) - (11.46)	(54,500) -	(11.60) -
Outstanding at end of period	462,600	11.74	850,403	11.59

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

Share Options					
Date of grant	Number of Class A Ordinary Shares under option	Number of exercisable Class A Ordinary Shares	Exercise price (\$)	Term of option	Weighted Average Remaining Life of Option
September 22, 2003	174,100	174,100	13.78	10 years	
April 11, 2008	145,200	108,900	12.22	10 years	
February 27, 2009	143,300	68,900	8.76	10 years	
Outstanding at end of period and Weighted Average	462,600	351,900	11.74		4.91 years

Under the fair value method, the compensation expense was \$0.05 million for the year ended December 31, 2011 (December 31, 2010: \$0.05 million), resulting in a corresponding increase of the contributed surplus.

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 28,523,127 and 28,351,734 for the years ended December 31, 2011 and December 31, 2010, respectively. The weighted average of Class A Ordinary Shares used for determining diluted earnings were 28,531,471 and 28,351,734 for the years ended December 31, 2011 and December 31, 2010, respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

As at December 31, 2011 the outstanding options are not materially dilutive as the market price of common shares is below or marginally higher than the exercise price.

Earnings per Share			
	Earnings Dec. 31, 2011 (\$ thousands)	Weighted average shares Dec. 31, 2011 (\$ thousands)	Earnings per common shares Dec. 31, 2011 (\$ thousands)
Net earnings applicable to common shares Weighted average shares outstanding Basic earnings per common share Effect of potential dilutive securities: Stock options	19,484 - -	28,523 - 9	0.68
Diluted earnings per common share	19,484	28,532	0.68
	Earnings Dec. 31, 2010 (\$ thousands)	Weighted average shares Dec. 31, 2010 (\$ thousands)	Earnings per common shares Dec. 31, 2010 (\$ thousands)
Net earnings applicable to common shares Weighted average shares outstanding Basic earnings per common share Effect of potential dilutive securities: Stock options	18,926 - - -	28,352 -	- - 0.67
Diluted earnings per common share	18,926	28,352	0.67

16. Financial Instruments

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

Financial Instruments				
	As at Dec. 31, 2011 Carrying value	As at Dec. 31, 2011 Estimated fair value	As at Dec. 31, 2010 Carrying value	As at Dec. 31, 2010 Estimated fair value
Held for trading:				
Cash and cash equivalents	424	424	2,363	2,363
	424	424	2,363	2,363
Loans and receivables:				
Accounts receivable	15,943	15,943	11,917	11,917
Other receivables - Insurance	438	438	2,188	2,188
	16,381	16,381	14,105	14,105
Other financial liabilities:				
Accounts payable and accrued expenses	31,640	31,640	24,985	24,985
Short-term debt	6,000	6,000	17,000	17,000
Consumer deposits	4,357	4,357	4,178	4,178
Long-term debt including current portion ¹	202,448	233,231	178,290	167,768
	244,445	275,228	224,453	213,931

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

Fair Values

The fair value of long-term debt, including current portion, is calculated by discounting the future cash flows of each debt instrument at the estimated yield to maturity for the same or similar debt instruments at the balance sheet date. The fair value of long-term debt as at December 31, 2011 totalled \$233.2 million, (December 31, 2010: \$167.8 million). The fair value of the Company's remaining financial instruments approximates their carrying value, reflecting either their nature or short-term maturity.

Fuel Option Contracts

Fuel Option Contracts				
Financial liability	As at Dec. 31, 2011 Total fair value	Level 1 Quoted Prices in active markets for identical assets	Level 2 Sigificant other inputs	Level 3 Significant unobservable inputs
Option contracts ¹	(468)		(468)	

 $^{^{1}\ \}textit{Carrying value of fuel option contracts included in Accounts Payable and Accrued Expenses}.$

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

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

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

Credit Risk:

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

Trade and Other Accounts Receivables					
(\$ thousands)					
	As at December 31, 2011	As at December 31, 2010			
Current Past due 31 to 60 days Past due 61 to 90 days Past due over 90 days	10,848 1,297 485 3,469	9,556 809 348 1,423			
Total accounts receivables	16,099	12,136			
Less: Allowance for doubtful accounts Less: Consumer deposits and	(156)	(219)			
advances for construction	(4,357)	(4,178)			
Net exposure	11,586	7,739			

As at December 31, 2011, the net exposure on the balance sheet is \$11.6 million.

Liquidity Risk:

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

Liquidity Risks					
(\$ millions)					
	Total	2011	2012 - 2013	2014 - 2015	2016 onward
Bank overdraft	1.1	1.1	-	-	-
Accounts payable and					
accrued expenses	31.6	31.6	-	-	-
Consumer's deposits and					
advances for construction	4.4	4.4	-	-	-
Short-term debt	6.0	6.0	-	-	-
Letter of credit	6.1	6.1	-	-	-
Total debt	204.0	15.5	36.5	28.0	124.0
Long-term debt interest	85.8	11.9	20.5	16.8	36.6
Total	339.0	76.6	57.0	44.8	160.6

Interest Rate Risk:

Long-term debt is issued at fixed interest rates, thereby minimising cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings totals \$6.0 million.

17. Insurance Coverage

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

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

In the event of a natural disaster as defined in the T&D Licence, the Company may apply to the ERA to recover the loss or liability not covered under the insurance plan through a Z factor adjustment. The Z Factor is an amount, expressed in cents per kWh, approved by the ERA and estimated to recover the sum of those cost items deemed to be outside the constraints of the RCAM. The addition of the Z Factor to the customers' base rate is subject to certain terms and conditions found in the Licences. The actual increase in base rates will be capped for the year of the natural disaster at 60% of the change in the Price Level Index. 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 Return on Rate Base ("RORB") is below the target range. The Company would also write-off destroyed assets over the remaining life of the asset that existed at the time of destruction. Z Factor rate changes will be utilised for insurance deductibles and other extraordinary expenses.

18. Finance Charges

The composition of finance charges were as follows:

Finance Charges		
(\$ thousands)		
	Year ended December 31, 2011	Year ended December 31, 2010
Interest costs - long-term debt Other interest costs AFUDC *	11,904 428 (3,673)	11,664 458 (2,979)
Total	8,659	9,143

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

19. Foreign Exchange

The closing rate of exchange on December 31, 2011 as reported by the Bank of Canada for the conversion of US dollars into Canadian dollars was Cdn\$1.017 per US\$1.00. The official exchange rate for the conversion of Cayman Islands dollars into US dollars as determined by the Cayman Islands Monetary Authority is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of December 31, 2011 for conversion of Cayman Islands dollars into Canadian dollars was Cdn\$1.22 per CI\$1.00 (December 31 2010: Cdn\$1.19).

20. Employee Future Benefits

All employees of the Company are members of a defined contribution Pension Plan established for the exclusive benefit of employees of the Company and which complies with the provisions of the National Pensions Law. As a term of employment, the Company contributes 7.5% of wages or salary in respect of employees who have completed 15 years of continuous service and have attained the age of 55 years and 5% of wages or salary for all other employees. All contributions, income and expenses of the plan are accrued to, and deducted from, the members' accounts. The total expense recorded in respect of employer contributions to the plan for the year ended December 31, 2011 amounted to \$0.85 million (December 31, 2010: \$0.81 million). The Pension Plan is administered by an independent Trustee.

During 2003, the Company established a defined benefit pension plan for a Director of the Company. In May 2005, the Company's Board of Directors approved the establishment of a defined benefit pension plan for the retired President and Chief Executive Officer. The pension cost of the defined benefit plan is actuarially determined using the projected benefits method. In April 2007, the Company established an independent trust and the defined benefit plans were amalgamated at that time. An independent actuary performs a valuation of the obligations under the defined benefit pension plans at least every three years. The latest actuarial valuation of the pension plans for funding purposes was at December 31, 2011. An accrued benefit liability of \$0.06 million as at December 31, 2011 (December 31, 2010: \$0.1 million) is included within Accounts Payable and Accrued Expenses in the Balance Sheets.

Pension Plan		
	2011	2010
Accrued Benefit Obligation		
Balance beginning of year	5,885	5,232
Interest cost	321	311
Actuarial (gains)/losses	996	443
Benefit payments	(79)	(101)
Balance end of year	7,123	5,885
Plan Assets		
Fair value, beginning of year	4,217	3,168
Actual return on plan assets	(269)	705
Employer contributions to plan	445	445
Benefit payments	(79)	(101)
Fair value, end of year	4,314	4,217
Funded Status - deficit	(2,811)	(1,670)
Unamortized past service costs	579	828
Unamortized net actuarial loss	2,168	723
Accrued Benefit Liability	(64)	(119)
The Company's defined benefit pension plan asset allocation was as follows: Equities	41%	51%
·	18%	7%
Money market funds Fixed income	39%	37%
Cash	2%	5%
	100%	100%
During the year ended December 31, 2011, \$0.4 million (December 31, 2010: \$0.5 million) was recorded as compensation expense, which comprises the following:		
Interest cost	321	311
Expected return on plan assets	(221)	(168)
Amortization of past service costs	249	248
Amortization of actuarial losses	40	88
	388	479
Significant assumptions used:		
Discount rate during year (%)	5.50	6.00
Discount rate at year end (%)	4.50	5.50
Rate of compensation increase (%)	3.00	3.00
Expected long-term rate of return on plan assets (%)	5.00	5.00
Average remaining service period (years)	2.00	3.00

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. Transactions with Related Parties

Miscellaneous receivables from FortisTCI, also a subsidiary of Fortis Inc. totalling \$0.01 million were outstanding at December 31, 2011 (\$0.04 million December 31, 2010) for engineering assistance and are included within Accounts Receivable on the Balance Sheet. Miscellaneous payables to Fortis Inc., the Company's majority shareholder, were nil at December 31, 2011 (\$0.03 million as at December 31, 2010). Prior year amounts related to travel expenses and were included within the Accounts Payable and Accrued Expenses on the Balance Sheet. Miscellaneous receivables from management were nil at December 31, 2011 (\$0.001 million as at December 31, 2010) for insurance expenses and are included within Accounts Receivable on the Balance Sheet.

23. 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 Power 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 Road Power Plant. The Company is committed to purchase 80% of the Company's fuel requirements for the running of the Power 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 - 10.2. The contract contains an automatic renewal clause for the years 2010 through to 2012. The Company has renewed the contract until April 30, 2012.

As a result of the Company's bulk fuel inventory, the value of CUC's closing stock of fuel at December 31, 2011 was \$3.1 million (December 31, 2010: \$2.6 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Road Power Plant.

24. Subsequent Events

The Company's analysis of the cost effectiveness of refurbishing the damaged 7.59 MW unit was concluded in February 2012. The investigation indicated that refurbishment of the damaged unit would not be cost effective. The ERA has been provided with the results of the Company's assessment in order to approve the retirement of the unit.

In February 2012, the Company purchased two of the temporary generating units that were placed into service in the Second Quarter of 2011. The purchase of these units ensures that the Company is in compliance with capacity requirements.

25. Comparative Figures

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

Ten-Year Summary

(Except where noted, expressed in thousands of United States dollars)

	2011	2010
Operating revenues	218,099	180,096
Other revenues and adjustments	4,032	3,108
Total revenues	222,131	183,204
Operating expenses	193,082	154,182
Income before interest	29,049	29,022
Finance charges	8,659	9,143
Earnings for the year	20,390	19,879
Capitalisation:		
Class A Ordinary Shares (nominal value)	1,704	1,694
9% Cumulative Participating Class B Preference Shares (nominal value)	25 0	250
Share Premium	76,839	75,355
8% Cumulative Fixed Term Class C, Series 2 Preference Shares (\$100 each)	-	-
Long-term loans	208,448	195,290
Total capitalisation	287,241	272,589
Capital expenditures (inclusive of accruals)	36,333	21,459
Earnings per Class A Ordinary Share (\$/Share)	0.68	0.67
Dividends per Class A Ordinary Share (\$/Share)	0.66	0.660
Book value per Class A Ordinary Share (\$/Share)	6.01	5.96
Statistical Record:		
Net kWh generation (millions of kWh)	594.0	593.50
Net kWh sales (millions of kWh)	554.0	553.80
Peak load (MW) gross	99.0	102.90
Plant capacity (MW)	151.23	151.23
Total customers (actual number)	26,636	26,151

This Ten-Year Summary does not form part of the audited Financial Statements

2009	TP 2008	2008	2007	2006	2005	2004	2003
158,809	150,348	175,981	158,859	135,677	92,871	106,643	96,921
3,109	2,526	3,016	2,851	8,721	10,041	2,276	2,560
161,918	152,874	178,997	161,711	144,398	102,912	108,919	99,481
134,834	135,122	144,673	133,812	112,328	90,190	81,223	72,970
27,084	17,752	34,324	27,898	32,070	12,722	27,696	26,511
7,071	5,153	10,564	9,444	9,212	8,498	7,709	6,321
20,013	12,599	23,760	18,454	22,858	4,224	19,987	20,190
1,683	1,672	1,513	1,508	1,505	1,490	1,480	1,463
250	250	250	250	250	250	250	250
73,729	72,092	43,216	42,230	41,656	39,022	37,328	51,341
-	-	-	-	-	-	-	6,008
200,159	174,643	184,790	165,540	156,038	141,521	138,395	120,704
275,821	240,657	229,769	209,528	199,449	182,283	177,453	179,766
42,665	27,986	44,617	35,586	33,940	39,788	20,041	27,732
0.67	0.45	0.90	0.70	0.87	0.13	0.77	0.80
0.660	0.495	0.66	0.66	0.66	0.33	0.66	0.64
5.90	5.87	5.41	5.15	5.09	4.82	4.98	4.69
597.40	400.74	578.40	546.07	485.52	393.51	485.63	463.00
558.10	376.60	539.56	510.64	456.04	375.74	450.27	429.28
97.50	93.77	92.71	86.83	79.04	85.03	79.06	77.06
152.60	136.60	136.60	123.50	114.63	114.63	127.40	115.10
25,461	24,518	24,042	22,768	21,115	19,011	21,127	20,269
•	,	,	,	,	,	,	,

Board of Directors



Peter A. Thomson

Retired Executive Caribbean Utilities Company, Ltd. Grand Cayman

Lynn R. Young

President and Chief Executive Officer Belize Electric Company Ltd. Belize

J.F. Richard Hew

President and Chief Executive Officer Caribbean Utilities Company, Ltd. Grand Cayman

H. Stanley Marshall ⁺

President and Chief Executive Officer Fortis Inc. Newfoundland Canada

David E. Ritch, OBE, JP * +

Chairman of the Board of Directors Caribbean Utilities Company, Ltd.

Attorney-at-Law Ritch and Conolly Grand Cayman

J. Bryan Bothwell, MBE *

Retired Banking Executive Grand Cayman

Joseph A. Imparato

Retired Chairman Caribbean Utilities Company, Ltd. Grand Cayman

Earl A. Ludlow

President and Chief Executive Officer Newfoundland Power Inc. Newfoundland Canada

Eddinton M. Powell, JP *

President and Chief Executive Officer FortisTCI Providenciales Turks & Caicos Islands

Frank J. Crothers [†]

Vice Chairman of the Board of Directors Caribbean Utilities Company, Ltd.

Chairman Island Corporate Holdings Ltd. Bahamas

^{*} Member Audit Committee (Chairman: J. Bryan Bothwell)



Letitia T. Lawrence

Vice President Finance & Chief Financial Officer

J.F. Richard Hew

President & Chief Executive Officer

Andrew E. Small

Vice President Transmission & Distribution

David C. Watler

Vice President Production

Shareholder and Corporate Information

Shareholders

Registered shareholders as of December 31, 2011 were as follows:

Class of Shares	Shareholders	Shares Held
Class A Ordinary Shares	1,831	28,624,677
9% Class B Preference Shares	125	250,000

Fortis Energy (Bermuda) Ltd., a wholly-owned subsidiary of Fortis Inc., held 17,290,644 Class A Ordinary Shares, or 60% of the outstanding shares as of December 31, 2011. Approximately 11% of the outstanding registered shares are held by residents of the Cayman Islands. Holders of Class B Preference Shares are primarily resident in the Cayman Islands.

Annual General Meeting

Shareholders are invited to attend the Annual General Meeting of the Company to be held Friday, May 18, 2012 at noon at the Marriott Beach Resort on West Bay Road, Grand Cayman. If you are unable to attend, please complete and return the form of proxy in accordance with the instructions set out in the accompanying meeting material.

Dividends

Class A Ordinary Shares:

Quarterly dividends are customarily paid in March, June, September and December. Record dates are normally three weeks prior to payable dates.

Class B Preference Shares:

Quarterly dividends are paid on the last day of January, April, July and October. Record dates are normally three weeks prior to payable dates.

Dividend Reinvestment Plan

The Company offers a Dividend Reinvestment Plan to Class A Ordinary and Class B Preference shareholders. Dividends may be reinvested in additional Class A Ordinary Shares. A copy of the plan and enrolment form may be obtained by writing or calling either of the Company's Registrar and Transfer Agents (addresses and telephone numbers in right column) or through the Company's website (www.cuc-cayman.com).

Customer Share Purchase Plan

The Customer Share Purchase Plan ("CSPP") was launched in January 1995 and provides an opportunity for customers resident in Grand Cayman to invest in the Company without paying brokerage commissions or transaction fees. Customers may make cash payments of not less than \$30 (CI\$25) per purchase and up to a total of \$14,400 (CI\$12,000) per calendar year for the purchase of Class A Ordinary Shares. Quarterly cash dividends paid on the shares are reinvested in additional Class A Ordinary Shares under the CSPP. Full details of the CSPP may be obtained from CUC's Customer Service Department.

Solicitors

Appleby P.O. Box 190 Grand Cayman KY1-1104 CAYMAN ISLANDS

Auditors

Ernst & Young Ltd. P.O. Box 510 Grand Cayman KY1-1106 CAYMAN ISLANDS

Principal Bankers

Royal Bank of Canada P.O. Box 245 Grand Cayman KY1-1104 CAYMAN ISLANDS

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.

Registrar and Transfer Agents

CIBC Mellon Trust Company
P.O. Box 4202, Postal Station A
Toronto, Ontario, Canada M5W 0E4
Answerline™: (416) 682-3825 or 1-800-387-0825
(Toll-free throughout North America)

Fax: (888) 249-6189 Website: www.canstockta.com (Acting as principal agent)

Caribbean Utilities Company, Ltd.

P.O. Box 38, Grand Cayman KY1-1101, CAYMAN ISLANDS

Attention: Company Secretary Telephone: (345) 949-5200 Fax: (345) 949-4621

Website: www.cuc-cayman.com

E-mail: investor@cuc.ky (Acting as co-agent)

Toronto Stock Exchange Listing

The Company's Class A Ordinary Shares are listed for trading in United States funds on the Toronto Stock Exchange. The stock symbol is "CUP.U". There is no income or withholding tax applicable to holders of Class A Ordinary or Class B Preference Shares under the existing laws of the Cayman Islands.

Registered Office

Caribbean Utilities Company, Ltd.
P.O. Box 38, Grand Cayman KY1-1101, CAYMAN ISLANDS

Telephone: (345) 949-5200 Fax: (345) 949-4621

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Caribbean Utilities Company, Ltd.

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