







Caribbean Utilities Company, Ltd.

**2007/2008 Third Quarter Report** January 31, 2008



# Caribbean Utilities Company, Ltd.

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#### To Our Shareholders

Dear Shareholder,

The signing of the Agreement in Principle ("AIP") with the Cayman Islands Government ("Government") in December 2007, brought the Company closer to a new era of opportunity and challenge. While the impending signing of long-term licences brings a degree of certainty to our business planning and the opportunity to continue serving the robust growth of Grand Cayman, the terms also will result in annual revenue reductions of \$2.1 million following the 3.25% reduction in base rates.

Sales growth for the third quarter of fiscal 2008 remained strong at 6% with sales at 129.3 million kiloWatt-hours ("kWh") up from 121.8 million kWh for the same period in fiscal 2007. Total customers were 23,745 at the end of the period, up 6% over the same period in fiscal 2007. With the cooler and wetter climate experienced in the first six months of fiscal 2008, CUC has revised its annual growth forecast to 6% from the previous 8%. The Cayman Islands economy is forecast by the Government to continue to grow by 3.5% (measured by gross domestic product) over its fiscal year ending June 30, 2007 with inflation at a modest 3.5%.

Net earnings for the three months ended January 31, 2008 were \$5.3 million compared to a net loss of \$0.6 million for the same period in fiscal 2007. Earnings on Class A Ordinary Shares were \$5.1 million, or \$0.203 per share. The improvement was due in part to the 6% sales growth as well as a \$3.7 million charge in fiscal 2007 for the disposal of a steam system as part of an overall Power Plant Restructuring.

Operating revenues were up 13% or \$4.8 million at \$42.8 million compared to \$38.0 million for the third quarter of fiscal 2007. The increase was largely due to a 53% increase in fuel factor revenues driven by higher fuel prices which also served to increase CUC's operating costs. Customers welcomed the relief from high fuel prices, which comprise 70% of CUC's operating costs, following the Government's rebate of CI\$0.20 per Imperial Gallon of fuel used in generation and applied to the first 1,500 kWh of residential consumption commencing January 1, 2008.

During the quarter, CUC closed the final \$10 million tranche of a \$40 million 5.65% senior unsecured note offering. Following the announcement of the AIP, Standard & Poor's advised that the Company's debt had been placed on CreditWatch with negative implications pending the signing of the new licences.

System reliability to our customers for the quarter, as measured by the Average System Availability Index, was 99.95% ahead of the 99.93% target, as in the second quarter of fiscal 2008. The Company continues to demonstrate its commitment to providing reliable electricity service while meeting increasing energy demand by investing in our generation, transmission and distribution systems and our employees that operate these systems.

CUC also continued its community involvement programme with another successful sponsorship of the CUC Primary Football League and other youth-oriented programmes.

As we approach fiscal 2008 year-end, our primary objective is to conclude the licence negotiations and provide greater focus on our day to day operations to further enhance value to our stakeholders.

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

J.F. Richard Hew

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President & Chief Executive Officer

March 12, 2008

# **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") interim unaudited financial statements for the three and nine months ended January 31, 2008 and the MD&A and audited financial statements for the year ended April 30, 2007 included in the Company's 2007 Annual Report. The material has been prepared in accordance with National Instrument 51-102 -Continuous Disclosure Obligations relating to Management's Discussion and Analysis. CUC includes forward-looking statements in this material. Forward looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plan", "believes", "estimates", "intends", targets", "projects", "forecasts", "schedule", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward looking statements are based on underlying assumptions and management's beliefs, estimates and opinions, and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Some of the important risks and uncertainties that could affect forward looking statements are described in the Company's Annual Information Form, dated July 25, 2007, under "Risk Factors" available on www.SEDAR.com and include but are not limited to general economic, market and business conditions, regulatory developments and weather. CUC cautions readers that should certain events or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. 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. Additional information in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and is presented in United States dollars unless otherwise specified. The financial statements and MD&A in this third quarter report were approved by the Audit Committee.

The principal activity of the Company is to generate, transmit and distribute electricity in Grand Cayman, Cayman Islands in accordance with the 25-year exclusive Licence with the Cayman Islands Government ("Government").

# **Financial & Operational Highlights**

| (\$ thousands, except basic<br>earnings per ordinary<br>share, dividends paid per<br>ordinary share and where<br>otherwise indicated) | Three<br>Months<br>Ended<br>January<br>31, 2008 | Three<br>Months<br>Ended<br>January<br>31, 2007 | Nine<br>Months<br>Ended<br>January 31,<br>2008 | Nine<br>Months<br>Ended<br>January<br>31, 2007 | Change for<br>the Nine<br>months | % Change<br>for the<br>Nine<br>Months |
|---------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|------------------------------------------------|------------------------------------------------|----------------------------------|---------------------------------------|
| Operating Revenues                                                                                                                    | 42,768                                          | 37,982                                          | 131,763                                        | 122,151                                        | 9,612                            | 8                                     |
| Hurricane Ivan Cost<br>Recovery Surcharge                                                                                             | 767                                             | 1,083                                           | 3,270                                          | 3,446                                          | (176)                            | -5                                    |
| Total Operating Expenses                                                                                                              | 35,666                                          | 36,910                                          | 106,755                                        | 102,958                                        | 3,797                            | 4                                     |
| Earnings/(Losses) for the Period                                                                                                      | 5,262                                           | (587)                                           | 19,348                                         | 14,339                                         | 5,009                            | 35                                    |
| Basic Earnings/(Losses)<br>per Class A Ordinary Share                                                                                 | 0.204                                           | (0.033)                                         | 0.732                                          | 0.541                                          | 0.191                            | 35                                    |
| Dividends paid per Class A<br>Ordinary Share                                                                                          | 0.165                                           | 0.165                                           | 0.495                                          | 0.495                                          | -                                | Nil                                   |
| Peak Load Gross (MW)                                                                                                                  | 86.01                                           | 85.90                                           | 92.71                                          | 86.83                                          | 5.88                             | 7                                     |
| Net Generation (millions of kWh)                                                                                                      | 137.83                                          | 130.74                                          | 439.12                                         | 412.73                                         | 26.39                            | 6                                     |
| Kilowatt-Hour Sales<br>(millions of kWh)                                                                                              | 129.34                                          | 121.77                                          | 410.80                                         | 387.39                                         | 23.41                            | 6                                     |
| Total Customers                                                                                                                       | 23,745                                          | 22,492                                          | 23,745                                         | 22,492                                         | 1,253                            | 6                                     |

#### **Licence Negotiations**

Government and CUC announced in December 2007 that they had reached an Agreement in Principle ("AIP") on the terms of new licences covering the generation, transmission and distribution ("T&D") of electricity in Grand Cayman. The AIP formed the basis of licencing documents to be subsequently signed. The terms include competition for future generating capacity and general promotion of the use of renewable sources of energy. The agreement brings the replacement of the previously permitted 15% rate-of-return-on-rate base ("RORB") formula with a rate cap and adjustment mechanism ("RCAM") based on published consumer price indices. CUC's RORB will be targeted in the 9% -11% range.

The initial term of the exclusive transmission and distribution licence is to be 20 years and an "evergreen provision" will allow for automatic renewal if no action is taken by either party not to renew it. The Generation Licence is to initially be granted for up to 25 years for operation of the Company's existing generating capacity with renewal provisions to reflect estimated economic life of any new generation awarded to CUC.

The Electricity Regulatory Authority ("ERA") will have the overall responsibility of regulating the electricity industry in the Cayman Islands in accordance with the ERA Law as amended in January 2008, pursuant to the AIP. The ERA will oversee all licencees, establish and enforce licence standards, enforce applicable environmental and performance standards, review the proposed RCAM and set the rate adjustment factors as appropriate. The ERA will also annually review and approve CUC's capital investment plan. In conjunction with the establishment of the ERA and the issuance of the new licences, the current CUC Licence Fee of 5/8 of 1% will increase to 1% of electricity revenues and will apply to customer billings for consumption over 1,000 kWh per month as a pass-through charge on a per kiloWatt-hour ("kWh") basis. In addition to the licence fee, a new regulatory fee of  $\frac{1}{2}$  of 1% of electricity revenues will apply to customer billings for consumption over 1,000 kWh per month as a pass through charge on a per kWh basis.

Pursuant to the AIP, and effective January 1, 2008, CUC's base rates were restructured to extract all fuel costs and licence fee amounts to be passed through to consumers. A new rate class for large commercial customers and a new fuel and lube factor to provide for full pass-through charges for 100% of fuel and lubricating oil were also implemented in January 2008. In addition to the structural changes, the AIP called for an overall reduction in base rates of 3.25%, which represents an estimated annual revenue reduction to CUC of \$2.1 million. The Company also agreed to the January 2008 removal of the Hurricane Ivan Cost Recovery Surcharge ("CRS"), which will result in \$2.6 million of foregone cost recovery previously anticipated to be collected through August 2008. All foregone revenues are recoverable by CUC if the licences are not received materially in the form agreed in the AIP.

CUC has operated in a rate freeze environment for base rates (excluding fuel costs) since 2002 and following the initial rate reduction, rates will continue to be frozen through May 31, 2009 and will be subject to an annual review and adjustment each June thereafter through the RCAM. A price cap mechanism will be used to adjust the base rates in accordance with a formula that takes into account inflation and CUC's RORB. Effective January 1, 2008, the Government is providing a special fuel duty rebate to be applied to the first 1,500 kWh of monthly residential consumption. The rebate will be calculated based on CI\$0.20 (\$0.24) per Imperial Gallon ("IG") of fuel used for generation.

# **Earnings**

Net earnings for the three months ended January 31, 2008 were \$5.3 million, a \$5.9 million increase from net losses of \$0.6 million for the same period last year. Earnings on Class A Ordinary Shares for the period were \$5.1 million, or \$0.204 per Class A Ordinary Share, as compared to losses on Class A Ordinary Shares of \$0.7 million, or (\$0.033) per Class A Ordinary Share for third guarter fiscal 2007. This guarter-over-quarter increase in earnings

per share was primarily the result of a \$3.7 million charge in third quarter 2007 for the disposal of a steam system as part of an overall Power Plant Restructuring, 6% kWh sales growth for the period, lower maintenance costs and the movement in deferred fuel costs.

Year-to-date net earnings were \$19.3 million as compared to \$14.3 million for the same period last year. Earnings on Class A Ordinary Shares for the nine months ended January 31, 2008 were \$18.5 million, or \$0.732 per Class A Ordinary Share, a 35% increase from \$13.7 million, or \$0.541 per Class A Ordinary Share for the nine months ended January 31, 2007. Excluding the impact of the Power Plant Restructuring in 2007, earnings per Class A Ordinary Share for the nine months ended January 31, 2007 would have been \$0.691. This 6% increase in earnings per ordinary share, excluding the impact of the power plant restructuring, was a result of 6% kWh sales growth, partially offset by the rate reductions effective January 2008 in accordance with the AIP and increased T&D maintenance expenses.

#### Sales

Total electricity sales for third quarter fiscal 2008 increased 6% to 129.3 million kWh from 121.8 million kWh for the same period last year. The Company's annual sales growth projection for fiscal 2008 was negatively impacted in the first six months by above-average rainfall and cooler than average temperatures which reduced air conditioning load. As a result, annual growth forecasts have been revised downwards to 6% from the original projection of 8%. However, the Company anticipates that the impact of this lower growth was realized during the first and second quarters. Third quarter growth was largely in-line with expectations and this is expected to continue into the fourth quarter. Growth for the month of January 2008 slightly exceeded expectations.

Growth in the number of customers remains very strong and all of the large construction projects including Phase 1 of the Camana Bay Town Centre, the Governor's Square office centre and the Caribbean Club condominium complex were completed and on-line by the end of the third quarter. Total customers as at January 31, 2008 were 23,745, an increase of 6% over the number of customers at the same time last year. The Company connected over 300 customers for the three month period ended January 31, 2008 bringing total connections year-to-date of 977 or approximately 110 customer connections per month. Total electricity sales for the nine months ended January 31, 2008 increased 6%, or 23.4 million kWh, to 410.8 million kWh from 387.4 million kWh for the same period last year.

# **Operating Revenues**

Operating revenues for the third quarter were \$42.8 million, a \$4.8 million increase over \$38.0 million for the same period last year. This 13% overall increase in operating revenues was primarily due to a 53% increase in fuel factor revenues as a result of higher fuel factor charge-out rates, which were offset by increased fuel expenses (see "Power Generation" section) and 6% kWh sales growth.

In accordance with the AIP, effective January 2008 the Company implemented a new fuel cost charge which allows for the full pass-through of fuel and lube costs. Previously the Company was only allowed to pass-through fuel costs above the base price of CI\$0.7973 (\$0.9492) per imperial gallon. Commensurate with the implementation of the new fuel cost charge, the Company removed fuel and lube costs from its base rates and as a result of this change in computation, the average fuel factor rate in effect for the three months ended January 31, 2008 was \$0.16 per kWh as compared to \$0.11 per kWh for the same period last year.

The removal of fuel and lube costs from the Company's base rates, a further reduction of these unbundled rates by 3.25% on average and removal of the CRS resulted in a decrease in

electricity sales revenues of 9% and a decrease in CRS revenues of 29%. Operating revenues for the nine months ended January 31, 2008 totalled \$131.8 million, a \$9.6 million or 8% increase from \$122.2 million for the same period last year due to 6% kWh sales growth and higher fuel factor rates.

The Company's net earnings for the third quarter of fiscal 2008 excluding the impact of the CRS would have been \$4.5 million or \$0.172 per Class A Ordinary Share compared to \$1.7 million in net losses, or (\$0.070) per Class A Ordinary Share for the same period last year. On a year-to-date basis, net earnings, excluding the CRS, would have been \$16.07 million, or \$0.601 per Class A Ordinary Share compared to \$10.89 million, or \$0.405 per Class A Ordinary Share for the same period last year.

#### **Operating Expenses**

Operating expenses for the three and nine months ended January 31, 2008 were as follows:

| (\$ thousands)                 | Three<br>Months<br>Ended<br>January<br>31, 2008 | Three<br>Months<br>Ended<br>January<br>31, 2007 | Nine<br>Months<br>Ended<br>January 31,<br>2008 | Nine<br>Months<br>Ended<br>January 31,<br>2007 | Change<br>for the<br>Nine<br>months | % Change<br>for the<br>Nine<br>Months |
|--------------------------------|-------------------------------------------------|-------------------------------------------------|------------------------------------------------|------------------------------------------------|-------------------------------------|---------------------------------------|
| Power generation expenses      | 25,092                                          | 22,685                                          | 76,467                                         | 70,807                                         | 5,660                               | 8                                     |
| General and administration     | 2,918                                           | 3,031                                           | 8,736                                          | 8,597                                          | 139                                 | 2                                     |
| Consumer Service and promotion | 478                                             | 345                                             | 1,231                                          | 952                                            | 279                                 | 29                                    |
| Transmission and distribution  | 779                                             | 556                                             | 2,175                                          | 1,576                                          | 599                                 | 38                                    |
| Depreciation and amortisation  | 4,130                                           | 3,925                                           | 12,146                                         | 11,296                                         | 850                                 | 8                                     |
| Maintenance                    | 2,269                                           | 2,623                                           | 6,000                                          | 5,985                                          | 15                                  | -                                     |
| Power Plant Restructuring      | <u>0</u>                                        | <u>3,745</u>                                    | <u>0</u>                                       | <u>3,745</u>                                   | (3,745)                             | (100)                                 |
| Total operating expenses       | 35,666                                          | 36,910                                          | 106,755                                        | 102,958                                        | 3,796                               | 4                                     |

#### **Power Generation Expenses**

Power generation expenses for the three and nine months ended January 31, 2008 were as follows:

| (\$ thousands)                  | Three<br>Months<br>Ended<br>January<br>31, 2008 | Three<br>Months<br>Ended<br>January<br>31, 2007 | Nine<br>Months<br>Ended<br>January 31,<br>2008 | Nine<br>Months<br>Ended<br>January 31,<br>2007 | Change<br>for the<br>Nine<br>months | % Change<br>for the<br>Nine<br>Months |
|---------------------------------|-------------------------------------------------|-------------------------------------------------|------------------------------------------------|------------------------------------------------|-------------------------------------|---------------------------------------|
| Fuel costs                      | 27,316                                          | 19,633                                          | 79,951                                         | 67,436                                         | 12,515                              | 19                                    |
| Lube costs                      | 443                                             | 339                                             | 1,289                                          | 1,243                                          | 46                                  | 4                                     |
| Deferred fuel charges           | (3,311)                                         | 1,901                                           | (7,142)                                        | (467)                                          | (6,675)                             | 1,429                                 |
| Other generation expenses       | <u>644</u>                                      | <u>812</u>                                      | <u>2,369</u>                                   | <u>2,595</u>                                   | (226)                               | (9)                                   |
| Total power generation expenses | 25,092                                          | 22,685                                          | 76,467                                         | 70,807                                         | 5,660                               | 8                                     |

Power generation expenses increased \$2.4 million, or 11% to \$25.1 million for the three months ended January 31, 2008, from \$22.7 million for the same period last year. This increase was driven by rising fuel prices and higher production levels partially offset by a deferred fuel credit of \$3.3 million compared to a deferred fuel charge of \$1.9 million for the third quarter 2007. The Company experienced a 5% quarter-over-quarter increase in kWh generation growth from 130.7 million kWh to 137.8 million kWh for third quarter 2008.

During the third quarter of fiscal 2008, CUC's average price per IG of fuel increased to a record \$3.75 (compared to \$2.77 for the same period last year). In accordance with the AIP, effective January 2008 the Company now defers 100% of fuel and lube costs until they can be collected from the customer. Previously the Company only deferred fuel costs above the base price of CI\$0.7973 (\$0.949) per IG. Rising fuel prices and the change in the basis for calculating deferred fuel costs resulted in fuel costs recoverable from the customer at January 31, 2008 of \$16.3 million (\$8.8 million at January 31, 2007) and a deferred fuel credit of \$3.3 million for the three months ended January 31, 2008.

Similarly, power generation expenses for the nine months ended January 31, 2008 totalled \$76.5 million, an increase of \$5.7 million, or 8%, from \$70.8 million for the same period last year. 2008 power generation expenses are net of a year-to-date deferred fuel credit of \$7.1 million compared to a deferred fuel credit of \$0.5 million for the same period last year.

#### General and Administration ("G&A")

G&A expenses for the three and nine months ended January 31, 2008 were comparable to G&A for the same periods last year.

#### Consumer Service and Promotion ("C&P")

C&P expenses for the three months ended January 31, 2008 increased \$0.2 million or 39% to \$0.5 million from \$0.3 million for the same period last year. Similarly, C&P expenses for the nine months ended January 31, 2008 increased \$0.2 million to \$1.2 million from \$1.0 million for the same period last year. This 29% increase was primarily driven by increased claims for customer equipment damages and increased fees associated with alternative customer payment options. The T&D maintenance programme (see "T&D" section) is expected to significantly reduce the occurrences of equipment damages going forward.

# Transmission and Distribution ("T&D")

T&D expenses for the three months ended January 31, 2008 of \$0.8 million increased 33% from \$0.6 million for the same period last year. This quarter-over-quarter increase is in line with the Company's forecasts and reflective of the T&D Division's cyclical maintenance programme. For the nine months ended January 31, 2008, T&D expenses increased 39% to \$2.2 million from \$1.6 million for the same period last year.

# Depreciation and Amortisation ("D&A")

D&A expenses for third quarter 2008 increased \$0.2 million, or 5% to \$4.1 million from \$3.9 million for the same period last year. This increase was in line with the Company's forecasts and a result of new growth-related capital expenditures including the recently installed 16 megaWatt ("MW") MAN Diesel generating unit. D&A expenses for the nine months ended January 31, 2008 increased \$0.9 million, or 8% to \$12.1 million from \$11.3 million for the same period last year. The Company expects to see continued increases in D&A expenses based upon current capital expenditure projections.

#### Maintenance

Maintenance expenses for the three months ended January 31, 2008 declined 12% to \$2.3 million from \$2.6 million for the same period last year. Third quarter 2007 maintenance expenses were impacted by a series of generator failures. On a year-to-date basis, maintenance expenses are comparable to the same period last year and are in-line with Company expectations for the period.

# **Other Income and Expenses**

Other income and expenses for the three and nine months ended January 31, 2008 were as follows:

| (\$ thousands)           | Three<br>Months<br>Ended<br>January<br>31, 2008 | Three<br>Months<br>Ended<br>January<br>31, 2007 | Nine<br>Months<br>Ended<br>January 31,<br>2008 | Nine<br>Months<br>Ended<br>January<br>31, 2007 | Change for<br>the Nine<br>months | % Change<br>for the<br>Nine<br>Months |
|--------------------------|-------------------------------------------------|-------------------------------------------------|------------------------------------------------|------------------------------------------------|----------------------------------|---------------------------------------|
| Total interest costs     | 2,868                                           | 2,634                                           | 8,578                                          | 7,932                                          | 646                              | 8                                     |
| Capitalized interest     | (185)                                           | (290)                                           | <u>(596)</u>                                   | <u>(900)</u>                                   | <u>304</u>                       | 34                                    |
| Net interest expenses    | 2,683                                           | 2,344                                           | 7,982                                          | 7,032                                          | 950                              | 14                                    |
| Foreign exchange gain    | (430)                                           | (381)                                           | (1,165)                                        | (1,131)                                        | (34)                             | 3                                     |
| Other income             | (413)                                           | (304)                                           | (1,157)                                        | (1,049)                                        | (107)                            | 10                                    |
| Total net other expenses | 1,840                                           | 1,659                                           | 5,660                                          | 4,852                                          | 808                              | 17                                    |

Total net other income and expenses for the third quarter increased \$0.1 million, or 6% to \$1.8 million from \$1.7 million for the same period last year. Total net other income and expenses increased \$0.8 million, or 17%, to \$5.7 million for the nine months ended January 31, 2008 from \$4.8 million for the same period last year. These increases were driven mainly by higher interest expenses.

Net interest expenses for the three months ended January 31, 2008 of \$2.7 million increased \$0.4 million from \$2.3 million for the same period last year. This 17% increase in expenses is due to a \$0.3 million increase in total interest costs from increased borrowings, and a \$0.1 million decrease in capitalised interest quarter-over-quarter as capital expenditures for third quarter 2008 declined \$0.7 million from capital expenditures for the same period last year.

Net interest expenses for the nine months ended January 31, 2008 of \$8.0 million increased \$1.0 million from \$7.0 million for the same period last year. This 14% increase in expenses is due to a \$0.6 million increase in total interest costs resulting from new borrowings and a \$0.3 million decline in capitalized interest. Despite an increase in capital expenditures for the nine months ended January 31, 2008 of \$8.8 million over capital expenditures for the same period last year, fiscal 2008 capital expenditures include \$9.7 million of land purchases.

Foreign Exchange Gains and Other Income for the third quarter and for the nine months ended January 31, 2008 were comparable to last year.

#### The Economy

Air arrivals for calendar 2007 are approaching 2003, pre-Hurricane Ivan, levels and exceeded arrivals for the same period last year by 9%. Cruise arrivals declined by 11% year-over-year but remained strong at over 1.7 million visitors for the period. 2006 was a peak year for cruise arrivals due to the impact of hurricanes on Mexico and the resulting redeployment of ships to the Cayman area. The following table presents tourist statistics for the year ended December 31:

| (thousands)    | 2007         | 2006         | 2005         | 2004         | 2003         |
|----------------|--------------|--------------|--------------|--------------|--------------|
| By air         | 292          | 267          | 168          | 260          | 294          |
| By sea         | <u>1,716</u> | <u>1,930</u> | <u>1,799</u> | <u>1,693</u> | <u>1,819</u> |
| Total arrivals | 2,008        | 2,197        | 1,967        | 1,953        | 2,113        |

Government forecasts for the 2007/2008 (year ended June 30) period continue to indicate sustainable growth in the Cayman Islands economy with average gross domestic product ("GDP") growth estimated at 3.5% for the period. The forecast for unemployment is for a continued decline to 3.6% and inflation is expected to remain modest for the period at 3.5%.

The Cayman Islands also remain a leading centre for hedge fund registration. At December 31, 2007 there were 8,751 funds registered by the Cayman Islands Monetary Authority ("CIMA") with an additional 119 licensed funds and 543 registered funds for a total of 9,413 funds. This is an increase of 16% from 8,134 funds at the same time last year. Of the total 1,279 funds licenced by CIMA during the year, 438 were added in the third quarter of calendar 2007.

#### **Financial Position**

The following table is a summary of significant changes to the Company's balance sheets between January 31, 2008 and April 30, 2007.

| Significant changes in Balance<br>Sheets between January 2008 and<br>April 2007<br>(\$ millions) | Increase<br>(Decrease) | Explanation                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------------------------------------------------|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Cash                                                                                             | (5.6)                  | million partially offset by cash provided by operating activities of \$19.2 million and cash from financing activities of \$8.3 million.                                                                                                                                                                                                                                         |
| Accounts receivable- Trade                                                                       | 2.0                    | Increase due to higher consumption and higher fuel factor billings as a result of rising fuel prices.                                                                                                                                                                                                                                                                            |
| Inventories                                                                                      | 3.4                    | Increase due to the Company's purchase of the North Sound Power Plant bulk fuel inventory as part of the fuel contract renewal agreement.                                                                                                                                                                                                                                        |
| Property, plant and equipment                                                                    | 20.7                   | Net increase is comprised of capital expenditures of (1) \$32.9 million and (2) depreciation expense of \$12.1 million.                                                                                                                                                                                                                                                          |
| Other assets                                                                                     | 6.1                    | Increase due to an increase in the amount of fuel costs recoverable from the customer resulting from a change in the basis of calculating deferred fuel in accordance with the AIP which allows for 100% pass-through of fuel and lube costs effective January 2008.                                                                                                             |
| Short-Term Debt                                                                                  | (9.0)                  | Decrease is a net result of repayment of the \$15 million Fortis loan and the balance outstanding against the RBC credit facilities of \$6 million.                                                                                                                                                                                                                              |
| Long-Term Debt                                                                                   | 28.2                   | Increase due to the issuance of \$40 million Senior Unsecured Notes, partially offset by the debt repayment on current senior unsecured notes and the reclassification of \$1.4 million of previously deferred debt charges against Long-Term Debt balances as a result of the Company adopting CICA handbook Section 3855, Financial Instruments – Recognition and Measurement. |
| Retained Earnings                                                                                | 6.0                    | Increase due to net earnings for the period of \$14.1 million offset by Class A dividends of \$8.4 million and Class B dividends of \$0.7 million.                                                                                                                                                                                                                               |

#### **Liquidity and Capital Resources**

The following table outlines the summary of cash flow for the three and nine months ended January 31, 2008:

| Summary of cash flow (\$ Millions) | Three<br>Months<br>Ended<br>January<br>31, 2008 | Three<br>Months<br>Ended<br>January<br>31, 2007 | Nine<br>Months<br>Ended<br>January 31,<br>2008 | Nine<br>Months<br>Ended<br>January<br>31, 2007 | Change for<br>the Nine<br>months | Change %<br>for the<br>Nine<br>Months |
|------------------------------------|-------------------------------------------------|-------------------------------------------------|------------------------------------------------|------------------------------------------------|----------------------------------|---------------------------------------|
| Beginning cash                     | 1,226                                           | 2,355                                           | 6,891                                          | 576                                            | 6,315                            | 1100                                  |
| Cash provided by/(used in):        |                                                 |                                                 |                                                |                                                |                                  |                                       |
| Operating activities               | 7,187                                           | 7,873                                           | 19,246                                         | 35,191                                         | (15,945)                         | (45)                                  |
| Investing activities               | (6,243)                                         | (7,099)                                         | (33,141)                                       | (24,350)                                       | (8,791)                          | (36)                                  |
| Financing activities               | (846)                                           | <u>4,772</u>                                    | <u>8,328</u>                                   | (3,517)                                        | 11,845                           | 337                                   |
| Ending cash                        | 1,324                                           | 7,901                                           | 1,324                                          | 7,901                                          | (6,577)                          | (83)                                  |

#### Operating Activities

Cash flow from operations, after working capital adjustments, for the third quarter of fiscal 2008 was \$7.1 million, a \$0.8 million decrease from \$7.9 million for the same quarter last year. This 10% quarter-over-quarter decline was driven by a \$2 million increase in non-cash working capital balances in 2008 versus a \$0.6 decrease in non-cash working capital balances for the same period last year, partially offset by the impact of higher earnings in 2008 versus 2007.

Cash flow from operations, after working capital adjustments, for the nine months ended January 31, 2008 was \$19.2 million, a \$15.9 million decrease from \$35.0 million for the same period last year. This 45% decline was driven by a \$6.1 million increase in other assets resulting from the increase in deferred fuel costs and a \$3.4 million increase in fuel inventory as compared to a \$9.1 million decrease in insurance receivables for the final payment on the Hurricane Ivan insurance claim during the same period last year, partially offset by higher earnings in 2008 versus 2007.

#### Investing Activities

Cash used in investing activities decreased \$0.9 million to \$6.2 million for third quarter 2008, from \$7.1 million for the same period last year. This 15% quarter-over-quarter decrease is due to lower capital expenditures.

Capital expenditures for the nine months ended January 31, 2008 increased \$8.8 million, or 37%, over capital expenditures for the same period last year which resulted in a commensurate increase in cash used in investing activities for the period versus the same period last year.

# Financing Activities

Cash used in financing activities for the three months ended January 31, 2008 was \$0.9 million, as compared to cash provided by financing activities for the same period last year of \$4.8 million. This \$5.7 million decrease in cash provided by financing activities is the result of a net increase in debt of \$8.7 million in the third quarter of 2008 as compared to a net increase in debt of \$3.1 million during the same period last year.

CUC closed on the first tranche of a \$40 million private placement of 5.65% Senior Unsecured Notes due June 1, 2022 on June 1, 2007. The first tranche was in the amount of \$30 million and was used to repay short-term debt, including a \$15 million demand note to Fortis (see "Transaction with Related Parties").

The second tranche of \$10 million of the 5.65% Senior Unsecured Notes closed in November 2007 and was used to repay short-term indebtedness and to finance capital expenditures.

During the third quarter 2008, the Company repaid \$2 million on the Royal Bank of Canada ("RBC") capital expenditure credit facility, bringing the total outstanding on this RBC facility to \$8 million.

Cash provided by financing activities for the nine months ended January 31, 2008 was \$8.3 million, as compared to cash used in financing activities for the same period last year of \$3.5 million. This \$11.8 million increase in cash provided by financing activities was the result of a net increase in debt (including bank overdraft) of \$21 million in 2008 as compared to a net increase in debt of \$9.1 million last year.

#### Transaction with Related Parties

In 2007, the Company entered into a 7% \$15 million Demand Note agreement with the Company's majority shareholder Fortis. The Fortis transaction allowed the Company to effect a lower blended rate on short-term borrowings. Proceeds from the June 2007 private placement debt offering were used to repay the \$15 million Demand Note to Fortis, additional short-term indebtedness and to finance ongoing capital expenditures.

In August 2007 the Company entered into an equipment lease contract agreement with Fortis Turks and Caicos, a wholly-owned subsidiary of Fortis, for the rental of one of the Company's 1.4 MW mobile units. The term of the agreement was three months with monthly rental fees and all costs incurred for the transport of the unit including shipping costs, taxes, port charges, custom duties and other levies and maintenance costs payable by Fortis Turks and Caicos. During the second & third quarter of 2008, the Company recorded \$88,871 in rental fee income to Other Income from the rental of the mobile generating unit to Fortis Turks and Caicos. The contract term was extended beyond the original three months, terminating in mid January.

#### **Contractual Obligations**

The contractual obligations over the next five years and periods thereafter, as at January 31, 2008, are outlined in the following table:

| (\$ millions) | Total | < 1 year | 1 to 3 years | 4 to 5 years | > 5 years |
|---------------|-------|----------|--------------|--------------|-----------|
| Total debt    | 184.7 | 17.0     | 24.5         | 32.5         | 110.7     |
| Total         | 184.7 | 17.0     | 24.5         | 32.5         | 110.7     |

Additionally the Company has a primary fuel supply contract with Esso Standard Oil S.A. and is committed to purchase 80% of the Company's fuel requirements for the running of the plant from Esso, the contract is for three years terminating in April 2010. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of imperial gallons: 2008 – 24.96, 2009 – 26.40, 2010 – 27.84.

#### **Capital Resources**

The Company's principal activity as the exclusive provider of electricity in Grand Cayman, a major financial and tourism centre, requires CUC to have ongoing access to capital to build and maintain the electrical system for the community it serves. The Company's capital structure is shown below:

| Capital structure    | January<br>31, 2008<br>(\$ millions) | %         | January<br>31, 2007<br>(\$ millions) |           | April 30,<br>2007<br>(\$ millions) | %         |
|----------------------|--------------------------------------|-----------|--------------------------------------|-----------|------------------------------------|-----------|
| Total debt           | 184.7                                | 57        | 165.5                                | 55        | 165.5                              | 55        |
| Shareholder's equity | <u>142.0</u>                         | <u>43</u> | <u>135.5</u>                         | <u>45</u> | <u>135.4</u>                       | <u>45</u> |
| Total                | 326.7                                | 100       | 301.0                                | 100       | 300.9                              | 100       |

The change in the Company's capital structure between January 2008 and April 2007 is the result of a net increase in debt of \$19.2 million partially offset by an increase in retained earnings due primarily to earnings for the period. Similar movements in debt and retained earnings account for the change in the Company's capital structure between January 2008 and January 2007.

The Company's credit ratings are as follows:

S&P A/Negative (CreditWatch\*)
DBRS A (low)

\*In December 2007 Standard & Poor's ("S&P") placed the ratings of the Company on CreditWatch with negative implications. The CreditWatch placement followed the Company's announcement that it had reached an agreement in principle on the terms of a new licence while the terms of the agreement and expectations for future operating results were being reviewed with the Company's management. S&P indicated that any downgrade resulting from this review was likely to be limited to one notch.

#### **Credit Facilities**

The Company has \$34.7 million of unsecured credit financing facilities with RBC comprising:

| Credit Facilities                                             | (\$ millions) |
|---------------------------------------------------------------|---------------|
| Corporate Credit Card Line                                    | \$0.3         |
| Letters of Credit                                             | \$2.4         |
| Operating, Revolving Line of Credit                           | \$7.5         |
| Catastrophe Standby Loan                                      | \$7.5         |
| Demand Loan Facility- Interim Funding of Capital Expenditures | <u>\$17.0</u> |
| Total                                                         | \$34.7        |

Of the total above, \$23.5 million was available at January 31, 2008.

# **Capital Expenditures**

The electric utility business is capital intensive and capital investment in infrastructure is required to ensure continued and enhanced performance, reliability and to meet customer growth. Costs related to replacements, upgrades and betterments of capital assets are capitalized as incurred.

The Company's capital expenditures for 2008 are expected to increase 12% over 2007 capital expenditures. Capital expenditures for the third quarter were \$6.4 million and capital expenditures for the nine months ended January 31, 2008 were \$32.9 million. Capital expenditures for the three and nine months ended January 31, 2008 were as follows:

| Capital expenditures (\$ Millions) | Three<br>Months<br>Ended<br>January 31, 2008 | Nine<br>Months<br>Ended<br>January 31, 2008 |
|------------------------------------|----------------------------------------------|---------------------------------------------|
| T&D                                | 2.2                                          | 8.3                                         |
| Generation                         | 2.6                                          | 13.1                                        |
| Other                              | <u>1.6</u>                                   | <u>11.5</u>                                 |
| Total                              | 6.4                                          | 32.9                                        |

The Company's projections for 2008 Capital Expenditures remains at \$39.7 million and the Company expects to invest \$171 million in its capital programme over the next five years which will be financed by a combination of debt and funds from operations.

# **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 January 31, 2008.

#### **Business Risks**

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

#### **Economic Conditions**

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

#### Weather

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

# **Changes in Accounting Policies**

On May 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants ("CICA") accounting standards for Financial Instruments, Hedges and Comprehensive Income. The nature and impact of adopting these new standards is described in detail in Note 2 to the Company's interim unaudited financial statements for the three and nine months ended January 31, 2008. The only significant impact of adoption of the standards was the reallocation of \$1.4 million of deferred debt issue expenses from Other Assets to Long-Term Debt. The adoption of the accounting standards did not have a material impact on the Company's statements of earnings for the three and nine months ended January 31, 2008.

# **Future Accounting Pronouncements**

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. CUC has begun assessing the adoption of IFRS for fiscal year 2012, however the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. In February 2008, the AcSB has confirmed the date of changeover to IFRS will be for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

#### Inventories

In 2007, the AcSB approved a new standard with respect to inventories effective for fiscal years beginning on or after January 1, 2008. The new standard requires inventories to be measured at the lower of cost or net realizable value and disallows the use of a last-in-first-out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is to be reversed. This new standard is not expected to have a material impact on the Company's earnings.

#### Rate Regulated Operations

Under the terms of the AIP, it is anticipated that the Company will operate under new licences as a regulated electric utility. The Company's financial statements will be prepared in accordance with Canadian GAAP including selected accounting treatments that differ from those used by entities not subject to rate regulation.

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

Fixed assets are the Property, Plant and Equipment as reported in the Company's financial statements. Fixed assets will be increased by the original book value of lands, buildings, plant and equipment, including computer software acquired or constructed by the Company. The original book value of these fixed assets will include an Allowance for Funds Used During Construction and an allowance for General Expenses Capitalised (calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity). The allowance for working capital is equal to 30 days of total revenues.

Regulatory assets and liabilities represent amounts expected to be recovered from or refunded to customers by order of the ERA or by a directive of Government. These assets or liabilities are added to the Rate Base to the extent that they are not included in fixed assets. At January 31, 2008 there were no such regulatory assets or liabilities recorded by the Company.

In August 2007, the AcSB considered the comments received on its March 2007 Exposure Draft, "Rate Regulated Operations" and decided to remove the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation. The Company will monitor developments and their implications related to the issue of accounting for rate regulated operations.

#### **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 January 31, 2008, the amount of unbilled revenue recorded in Accounts Receivable – Trade was \$0.7 million (January 31, 2007: \$1.2 million) on operating revenues for the third quarter of \$42.8 million (third quarter 2007: \$38.0 million) and \$131.8 million for the nine months ended January 31, 2008 (nine months ended January 31, 2007: \$122.2 million).

#### 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. The main assumptions utilized by Management in determining pension expense and obligations were the discount rate for the accrued benefit obligation, pension commencement date, inflation and the expected rate of return on plan assets. As at January 31, 2008, the Company had an accrued benefit liability of \$0.1 (January 31, 2007: \$0.1 million).

During the third quarter of 2008 the Company recorded net compensation expense of \$0.1 million (third quarter 2007: \$0.2 million) and for the nine months ended January 31, 2008 the Company recorded net compensation expense of \$0.4 million (nine months ended January 31, 2007: \$0.5 million).

#### Property, Plant & 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 January 31, 2008, the net book value of the Company's Property, Plant and Equipment was \$308.0 million compared to \$279.6 million as at January 31, 2007, and \$287.3 million as at April 30, 2007 increasing as a result of the company's generation and T&D capital expenditures. Depreciation expense for the three months ended January 31, 2008 was \$4.1 million and \$12.1 million for the nine months ended January 31, 2008 compared to \$3.9 million for the three months ended January 31, 2007 and \$11.3 million for the nine months ended January 31, 2007. Due to the value of the Company's property, plant and equipment, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

# **Quarterly Results**

The table "Quarterly Results" summarizes unaudited quarterly information for each of the eight quarters ended April 30, 2006 through January 31, 2008. This information has been obtained from CUC's unaudited interim Financial Statements, which in the opinion of Management, have been prepared in accordance with GAAP. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

A summary of the past eight quarters reflects the Company's and Grand Cayman's post-Hurricane Ivan growth followed by a period of sustained growth:

| Quarterly results (\$ thousands, except basic and diluted earnings per ordinary share) | Operating revenue | Net<br>earnings/<br>(losses) | Income/<br>(loss) applicable<br>to ordinary<br>shares | Earnings/<br>(losses)<br>per ordinary<br>share | Diluted<br>earnings/losses<br>per ordinary<br>share |
|----------------------------------------------------------------------------------------|-------------------|------------------------------|-------------------------------------------------------|------------------------------------------------|-----------------------------------------------------|
| January 31, 2008                                                                       | 42,768            | 5,262                        | 5,149                                                 | 0.20                                           | 0.20                                                |
| October 31, 2007                                                                       | 45,625            | 6,251                        | 6,138                                                 | 0.24                                           | 0.24                                                |
| July 31, 2007                                                                          | 43,371            | 7,834                        | 7,242                                                 | 0.29                                           | 0.29                                                |
| April 30, 2007                                                                         | 36,709            | 4,115                        | 4,002                                                 | 0.16                                           | 0.16                                                |
| January 31, 2007                                                                       | 37,982            | (587)                        | (700)                                                 | (0.03)                                         | (0.03)                                              |
| October 31, 2006                                                                       | 42,881            | 6,827                        | 6,715                                                 | 0.27                                           | 0.27                                                |
| July 31, 2006                                                                          | 41,287            | 8,099                        | 7,672                                                 | 0.30                                           | 0.30                                                |
| April 30, 2006                                                                         | 33,151            | 5,223                        | 4,945                                                 | 0.20                                           | 0.20                                                |

# January 2008/January 2007

Net earnings for the three months ended January 31, 2008 increased \$5.9 million to \$5.3 million, from net losses of \$0.6 million for the same period last year. Earnings on Class A Ordinary Shares for the period were \$5.1 million, or \$0.203 per Class A Ordinary Share, as compared to losses on Class A Ordinary Shares of \$0.7 million, or \$0.028 losses per Class A Ordinary Share for third quarter fiscal 2007. This quarter-over-quarter increase in earnings per share was primarily the result of 6% sales growth for the period, a \$3.7 million charge in third quarter 2007 for the disposal of a steam system as part of an overall Power Plant Restructuring, lower maintenance costs and the movement in deferred fuel costs.

# October 2007/October 2006

Net earnings for the three months ended October 31, 2007 declined \$0.5 million to \$6.3 million, from \$6.8 million for the same period last year. Earnings on Class A Ordinary Shares for the period were \$6.2 million, or \$0.2450 per Class A Ordinary Share, as compared to \$6.7 million, or \$0.2648 per Class A ordinary share for second quarter fiscal 2007. This 8% quarter-over-quarter decline in earnings per share was driven by increased T&D maintenance expenses.

#### July 2007/July 2006

Net earnings for the three months ended July 31, 2007 declined slightly to \$7.8 million, from \$8.1 million for the same period last year. Earnings on Class A Ordinary Shares for the first quarter of fiscal 2008 were \$7.2 million, or \$0.29 per Class A Ordinary Share, as compared to \$7.7 million, or \$0.30 per Class A Ordinary Share for first quarter fiscal 2007.

The primary reasons for the 3% quarter-over-quarter decline in earnings applicable to Class A Ordinary Shares were increased maintenance expenses.

#### April 2007/April 2006

Earnings on Class A Ordinary Shares for fourth quarter 2007 were \$4.0 million, or \$0.16 per Class A Ordinary Share, as compared to \$5.0 million, or \$0.20 per Class A Ordinary Share for fourth quarter fiscal 2006. The primary reasons for the 20% decline in earnings per share were increased maintenance expenses.

#### **Disclosure Controls and Procedures**

CUC maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms. Disclosure process included quality review performed by CUC's Disclosure Committee and Audit Committee.

The President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have evaluated the Company's disclosure controls and procedures as of January 31, 2008 and concluded that the Company's current disclosure controls and procedures are adequately designed.

#### Internal Controls over Financial Reporting ("ICFR")

The CEO and CFO of the Company, together with Management, have evaluated the design of the Company's ICFR, as defined under the rules adopted by the Canadian Securities Administrators, and based on this evaluation the CEO and CFO have concluded that as at January 31, 2008, CUC's ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements in accordance with Canadian GAAP.

There has been no change in the Company's ICFR during the third quarter of fiscal 2008 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

#### **Subsequent Events**

On February 1, 2008, the Company's Board of Directors declared a regular quarterly dividend of \$0.165 per Class A Ordinary Share, or an annualised dividend of \$0.66 per Class A Ordinary Share. The dividend will be payable March 15, 2008 to shareholders of record February 22, 2008.

#### Outlook

Licence negotiations are near a conclusion with the signing of the AIP in December 2007. CUC plans to invest in infrastructure to meet the demands of the Grand Cayman economy under the terms of its new licenses and in the wake of a growing resident population, continued growth of the tourism sector and the continued expansion of the financial services sector.

#### **Outstanding Share Data**

At March 12, 2008, the Company had issued and outstanding 25,386,658 Class A 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 <a href="https://www.sedar.com">www.sedar.com</a> and on the Company's website at <a href="https://www.cuc-cayman.com">www.cuc-cayman.com</a>.

Letitia T. Lawrence

Vice-President Finance & Chief Financial Officer

March 12, 2008

# **Balance Sheets**

| Balance Sheets Unaudited (\$ Thousands)           | Note   | As at<br>January 31,<br>2008 | As at<br>January 31,<br>2007 | As at<br>April 30,<br>2007 |
|---------------------------------------------------|--------|------------------------------|------------------------------|----------------------------|
| Assets                                            |        | 2000                         | 2007                         | 2007                       |
| Current Assets                                    |        |                              |                              |                            |
| Cash and Due from Banks                           |        | 1,324                        | 7,901                        | 6,891                      |
| Accounts Receivable- Trade                        | 14     | 18,623                       | 16,911                       | 16,583                     |
| Inventories                                       | 3      | 8,847                        | 4,947                        | 5,401                      |
| Prepayments                                       |        | <u>1,783</u>                 | <u>1,834</u>                 | <u>1,172</u>               |
|                                                   |        | 30,577                       | 31,593                       | 30,047                     |
| Property, Plant and Equipment                     | 4      | 308,047                      | 279,626                      | 287,338                    |
| Other Assets                                      | 5      | <u>17,934</u>                | <u>11,517</u>                | <u>11,855</u>              |
| Total Assets                                      |        | 356,558                      | 322,736                      | 329,240                    |
| Liabilities and Shareholders' Equity              |        |                              |                              |                            |
| Current Liabilities                               |        |                              |                              |                            |
| Bank Overdraft                                    |        | 542                          | 0                            | 0                          |
| Accounts Payable and Accrued Expenses             |        | 25,653                       | 18,352                       | 24,931                     |
| Short-Term Debt                                   | 6 & 14 | 8,000                        | 17,000                       | 17,000                     |
| Current Portion of Long-Term Debt                 |        | 10,528                       | 10,512                       | 10,512                     |
| Consumer's Deposits and Advances for Construction |        | <u>3,617</u>                 | <u>3,380</u>                 | <u>3,416</u>               |
|                                                   |        | 48,340                       | 49,244                       | <u>55,859</u>              |
| Long-Term Debt                                    | 7      | <u>166,194</u>               | 138,028                      | 138,028                    |
| Total Liabilities                                 |        | 214,534                      | 187,272                      | 193,887                    |
| Shareholders' Equity                              |        |                              |                              |                            |
| Share Capital                                     | 8      | 1,761                        | 1,757                        | 1,758                      |
| Share Premium                                     |        | 42,882                       | 42,177                       | 42,230                     |
| Contributed Surplus                               |        | 250                          | 209                          | 224                        |
| Retained Earnings                                 |        | 97,131                       | 91,321                       | 91,141                     |
|                                                   |        | 142,024                      | 135,464                      | 135,353                    |
| Total Liabilities and Shareholders' Equity        |        | 356,558                      | 322,736                      | 329,240                    |

# **Statements of Earnings**

| Statements of Earnings Unaudited (\$ Thousands, except basic, dividends and diluted earnings per ordinary share) | Note | Three<br>Months Ended<br>January 31,<br>2008 | Three<br>Months Ended<br>January 31,<br>2007 | Nine Months<br>Ended<br>January 31,<br>2008 | Nine Months<br>Ended<br>January 31,<br>2007 |
|------------------------------------------------------------------------------------------------------------------|------|----------------------------------------------|----------------------------------------------|---------------------------------------------|---------------------------------------------|
| Operating Revenues                                                                                               |      |                                              |                                              |                                             |                                             |
| Electricity Sales                                                                                                |      | 21,072                                       | 23,207                                       | 74,216                                      | 73,079                                      |
| Cost Recovery Surcharge                                                                                          | 12   | 767                                          | 1,083                                        | 3,270                                       | 3,446                                       |
| Fuel Factor                                                                                                      |      | 20,929                                       | 13,692                                       | 54,277                                      | 45,626                                      |
| Total Operating Revenues                                                                                         |      | 42,768                                       | 37,982                                       | 131,763                                     | 122,151                                     |
| Operating Expenses                                                                                               |      |                                              |                                              | Ź                                           |                                             |
| Power Generation                                                                                                 |      | 25,092                                       | 22,685                                       | 76,467                                      | 70,807                                      |
| General and Administration                                                                                       |      | 2,918                                        | 3,031                                        | 8,736                                       | 8,597                                       |
| Customer Service and<br>Promotion                                                                                |      | 478                                          | 345                                          | 1,231                                       | 952                                         |
| Transmission and Distribution                                                                                    |      | 779                                          | 556                                          | 2,175                                       | 1,576                                       |
| Depreciation and Amortisation                                                                                    |      | 4,130                                        | 3,925                                        | 12,146                                      | 11,296                                      |
| Maintenance                                                                                                      |      | 2,269                                        | 2,623                                        | 6,000                                       | 5,985                                       |
| Power Plant Restructuring                                                                                        | 4    | <u>0</u>                                     | <u>3,745</u>                                 | <u>0</u>                                    | <u>3,745</u>                                |
| Total Operating Expenses                                                                                         |      | 35,666                                       | 36,910                                       | 106,755                                     | 102,958                                     |
| Operating Income                                                                                                 |      | 7,102                                        | 1,072                                        | 25,008                                      | 19,191                                      |
| Other Income/(Expenses):                                                                                         |      |                                              | (2.2.10)                                     | (= 0.05)                                    | (=                                          |
| Interest Expense                                                                                                 | 14   | (2,683)                                      | (2,344)                                      | (7,982)                                     | (7,032)                                     |
| Foreign Exchange Gain                                                                                            |      | 430                                          | 381                                          | 1,165                                       | 1,131                                       |
| Other Income                                                                                                     |      | 413                                          | <u>304</u>                                   | <u>1,157</u>                                | <u>1,049</u>                                |
| Total Net Other<br>(Expenses)/Income                                                                             |      | (1,840)                                      | (1,659)                                      | (5,660)                                     | (4,852)                                     |
| Earnings/(Loss) for the Period                                                                                   | 2    | 5,262                                        | (587)                                        | 19,348                                      | 14,339                                      |
| Preference Dividends Paid-<br>Class B                                                                            |      | (113)                                        | (112)                                        | (818)                                       | (653)                                       |
| Earnings on Class A Ordinary<br>Shares                                                                           |      | 5,149                                        | (699)                                        | 18,530                                      | 13,686                                      |
| Weighted-Average Number of<br>Class A Ordinary Shares Issued<br>and Fully Paid                                   | 9    | 25,367                                       | 25,309                                       | 25,359                                      | 25,303                                      |
| Earnings per Class A Ordinary<br>Share                                                                           | 9    | 0.204                                        | (0.033)                                      | 0.732                                       | 0.541                                       |
| Diluted Earnings per Class A<br>Ordinary Share                                                                   | 9    | 0.203                                        | (0.033)                                      | 0.730                                       | 0.541                                       |
| Dividends Declared per Class<br>A Ordinary Share                                                                 |      | 0.165                                        | 0.165                                        | 0.495                                       | 0.495                                       |

# **Statements of Retained Earnings**

| Statements of Retained<br>Earnings<br>Unaudited<br>(\$ Thousands)                 | Note | Three<br>Months Ended<br>January 31,<br>2008 | Three<br>Months Ended<br>January 31,<br>2007 | Nine Months<br>Ended<br>January 31,<br>2008 | Nine Months<br>Ended<br>January 31,<br>2007 |
|-----------------------------------------------------------------------------------|------|----------------------------------------------|----------------------------------------------|---------------------------------------------|---------------------------------------------|
| Balance at beginning of period                                                    |      | 96,162                                       | 96,194                                       | 91,141                                      | 90,148                                      |
| Earnings/(Loss) for the period                                                    |      | 5,262                                        | (587)                                        | 19,348                                      | 14,339                                      |
| Dividends                                                                         |      | (4,293)                                      | (4,286)                                      | (13,358)                                    | (13,166)                                    |
| Balance at end of period<br>[Double-check, end of period<br>figures should match] |      | 97,131                                       | 91,321                                       | 97,131                                      | 91,321                                      |

# **Statements of Cash Flows**

| Statements of Cash Flows Unaudited (\$ Thousands)                                  | Note | Three<br>Months Ended<br>January 31,<br>2008 | Three<br>Months<br>Ended<br>January<br>31, 2007 | Nine<br>Months<br>Ended<br>January<br>31, 2008 | Nine Months<br>Ended<br>January 31,<br>2007 |
|------------------------------------------------------------------------------------|------|----------------------------------------------|-------------------------------------------------|------------------------------------------------|---------------------------------------------|
| Operating Activities                                                               |      |                                              |                                                 |                                                |                                             |
| Earnings/(Loss) for the period                                                     |      | 5,262                                        | (587)                                           | 19,348                                         | 14,339                                      |
| Items not affecting working capital:                                               |      |                                              |                                                 |                                                |                                             |
| Depreciation and amortisation                                                      |      | 4,130                                        | 3,925                                           | 12,146                                         | 11,296                                      |
| Stock-based compensation                                                           |      | 0                                            | 15                                              | 26                                             | 47                                          |
| (Profit)/Loss on Disposal of fixed assets                                          |      | (292)                                        | 179                                             | (249)                                          | 169                                         |
| Power Plant restructuring                                                          |      | <u>0</u>                                     | <u>3,745</u>                                    | <u>0</u>                                       | <u>3,745</u>                                |
|                                                                                    |      | 9,100                                        | 7,277                                           | 31,271                                         | 29,596                                      |
| Net (increase)/decrease in non-cash working capital balances related to operations |      | (1,913)                                      | <u>596</u>                                      | (12,025)                                       | <u>5,595</u>                                |
| Cash flow provided by operating activities                                         |      | 7,187                                        | 7,873                                           | 19,246                                         | 35,191                                      |
| Investing Activities                                                               |      |                                              |                                                 |                                                |                                             |
| Proceeds of sale of fixed assets                                                   |      | 281                                          | 3                                               | 285                                            | 5                                           |
| Purchase of property, plant and equipment                                          |      | (6,366)                                      | (7,083)                                         | (32,892)                                       | (24,122)                                    |
| Licence renewal costs                                                              | 2    | (158)                                        | <u>(19)</u>                                     | <u>(534)</u>                                   | (233)                                       |
| Cash flow used in investing activities                                             |      | (6,243)                                      | (7,099)                                         | (33,141)                                       | (24,350)                                    |
| Financing Activities                                                               |      |                                              |                                                 |                                                |                                             |
| Proceeds from debt financing                                                       |      | 10,000                                       | 15,000                                          | 48,000                                         | 25,000                                      |
| Repayment of debt                                                                  |      | (2,258)                                      | (6,251)                                         | (27,512)                                       | (15,498)                                    |
| Increase/(Decrease) in bank overdraft                                              |      | (4,638)                                      | 0                                               | 542                                            | (377)                                       |
| Dividends paid                                                                     |      | (4,293)                                      | (4,286)                                         | (13,358)                                       | (13,166)                                    |
| Net proceeds of share issues                                                       |      | 343                                          | <u>309</u>                                      | <u>656</u>                                     | <u>525</u>                                  |
| Cash flow (used in)/provided by financing activities                               |      | (846)                                        | 4,772                                           | 8,328                                          | (3,517)                                     |
| Increase/(Decrease) in cash                                                        |      | 98                                           | 5,546                                           | (5,567)                                        | 7,325                                       |
| Cash - Beginning of period                                                         |      | <u>1,226</u>                                 | 2,355                                           | 6,891                                          | <u>576</u>                                  |
| Cash - End of period                                                               |      | 1,324                                        | 7,901                                           | 1,324                                          | 7,901                                       |

#### **Notes to Interim Financial Statements**

Unaudited – January 31, 2008 (expressed in thousands of United States dollars)

#### 1. Nature of Operations and Financial Statement Presentation

These unaudited interim financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for interim financial statements. These interim financial statements do not include all of the disclosures normally found in the Caribbean Utilities Company, Ltd. ("CUC" or "the Company") annual financial statements and should be read in conjunction with the Company's financial statements for the year ended April 30, 2007.

The principal activity of the Company is to generate and distribute electricity in its exclusive licence area of Grand Cayman, Cayman Islands, under licence from the Government of the Cayman Islands ("Government") originally dated May 10, 1966, amended November 1, 1979 and renewed for a further 25 years on January 17, 1986. Amendments to the 25-year licence dated January 17, 1986, as amended by a Supplementary Licence dated October 16, 1989, have been negotiated and incorporated into a further Supplementary Licence executed on November 15, 1994 (collectively, the "Licence").

The Company is engaged in negotiations for new licences and an Agreement in Principle was reached with Government in December 2007 as detailed in Note 2 below. The Company agreed to the January 2008 removal of the Hurricane Ivan Cost Recovery Surcharge ("CRS"), which will result in \$2.6 million of foregone cost recovery previously anticipated to be collected through August 2008. All foregone revenues are recoverable by CUC if the licences are not received materially in the form agreed in the AIP.

#### 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. These interim financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual financial statements.

#### Regulation

In December 2007, Government and CUC announced that they had reached an Agreement in Principle ("AIP") on the terms of new 20 year licenses for CUC covering the generation, transmission and distribution of electricity in Grand Cayman. While not legally binding, the AIP reflects the framework to which the parties have agreed. The AIP will form the basis of the licencing documents that are expected to be signed by February 2008, and defines the process through which CUC will surrender its current licence in exchange for the new licences.

Effective January 1, 2008 pursuant to the AIP, CUC's base rates were restructured to extract the fuel cost recovery and turnover fee and derive base rates as defined in the new licences. A new rate class for large commercial customers and a new fuel and lube factor to provide for full pass-through charges for 100% of fuel and lubricating oil were also implemented. In addition to the structural changes, the AIP called for an overall reduction in base rates of 3.25%, the elimination of the Hurricane Ivan Cost Recovery Surcharge (CRS, Note 12) and the implementation of a Government rebate of US\$0.24 per Imperial Gallon of fuel used in

generation to be applied to the first 1,500 kiloWatt-hours ("kWh") of monthly residential consumption.

#### Comprehensive Income, Financial Instruments and Hedges

On May 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants ("CICA") accounting standards for Comprehensive Income (CICA Handbook Section 1530),

Financial Instruments (CICA Handbook Section 3855 and 3861) and Hedges (CICA Handbook Section 3865).

- a) Section 1530, Comprehensive Income, provides guidance for the reporting and display of other comprehensive income. Comprehensive income is the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Amounts recognized in other comprehensive income must eventually be recognized in the statement of earnings and these reclassifications are to be disclosed separately. Examples of some items that would be included in other comprehensive income are changes in the fair value of available for sale assets and the effective portion of the changes in fair value cash flow hedging instruments. As the Company currently does not have any hedging instruments and has not designated any financial assets as available for sale, the Company did not have any adjustments recognized through comprehensive income upon adoption of this new standard, therefore at this point comprehensive income is equal to net earnings.
- b) Section 3855, Financial Instruments Recognition and Measurement and Section 3861, Financial Instruments Disclosure and Presentation, address the criteria for recognition and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. The standards also address how the gains and losses are recognized. All financial instruments, including derivatives and derivative features embedded in financial instruments or other contracts but which are not closely related to the host financial instrument or contract, are initially recorded at fair value.

The Company has designated its financial instruments as follows:

- 1) Cash and due from banks is classified as "Held for Trading". After its initial fair value measurement, any change in fair value is recorded in net income.
- 2) Accounts receivable are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortised cost using the effective interest method. For the Company, the measurement amount generally corresponds to cost.
- 3) Short-term debt, bank overdraft, accounts payable and accrued expenses, consumer deposits and advances for construction and long-term debt are classified as "Other Financial Liabilities". Initial measurement is at fair value with any transaction costs added to the fair value amount. Subsequently, they are measured at amortised cost using the effective interest method. For the Company, the measurement amount generally corresponds to cost.

The Company reviewed its contracts for embedded derivatives and determined that while some of the Company's long-term debt contracts have prepayment options that qualify as embedded derivatives to be separately recorded, none have been recorded as they are immaterial to the Company's results of operations and financial position. Under Section 3855, deferred financing costs are no longer recognized as a deferred charge and upon adoption of this standard the Company has reclassified \$1.4 million of unamortized deferred financing costs as part of its debt balances. These costs are required to be amortised using the effective interest method versus the straight line

method. This change in methodology did not have a material impact on the Company's earnings upon adoption of this new standard.

c) Section 3865, Hedges, establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. The Company currently has no hedging instruments, therefore the adoption of this standard did not have any impact on the Company.

Adoption of these standards had no impact in the Company's fiscal 2008 opening retained earnings.

#### Accounting Changes

Effective May 1, 2007, the Company adopted the revised Section 1506, *Accounting Changes*, which relate to accounting policies, changes in accounting estimates and errors. Under this revised standard, voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information. Adoption of this standard had no impact on the Company's January 31, 2008 interim financial statements.

The fiscal 2008 third quarter report displays the licence agreement as a line item under investing activities on the cash flow statement, previously this amount was categorised as cash flow provided by operating activities as opposed to investing activities. However upon further consideration and due to the longevity of the asset this has been reallocated.

# Future Accounting Policies International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for companies reporting under Canadian GAAP. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. CUC has begun assessing the adoption of IFRS for fiscal year 2012, however the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

#### Inventories

In March 2007, the AcSB approved a new standard with respect to inventories effective for fiscal years beginning on or after January 1, 2008. The new standard requires inventories to be measured at the lower of cost or net realizable value and disallows the use of a last-in-first-out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write down is to be reversed. This new standard is not expected to have a material impact on the Company's earnings.

#### Rate Regulated Operations

Under the terms of the AIP the Company will operate as a regulated electric utility under its new licences. The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles including selected accounting treatments that differ from those used by entities not subject to rate regulation.

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

Fixed assets are the Property, Plant and Equipment as reported in the Company's financial statements. Fixed assets will be increased by the original book value of lands, buildings, plant and equipment, including computer software acquired or constructed by the Company. The original book value of these fixed assets will include an Allowance for Funds Used During Construction and an allowance for General Expenses Capitalised (calculated as a percentage of up to 10% of Non-Fuel Operating Expenses, varying annually depending on the level of capital activity). The allowance for working capital is equal to 30 days of total revenues.

Regulatory assets and liabilities represent amounts expected to be recovered from or refunded to customers by order of the ERA or by a directive of Government. These assets or liabilities are added to the Rate Base to the extent that they are not included in fixed assets. At January 31, 2008 there were no such regulatory assets or liabilities recorded by the Company.

In August 2007, the AcSB considered the comments received on its March 2007 Exposure Draft, "Rate Regulated Operations" and decided to remove the temporary exemption in Section 1100, Generally Accepted Accounting Principles, pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation. The Company will monitor developments and their implications related to the issue of accounting for rate regulated operations.

# 3. Inventories

In June 2007, the Company renewed its Primary Fuel Supply Contract with Esso Standard Oil S.A. Limited. As a condition of the new contract, the point of delivery for fuel billing purposes has moved from the Company's plant compound to the Esso terminal. CUC has also assumed responsibility for the management of the fuel pipeline (fuel suppliers will continue to pay the regular throughput fee) and ownership of bulk fuel inventory at the North Sound Plant. The Company is committed to purchase 80% of the Company's fuel requirements for the running of the plant from Esso, the contract is for three years terminating in April 2010. The approximate quantities per the contract on an annual basis are, by fiscal year in millions of imperial gallons: 2008 – 24.96, 2009 – 26.40, 2010 – 27.84. All other points of significance are in line with previous contracts with this fuel supplier.

As a result of the Company's purchase of the bulk fuel inventory, the value of CUC's closing stock of fuel at January 31, 2008 was \$2.9 million (2007: \$0.3 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the North Sound Plant.

| Inventories (\$ Thousands) | January 31, 2008 | January 31, 2007 | April 30, 2007 |
|----------------------------|------------------|------------------|----------------|
| Inventory – Line spares    | 5,641            | 4,493            | 4,965          |
| Inventory – Fuel           | 2,924            | 288              | 244            |
| Inventory – Other          | <u>282</u>       | <u>166</u>       | <u>192</u>     |
| Total                      | 8,847            | 4,947            | 5,401          |

#### 4. Property, Plant and Equipment

| Property, Plant and Equipment (\$ Thousands)    | Adjusted Cost/Appraised<br>Value | Accumulated Depreciation    | Net Book Value<br>January 31,<br>2008 |
|-------------------------------------------------|----------------------------------|-----------------------------|---------------------------------------|
| Transmission & Distribution (T&D)               | 191,171                          | 48,438                      | 142,733                               |
| Generation                                      | 196,818                          | 63,767                      | 133,051                               |
| Other:                                          |                                  |                             |                                       |
| Land                                            | 10,852                           | 0                           | 10,852                                |
| Buildings                                       | 18,077                           | 6,682                       | 11,395                                |
| Equipment, motor vehicles and computers         | <u>20,401</u>                    | <u>10,385</u>               | <u>10,016</u>                         |
| Total Other                                     | 49,330                           | 17,067                      | 32,263                                |
| Property, plant and equipment                   | 437,319                          | 129,272                     | 308,047                               |
| Property, Plant and Equipment<br>(\$ Thousands) | Adjusted Cost/Appraised<br>Value | Accumulated<br>Depreciation | Net Book Value<br>January 31,<br>2007 |
| Transmission & Distribution (T&D)               | 183,399                          | 43,168                      | 140,231                               |
| Generation                                      | 176,027                          | 56,873                      | 119,154                               |
| Other:                                          |                                  |                             |                                       |
| Land                                            | 1,171                            |                             | 1,171                                 |
| Buildings                                       | 17,487                           | 5,634                       | 11,853                                |
| Equipment, motor vehicles and computers         | <u>17,242</u>                    | <u>10,025</u>               | <u>7,217</u>                          |
| Total Other                                     | 35,899                           | 15,659                      | 20,240                                |
| Property, plant and equipment                   | 395,326                          | 115,700                     | 279,626                               |
| Property, Plant and Equipment<br>(\$ Thousands) | Adjusted Cost/Appraised<br>Value | Accumulated Depreciation    | April 30,<br>2007                     |
| Transmission & Distribution (T&D)               | 190,489                          | 44,835                      | 145,654                               |
| Generation                                      | 179,951                          | 58,698                      | 121,253                               |
| Other:                                          |                                  |                             |                                       |
| Land                                            | 1,171                            | -                           | 1,171                                 |
| Buildings                                       | 17,879                           | 6,004                       | 11,875                                |
| Equipment, motor vehicles and computers         | <u>16,888</u>                    | <u>9,503</u>                | <u>7,385</u>                          |
| Total Other                                     | 35,938                           | 15,507                      | 20,431                                |
| Property, plant and equipment                   | 406,378                          | 119,040                     | 287,338                               |

Included in PP&E are a number of capital projects in progress with a total cost to date of \$32.9 million (January 31, 2007: \$24.1 million, April 30, 2007: \$23.6 million). These projects primarily relate to various improvements to the distribution system.

Also included in generation and transmission and distribution ("T&D") is freehold land with a cost of \$4.7 million (January 31, 2007:\$4.7 million). During fiscal 2007, the Company entered into various agreements to purchase land adjacent to its North Sound Road Plant compound to house future expansion with an approximate value of \$9.1 million. During the first nine months of fiscal 2008, the Company made payments of \$9.7 million against these agreements.

In addition, engine spares with a net book value of \$11.3 million (January 31, 2007: \$9 million) are included in generation.

During the nine months ended January 31, 2008, the Company capitalized interest of \$0.5 million (nine months ended January 31, 2007: \$0.8 million).

During the third quarter of fiscal 2007 the results of a comprehensive review of damages caused by Hurricane Ivan in 2004 were analyzed & evaluated resulting in a decision by the Company to restructure the Power Plant design and not repair the steam system. As a result of the decision, a charge of \$3.7 million was recognized for the disposal of these assets and

# 5. Other Assets

| Other Assets (\$ Thousands)        | January 31, 2008 | January 31, 2007 | April 30, 2007 |
|------------------------------------|------------------|------------------|----------------|
| Deferred fuel costs                | 16,257           | 8,778            | 9,115          |
| Deferred licence renewal costs (1) | 1,454            | 1,153            | 1,198          |
| Sundry assets                      | 223              | 203              | 201            |
| Deferred debt issue expense (2)    | <u>0</u>         | <u>1,383</u>     | <u>1,341</u>   |
| Total                              | 17,934           | 11,517           | 11,855         |

#### 1) Deferred licence renewal costs

Deferred licence renewal costs are related to the ongoing negotiations with the Government for new licences for the Company. Amortization of deferred license renewal costs will commence upon conclusion of current license negotiations.

# 2) Deferred debt issue expenses

As a result of the Company adopting CICA Handbook Section 3855, the Company reclassified \$1.4 million of deferred debt issue expenses against long-term debt.

# 6. Short-Term Financing

At April 30, 2007, the Company had \$2.0 million outstanding against the Royal Bank of Canada's ("RBC") credit facilities agreement. During the first six months of fiscal 2008, the Company drew down an additional \$8 million against the capital expenditure line of credit with RBC and \$0.5 million against the operating line of credit. In the third quarter the capital expenditure line of credit was reduced by \$2.0 Million bringing the total outstanding under the RBC credit facility agreement to \$8.5 million and the total available to \$23.5 million.

# 7. Long-Term Debt

On June 1, 2007 the Company closed on the first tranche of a \$40 million private placement of 5.65% Senior Unsecured Notes due June 1, 2022. The first tranche was in the amount of \$30 million. The debt offering was privately placed with one institutional investor in the United States. Proceeds from the offering were used to repay short-term indebtedness, including a \$15 million Demand Note to Fortis and to finance ongoing additions to CUC's generation capacity and T&D system.

The second tranche of \$10 million of the 5.65% Senior Unsecured Notes closed in November 2007.

#### 8. Capital Stock

Authorised:

- a) 60,000,000 (2007: 60,000,000) Class A Ordinary Shares of CI\$0.05 each
- b) 250,000 (2007: 250,000) 9% Cumulative, Participating Class B Preference Shares of \$1.00 each (non voting)
- c) 1 Cumulative, Participating, Class D Preference Share of CI\$0.56 (non voting)

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

| Class A Ordinary<br>Share Issue                                        | Quarter Ended<br>January 31,<br>2008<br>Number of<br>shares | Quarter Ended<br>January 31,<br>2008<br>Amount<br>(\$) | Year-to-date<br>January 31,<br>2008<br>Number of<br>shares | Year-to-date<br>January 31,<br>2008<br>Amount<br>(\$) |
|------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------|
| Balance, beginning of period                                           | 25,358,102                                                  | 1,509,411                                              | 25,331,438                                                 | 1,507,824                                             |
| Consumer Share<br>Purchase and<br>Dividend Reinvestment<br>Plans       | 23,390                                                      | 1,393                                                  | 46,789                                                     | 2,785                                                 |
| Employee Share<br>Purchase and<br>Employee Long Service<br>Bonus Plans | 5,166                                                       | 307                                                    | 8,431                                                      | 502                                                   |
| Class A Ordinary<br>Shares issued &<br>outstanding                     | 25,386,658                                                  | 1,511,111                                              | 25,386,658                                                 | 1,511,111                                             |
| 9% Cumulative,<br>Participating Class B                                | <u>250,000</u><br><b>25,636,658</b>                         | 250,000<br>1,761,111                                   | 250,000<br>25,636,658                                      | 250,000<br>1,761,111                                  |

# 9. 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 25,367,215 and 25,309,408 for the quarters ended January 31, 2008 and 2007 respectively. The year-to-date weighted-average shares outstanding were 25,359,192 and 25,302,531, respectively. Diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

#### 10. Share options

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

The exercise price per share in respect of options is equal to the fair market value of the Class A Ordinary Shares on the date of grant. Each option is for a term not exceeding ten years, and will become exercisable on a cumulative basis at the end of each year following the date of grant. The maximum number of Class A Ordinary Shares under option shall be fixed and approved by the shareholders of the Company from time to time and is currently set at

1,216,919. Options are forfeited if they are not exercised prior to their respective expiry date or upon termination of employment prior to the completion of the vesting period.

| Share Options                      | Quarter Ended January 31, 2008 | Year-to-date January 31, 2008 |
|------------------------------------|--------------------------------|-------------------------------|
| Outstanding at beginning of period | 619,119                        | 619,119                       |
| Granted                            | -                              | -                             |
| Exercised                          | 1,216                          | 1,216                         |
| Forfeited                          |                                | <u>=</u>                      |
| Outstanding at end of period       | 617,903                        | 617,903                       |
| Range of exercise prices:          |                                |                               |
| Granted                            | N/A                            | N/A                           |
| Exercised                          | 11.46                          | 11.46                         |
| Forfeited                          | N/A                            | N/A                           |
| Outstanding at January 31, 2008    | 11.46-13.78                    | 11.46-13.78                   |

The position with respect to outstanding unexercised options as at January 31, 2008 was as follows:

| Share Options                                | Number of Class A<br>Ordinary Shares under<br>option | Exercise Price (\$) | Term of option |
|----------------------------------------------|------------------------------------------------------|---------------------|----------------|
| Date of grant:                               |                                                      |                     |                |
| July 18, 2001                                | 419,803                                              | 11.46               | 10 years       |
| September 22, 2003                           | 198,100                                              | 13.78               | 10 years       |
| Outstanding at end of period & Weighted Avg. | 617,903                                              | 12.20               |                |

#### 11. Foreign Exchange

The closing rate of exchange on January 31, 2008 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn. \$0.9980 per US\$1.00. The official exchange rate for the conversion of Cayman Islands dollars into U.S. dollars as determined by the Cayman Islands Monetary Authority is fixed at CI\$1.00 per US\$1.20. Thus, the rate of exchange as of January 31, 2008 for conversion of Cayman Islands dollars into Canadian dollars was \$1.198 per CI\$1.00.

#### 12. Cost Recovery Surcharge (CRS)

On August 1, 2005, the Company implemented a CRS of \$0.0089 (CI\$0.0075) per kWh to recover approximately \$13.4 million of direct Hurricane Ivan losses. CRS revenues for the three and nine months ended January 31, 2008 were \$0.7 million and \$3.2 million respectively (\$1.1 million and \$3.4 million respectively for the three and nine months ended January 31, 2007). As at December 31, 2007, a total of \$10.8 million had been collected since the implementation date leaving \$2.6 million to be recovered. In accordance with the AIP (Note 2), effective January 1, 2008, the CRS was removed from consumer bills and the company will forego the additional \$2.6 million of CRS Revenues.

# 13. Pension Plan

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. As at January 31, 2008, the Company had an accrued benefit liability of \$0.1 million (January 31, 2007: \$0.1 million). During the third quarter of 2008 the Company recorded net compensation expense of \$0.1 million (third quarter 2007: \$0.2 million) and for the nine months ended January 31, 2008 the Company recorded net compensation expense of \$0.4 million (nine months ended January 31, 2007: \$0.5 million).

#### 14. Transactions with Related Parties

In 2007, the Company entered into a 7% \$15 million Demand Note agreement with the Company's majority shareholder Fortis Inc. ("Fortis"). The Fortis transaction allowed the Company to effect a lower blended rate on short-term borrowings. Proceeds from the June 2007 private placement debt offering were used to repay the \$15 million Demand Note to Fortis, additional short-term indebtedness and to finance ongoing capital expenditures. In the first quarter interest totalling to \$0.11 million was paid on the note, as the note was repaid in full in this quarter no further payments were made.

In August 2007 the Company entered into an equipment lease contract agreement with Fortis Turks and Caicos, a wholly-owned subsidiary of Fortis, for the rental of one of the Company's 1.4 megaWatt ("MW") mobile units. The term of the agreement is three months with monthly rental fees and all costs incurred for the transport of the unit including shipping costs, taxes, port charges, custom duties and other levies and maintenance costs payable by Fortis Turks and Caicos. During the second and third quarter of 2008, the Company recorded \$89,000 in rental fee income to Other Income from the rental of the mobile generating unit to Fortis Turks and Caicos. The contract term was temporarily extended beyond the original three months, terminating in mid January, 2008. Of the \$89,000, \$64,000 is a receivable at January 31, 2008, these transactions have been recorded at the exchange value.

#### 15. Subsequent Events

On February 1, 2008, the Company's Board of Directors declared a regular quarterly dividend of \$0.165 per Class A Ordinary Share, or an annualised divided of \$0.66 per Class A Ordinary Share. The dividend will be payable March 15, 2008 to shareholders of record on February 22, 2008.

#### 16. Interim Results

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

#### 17. Comparative figures

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

#### **Shareholder Information**

#### **Shareholder Plans**

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

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

#### **Shareholder Information**

**Duplicate Quarterly Reports** 

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

Our Registrar and Transfer Agents are as follows:

#### **CIBC Mellon Trust Company**

P.O. Box 7010

Adelaide St. Postal Station

Toronto, Ontario M5C 2W9, Canada

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

E-mail: inquiries@cibcmellon.ca

#### Caribbean Utilities Company, Ltd.

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This Quarterly Report highlights certain, but not all, events that may be of interest to you. If you require further information or have any questions regarding CUC's Class A Ordinary Shares (listed in U.S. funds on the Toronto Stock Exchange), please contact:

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