

**2007/2008 First Quarter Report**July 31, 2007



### **General Data**

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### **About the Company**

Caribbean Utilities Company, Ltd., known locally as "CUC", commenced operations as the only electric utility in Grand Cayman in May 1966. The Company has an installed capacity of 136.6 megaWatts ("MW"). A record peak load of 92.7 MW was experienced in August 2007. Our 193 employees are committed to providing a safe and reliable supply of electricity to over 23,000 customers. The Company has been through many challenging and exciting periods but has kept pace with Grand Cayman's rapid development for the past 40 years. CUC was directly impacted on September 11 and 12, 2004 by Hurricane Ivan, a category-four storm that caused widespread destruction across Grand Cayman and the loss of approximately 20% of the Company's transmission and distribution system. Despite facing major logistical challenges, we successfully completed the restoration of service to all reconnectable customers on Grand Cayman on November 30, 2004, which was within the 90-day period we projected following the hurricane.

### **Cover Photo**

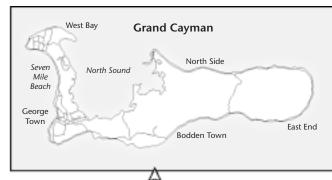
The expansion phase of CUC's Engine Room Five was officially opened in August 2007 during a ribbon-cutting ceremony attended by representatives from local and overseas companies who played a major role in the construction of the building, erection of a second 140-foot stack and installation of the Company's newest addition, a MAN 16 MW V48/60 medium-speed diesel generating unit.

### About the Islands

The Cayman Islands, a United Kingdom Overseas Territory with a population of approximately 52,000, are comprised of three islands: Grand Cayman, Cayman Brac and Little Cayman. Located 150 miles south of Cuba, 460 miles south of Miami and 167 miles northwest of Jamaica, the largest island is Grand Cayman with an area of 76 square miles.

The islands, discovered by Christopher Columbus during his fourth and final voyage in 1503, were originally named "Las Tortugas" for their large turtle population. The islands later became known as "Cayman" representing the Carib word for crocodiles, a large number of which existed at that time. A Governor, presently His Excellency Mr. Stuart Jack, is appointed by Her Majesty the Queen. A democratic society, the Cayman Islands have a Legislative Assembly comprised of representatives elected from each of Grand Cayman's five districts as well as two representatives from the Sister Islands of Cayman Brac and Little Cayman.

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





### To Our Shareholders



J.F. Richard Hew President & Chief Executive Officer

Dear Shareholder,

In the first quarter 2008 we experienced strong growth in demand for electricity as the Cayman Islands economy expands and the commercial and residential construction continues at a healthy pace. This increased demand was served reliably, due in part to the successful completion of our 16 megaWatt ("MW") generation expansion project.

Earnings per share of \$0.2859 was down slightly from the \$0.3034 for the same quarter last year due primarily to increased maintenance expenses in 2008. First quarter 2007 saw delays in the Company's scheduled

maintenance programme, which resulted in lower than usual expenses for that period.

We connected over 300 new customers during the quarter and now have 23,087 customers, a 7% increase over the same quarter last year. KiloWatt-hour ("kWh") sales for the quarter were 8% over same quarter last year and in line with the annual projection of 8%.

The Company declared a dividend of \$0.165 on August 9, 2007 to shareholders of record on August 24, 2007. This dividend will be payable on September 15, 2007.

On July 17, 2007, CUC submitted to the Cayman Islands Government ("Government") its Final Return for the year ended April 30, 2007 indicating that the Company was entitled to a 4.5% base rate increase under its Licence. This rate increase was not implemented as the Company agreed with the Government that there would be no rate increases until the Hurricane Ivan Cost Recovery Surcharge ("CRS") was fully collected.

Following a meeting with the Government's Cabinet on May 15, 2007, CUC presented to Government on June 22, 2007, a new proposal outlining terms under which CUC would accept new licences from the Electricity Regulatory Authority to replace its existing Licence, which expires in February 2011. The Company has since been actively engaged in discussions with Government based on the new proposal.

In July 2007, demand peaked at 91.7 MW a 9% increase over the same period last year, and was reliably met by the 136.6 MW of installed generating capacity. In June 2007, the new 16 MW, MAN Diesel generating unit completed commissioning procedures and was accepted by CUC on time and on budget. The new generating unit is a welcome addition to capacity and will improve fuel efficiency and emissions performance.

Our customers experienced an Average System Availability Index ("ASAI") for the quarter of 99.94%, ahead of the target of 99.93%, as the increased generating capacity and transmission and distribution maintenance activities had a positive effect on the number of customer outages.

There were significant changes to the executive team that

Caribbean Utilities Company, Ltd. Financial Highlights	Three months ended July 31			
	2007	2006	Change	Change %
Operating Revenues	43,370,886	41,286,995	2,083,891	5
Cash Flow from Operations *	11,791,815	11,839,324	(47,509)	
Earnings Applicable to Ordinary Shares	7,239,425	7,671,628	(432,203)	-6
Basic Earnings per Ordinary Share	0.2859	0.3034	(0.0175)	-6
Diluted Earnings per Ordinary Share	0.2859	0.3034	(0.0175)	-6
* Before working capital adjustments				

### To Our Shareholders

took effect on August 1, 2007. Former Manager Financial Services, Letitia Lawrence was promoted to Vice-President Finance and Chief Financial Officer, replacing Eddinton Powell who has taken up the position of President and Chief Executive Officer of Fortis Turks & Caicos. Lee Tinney, Vice-President Transmission & Distribution also retired on July 31, 2007 and was succeeded by Andrew Small who moved over from the Vice-President Production position. David Watler, former Manager Production Maintenance was promoted to Vice-President Production, to fill the position vacated by Andrew. The fact that these executive positions were filled by highly capable, qualified Caymanians from within the Company highlights our success in employee development and succession planning.

We extend thanks to Lee and Eddinton for their dedicated service to the executive management team and wish them all the best in the future. We also congratulate Letitia and David and wish them success as they assume greater roles in shaping the future of CUC.

The Management's Discussion and Analysis ("MD&A")

section of this report contains a detailed discussion of our unaudited first quarter financial results, the Cayman Islands economy, our liquidity and capital resources, capital expenditures and the business risks facing the Company.

J.F. Richard Hew
President & Chief Executive Officer

hid samuel !

August 30, 2007



Richard Hew, CUC's President & CEO (left) and Chris Walker, Vice-President Sales, MAN Diesel North America Inc., cut the ceremonial ribbon officially declaring the Company's 2007 Generation Expansion Project open at the ribbon-cutting ceremony in August.



Letitia T. Lawrence Vice-President Finance & Chief Financial Officer

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 months ended July 31, 2007 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 relating to Management's Discussion and Analysis. CUC includes forwardlooking statements in this material. By their very nature, forward

looking statements are based on underlying assumptions and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Such risks and uncertainties 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 first quarter report were approved by the Audit Committee.

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

### **Final Return and Licence Negotiations**

On July 17, 2007, CUC submitted to Government its Final Return containing its year-end 2007 audited results confirming that the Company was entitled to a 4.5% rate increase effective August 1, 2007 under its current Licence. This shortfall on Return on Capital Employed was primarily a result of the disposal of the 2.4 megaWatt ("MW") steam system as part of a power plant restructuring, increased operating expenses and infrastructure investment. CUC did not seek to implement this rate increase, as it agreed with Government that it would freeze its base rates during

Caribbean Utilities Company, Ltd. Financial & Operational Highlights	Three months	ended July 31		
	2007	2006	Change	Change %
Operating Revenues	43,370,886	41,286,995	2,083,891	5
Hurricane Ivan Cost Recovery Surcharge	1,260,969	1,165,268	95,701	8
Total Operating Expenses	33,678,503	31,575,530	2,102,973	7
Earnings Year-to-Date	7,834,043	8,099,128	(265,085)	-3
Basic Earnings per Ordinary Share	0.2859	0.3034	(0.0175)	-6
Dividends paid per Class A Ordinary Share	0.165	0.165	-	Nil
Net Generation (millions of kWh)	152.65	140.54	12.11	9
Peak Load Gross (MW)	91.70	83.94	7.76	9
Kilowatt-hour Sales (millions of kWh)	141.77	130.99	10.78	8
Total Customers	23,087	21,642	1,445	7

the period of the Hurricane Ivan Cost Recovery Surcharge ("CRS"). As at July 31, 2007 a total of \$8.9 million has been collected since the CRS implementation date of August 1, 2005, leaving \$4.5 million to be recovered.

CUC has not increased its base rates since 2002 and, in the five-year period since, will have foregone \$16.9 million in total revenue, including \$3.5 million representing the August 2007 entitlement.

Licence negotiations with the Government continue and CUC met with Cabinet in May 2007 and submitted a new proposal to Government, at its request, in mid-June. The Company has since been actively engaged in discussions with Government based on the new proposal. The current licence remains in full force and effect until January 2011 or until replaced by a new licence by mutual consent.

### **Earnings**

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 \$0.2859 per Class A Ordinary Share, as compared to \$7.7 million, or \$0.3034 per Class A Ordinary Share for first quarter fiscal 2007.

The primary reasons for the 6% quarter-over-quarter decline in earnings applicable to Class A Ordinary Shares are increased maintenance, depreciation and interest expenses, partially offset by 8% kiloWatt ("kWh") organic sales growth. First quarter 2007 saw delays in the Company's scheduled maintenance programme, which resulted in lower than usual expenses for that period. The \$0.5 million, or 29%, quarter-over-quarter increase in maintenance expenses are reflective of a return to normal maintenance schedules.

### Sales

Total electricity sales for the first quarter of fiscal 2008 increased 8% to 141.8 million kWh from 131 million kWh for the same period last year. Residential electricity sales increased 8% and commercial electricity sales increased 9% as compared to first quarter fiscal 2007.

Total customers as at July 31, 2007 were 23,087, an increase of 7% over the number of customers at the same time last year. The Company connected over 300 customers for the three month period ended July 31, 2007 with the majority of new customers coming from the residential class.

The Company's sales growth projection for fiscal 2008 remains at 8% driven by the strength of the Grand Cayman



Residential electricity sales increased 8% compared to first quarter fiscal 2007 primarily because of newly constructed high-end residential communities such as Cypress Pointe and Salt Creek (above) on West Bay Road. CUC expects to add 1,800 new customers during fiscal 2008.

economy, a growing resident population and commercial growth from new developments such as the 160,000 square-foot Governor's Square shopping and office centre; the 89,000 square-foot Caribbean Club condominium complex; the 60,000 square-foot Bank of Butterfield building; the 100,000 square-foot Walkers building and the 500,000 square-foot phase one Camana Bay scheduled to come on-line during the year.

### **Operating Revenues**

Operating revenues for the first quarter were \$43.4 million, a 5% increase compared to \$41.3 million for the same period last year. This \$2.1 million increase was comprised of an 8% increase in electricity sales revenues driven by strong kWh sales growth and a commensurate 8% increase in CRS revenues. Fuel factor revenues for the period were comparable to last year.

The Company's net earnings for the first quarter of fiscal 2008 excluding the impact of the CRS were \$6.6 million or \$0.24 per Class A Ordinary Share compared to \$6.9 million in net earnings or \$0.26 per Class A Ordinary Share for the same period last year.

### **Operating Expenses**

Operating expenses for the three months ended July 31 were as follows:

Operating Expenses (\$ millions)			
	Three n	months ende	d July 31
	2007	2006	Change
	\$	\$	%
Fuel and lube oil costs	22,614,024	21,642,042	4
Other generating costs	984,170	937,116	5
Total power generation expenses	23,598,194	22,579,158	5
	2 120 272	2 000 (10	44
General and administration	3,120,373		
Consumer service and promotion	329,182	•	
Transmission and distribution	634,607	578,182	10
Depreciation and amortisation	3,943,719	3,740,110	5
Maintenance	2,052,428	1,588,729	29
	10,080,309	8,996,372	12
Total operating expenses	33,678,503	31,575,530	7

### **Power Generation**

Power generation expenses increased \$1.0 million, or 5% to \$23.6 million for the three months ended July 31, 2007, from \$22.6 million for first quarter last year. This increase was driven by higher production levels. The Company experienced a 9% quarter-over-quarter increase in kWh generation growth from 140.5 million kWh to 152.7 million kWh.

CUC's average price of fuel rose to \$3.24 per imperial gallon in July 2007 from \$2.82 in April 2007 resulting in a deferred fuel credit of \$3.6 million for the period (compared to a credit of \$2.9 million for the same period last year). The Company defers excess fuel costs above the base price until it can be collected from the customer, on a two-month delay basis. Large swings in this account, although possible, occur infrequently. For any particular period the impact is timing in nature. Power generation expenses comprise over 70% of CUC's total operating expenses.

Power Generation	Expenses		
		Three months en	ded July 31
	2007	2006	Change
	\$	\$	%
Fuel	25,803,526	24,047,529	7
Lube	376,779	487,535	-23
Deferred Fuel	(3,566,281)	(2,893,022)	23
Leased Generation	203,634	208,086	-2
Other	780,536	729,030	7
Total	23,598,194	22,579,158	5

### 2007 Fuel Contract Renewal

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 North Sound Road Power Plant compound to the Esso Jackson Point terminal. CUC has also assumed responsibility for the management of the fuel pipeline and ownership of bulk fuel inventory at the Power Plant. All other conditions 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 July 31, 2007 was \$2.3 million (July 31, 2006: \$0.2 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.

### General and Administration (G&A)

G&A expenses for the three months ended July 31, 2007 of \$3.1 million increased \$0.3 million from \$2.8 million for the same period last year due primarily to additional professional fees for services during the period.

In July 2007 the Company renewed its business interruption ("BI"), machinery breakdown and property insurance through Aon Reed Stenhouse Inc. ("Aon") who is also the risk managment broker for CUC's majority shareholder Fortis Energy (Bermuda) Ltd.'s ("Fortis"). The renewal premium was \$2.8 million, which includes coverage on the newly installed 16 MW unit. This amount is slightly below the budgeted amount for the period and represents a 13% reduction from the 2006/2007 premium of \$3.2 million.

The renewal date has been moved from July 22 to July 1 to coincide with the overall Fortis group policy. CUC will receive a refund from its existing underwriters for the prorated premium related to the early termination of its current policies.

Terms and coverages include \$100 million loss limit including for natural catastrophe perils; \$55 million in BI coverage per annum with a 24-month indemnity period; and a \$500,000 deductible for each and every loss except in respect of windstorm losses, which are 2% (subject to a minimum of \$1.0 million per event all interests combined and a maximum of \$4.0 million per event all interests combined) of the value of location involved each and every loss and 45 days each and every loss in respect of BI. The \$500,000 non-windstorm deductible has been reduced from last year's deductible of \$1.0 million. The \$15 million sublimit from last year's policy has been removed.

All markets are either Lloyd's or otherwise compliant with Aon Market Security guidelines and are AM Best rated A- or better. The above coverages have been fully placed by Aon, with the majority syndicates and reinsurance companies continuing on CUC's insurance programme for 2007 to 2008.

### Transmission and Distribution (T&D)

T&D expenses of \$0.6 million for the three months ended July 31, 2007 increased 10% from the same period last year. This quarter-over-quarter increase is largely in line with the Company's expectations and reflective of the T&D Division's cyclical maintenance programme.

### Depreciation and Amortisation (D&A)

D&A expenses for the first guarter increased \$0.2 million, or 5% to \$3.9 million from \$3.7 million for the same period last year. This increase was a result of new growth-related capital expenditures and is in line with the Company's expectations for the period. The Company expects to see continued increases in D&A expenses based upon current capital expenditure projections.

### Maintenance

Maintenance expenses increased 31% for the three months ended July 31, 2007 to \$2.1 million from \$1.6 million for the same period last year. The first quarter of fiscal 2007 saw delays in the Company's scheduled maintenance programme which resulted in lower than usual maintenance expenses for that period. The higher expenses in the first quarter of fiscal 2008 are in line with the Company's expectations and reflective of a return to normal maintenance schedules.

### Other Income and Expenses

Interest expenses for the three months ended July 31, 2007 of \$2.5 million increased \$0.1 million from \$2.4 million for the same period last year. This 4% increase in expenses is due primarily to a \$0.1 million decrease in capitalised interest quarter-over-quarter. Despite the higher overall capital expenditures in the first quarter of fiscal 2008, the value of projects to which financing costs were capitalisable declined quarter-over-quarter. First quarter 2008 capital expenditures included land purchases of \$5.3 million and final payments on the MAN 16 MW unit which was commissioned in June 2007.

Interest Expenses (\$ millions)	Three mounths and ad	1 21
	Three months ended	july 31
	2007	2006
	\$	\$
Total interest costs	2.7	2.7
Capitalised interest	(0.2)	(0.3)
Net interest expense	2.5	2.4

Foreign exchange gains and Other income for the first quarter were comparable to last year.

### The Economy

As available room stock continues to increase, air arrivals for the first six months of calendar 2007 exceeded arrivals for the same period last year by 8%. Cruise arrivals were comparable year-over-year.

The following table presents tourist statistics for the six months ended June 30:

Arrivals	2007	2006	2005	2004	2003
By Air By Sea	163,086 1,080,121	150,486 1,052,831	83,105 1,028,760	181,254 1,068,626	160,796 930,578
Total	1,243,207	1,203,317	1,111,865	1,249,880	1,091,374

Government forecasts for the 2007/2008 (year ended June 30) period indicate continued 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 Government's 2007/2008 capital expenditure forecasts exceeds \$135 million for infrastructure including schools, government offices, hurricane shelters and roads.



Both air and sea arrivals continue to increase as Grand Cayman continues to be a popular tourist destination. The 2006 completion of The Royal Watler Cruise Terminal in central George Town has alleviated congestion for the cruise ship tenders bringing visitors ashore.

### **Liquidity and Capital Resources**

See table below ("Summary of Cash Flow").

Summary of Cash Flow (\$ millions)			
	Three months ended July 3		
	2007	2006	
	\$	\$	
Cash, beginning of period	6.9	0.6	
Cash provided by (used in)			
Operating Activities	2.6	14.0	
Investing Activities	(17.5)	(8.7)	
Net Financing Activities	9.9	(2.2)	
Cash, end of period	1.9	3.7	

### **Operating Activities**

Cash flow from operations, after working capital adjustments, for the first quarter of fiscal 2008 was \$2.7 million, an \$11.3 million decrease from \$14.0 million for the same quarter last year. Cash flow from operations during the first quarter of 2007 was primarily driven by the final payment on the Hurricane Ivan insurance claim of \$9.1 million.

In addition, cash flow from operations for first quarter 2008 has been impacted by a \$2.1 million increase in inventory as a result of the Company assuming ownership of the North Sound Power Plant bulk fuel inventory (see "2007 Fuel Contract Renewal" section on page 6).

### **Investing Activities**

Cash used in investing activities increased \$8.8 million to \$17.5 million for first quarter 2008, from \$8.7 million for the same period last year. This quarter-over-quarter increase is due to higher capital expenditures (see "Capital Expenditures" section on page 10).

### **Financing Activities**

Cash from financing activities for the three months ended July 31, 2007 was \$9.9 million, as compared to cash used in financing activities for the same period last year of \$2.2 million. This \$12.1 million increase in cash provided by financing activities is the result of a net increase in debt (including bank overdraft) of \$14.6 million in the first quarter of 2008 versus a net increase in debt of \$2.4 million during the same period last year.

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.

The second tranche of \$10 million from the 5.65% Senior Unsecured Notes is scheduled to close in December 2007 and will be used to repay short-term indebtedness and to finance capital expenditures.

During the first quarter 2008 the Company also drew down \$6.0 million against the capital expenditure line of credit and \$3.9 million against the operating line of credit with the Royal Bank of Canada ("RBC"). This brings the total available under the RBC credit facility agreement to \$20.1 million at July 31, 2007.

### 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.

### **Financial Position**

The table below ("Changes in Balance Sheets") is a summary of significant changes to the Company's balance sheets from April 30, 2007 to July 31, 2007.

### **Capital Resources**

The Company's capital structure as of July 31, 2007 is shown below:

Capital Structure (\$ millions)				
		Three r	months ended J	uly 31
	2007 \$	%	2006	%
Total Debt	174.9	56	158.8	54
Shareholders' Equity	138.5	44	137.3	46
Total	313.4	100	296.1	100

## Changes in Balance Sheets

(from April 30, 2007 to July 31, 2007)

<b>Balance Sheet Account</b>	Increase/(Decrease) (\$ millions)	Explanation
Cash	(5.0)	Decrease due to cash used in investing activities of \$17.5 million partially offset by cash provided by operating activities of \$2.6 million and cash from financing activities of \$9.9 million.
Accounts receivable - trade	3.4	Increase is due to higher consumption and higher fuel factor billings as a result of higher fuel prices.
Inventories	2.1	Increase due to the Company's purchase of the North Sound Power Plant bulk fuel inventory as part of the fuel contract renewal agreement.
Prepayments	1.9	Increase due primarily to payment of the Company's 2007/2008 Property, BI and machinery breakdown policy renewal.
Property, plant and equipment	13.6	Net increase is comprised of capital expenditures of (1) \$17.5 million and (2) depreciation expense of \$3.9 million.
Bank overdraft	3.9	Increase due to drawdown against the RBC operating line of credit.
Short-term debt	(9.0)	Decrease is the net result of the repayment of \$15 million Fortis loan and drawdown of \$6.0 million against the RBC credit facilities.
Long-term debt	18.4	Increase is due to the issue of \$30 million Senior Unsecured Notes partially offset by the reclassification of \$10 million of long-term debt to current portion of long-term debt and the reclassification of \$1.4 million of previously deferred debt expenses against debt balances.
Retained earnings	3.0	Increase is due to a net profit for the period of \$7.8 million, Class A dividends of \$4.2 million and Class B dividends of \$0.6 million.

The change in the Company's capital structure is the result of a net increase in debt of \$16.1 million partially offset by an increase in retained earnings due primarily to fiscal 2007 earnings.

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

Credit Facilities	Details
Capital Expenditures Line of Credit	\$17.0 million
Operating Line of Credit	\$ 7.5 million
Catastrophe Standby Loan	\$ 7.5 million
Letters of Credit	\$ 2.4 million
Corporate Credit Card Line	\$ 0.3 million
Total	\$34.7 million

Of the total above, \$20.1 million was available at July 31, 2007.

### **Contractual Obligations**

The contractual obligations over the next five years and periods thereafter, as at July 31, 2007, are outlined in the table below ("Contractual Obligations").

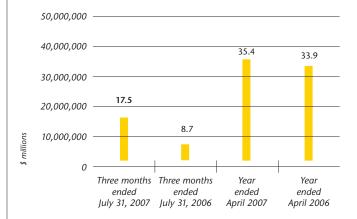
### **Capital Expenditures**

The electric utility business is capital intensive and capital expenditures for 2008 are expected to increase 12% over 2007 capital expenditures. Capital expenditures for the first quarter were \$17.5 million, an \$8.8 million or 101% increase over capital expenditures for the same period last year of \$8.7 million. Major capital projects for the first quarter of 2008 included:

(1) MAN B&W 16 MW generating unit - \$8.6 million. During 2006, the Company entered into a project

- agreement with MAN B&W for the purchase and turnkey installation of one 16 MW v48/60 medium-speed diesel generating unit and auxiliary equipment. The testing was completed and this unit came into service in June 2007 bringing the Company's total installed capacity to 136.6 MW and additional mobile capacity of 2.9 MW. The total cost of this project came in at \$22 million, slightly below the original estimated cost for completion of \$22.2 million.
- (2) Land Purchases \$5.3 million. This land purchased adjacent to the Company's North Sound Road Power Plant compound will enable the Company to continue to expand its operations at the North Sound location.
- (3) Distribution system extension and upgrades \$1.6 million.

### **Capital Expenditures**



The Company's projection for 2008 Capital Expenditures is \$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.

### **Contractual Obligations**

(as at July 31 in \$ millions)

	Total (\$)	< 1 year (\$)	1 to 3 years (\$)	4 to 5 years (\$)	> 5 years (\$)
Total debt Land purchases	176.2 3.8	18.5 3.8	24.5	32.5	100.7
Total	180.0	22.3	24.5	32.5	100.7

### **Off-Balance Sheet Arrangements**

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity of or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements as at July 31, 2007.

### **Business Risks**

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

### Licence Negotiations

Negotiations continue with Government for renewal of the Company's Licence. The Company's current Licence remains in full force and effect until January 2011 or until replaced by a new Licence by mutual consent.

### **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. Despite preparations for such disasters similar to Hurricane Ivan, adverse conditions will always remain a risk notwithstanding any amount of preparation. In order to mitigate some of this risk, the Company maintains insurance coverage that management believes is appropriate 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 months ended July 31, 2007. The only



The seven-storey 89,000 square-foot Caribbean Club condominium complex overlooking Seven Mile Beach came online in July 2007. The Club offers guests "a new concept hotel" featuring 37 beautifully appointed high-end three-bedroom, three-bath condominiums.



Commercial electricity sales increased 9% as compared to first quarter fiscal 2007 primarily because of new developments such as the 160,000 square-foot Governor's Square shopping and office centre located on West Bay Road.

significant impact of adopting the standard was the reallocation of \$1.4 million of deferred debt issue expenses from Other Assets to Long-Term Debt. The adoption of the accounting standard did not have a material impact on the Company's statement of earnings.

### **Future Accounting Policies**

### International Financing 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.

### 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 realisable 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 an impact on the Company's earnings.

### **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 year. 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



CUC employees and representatives from our generation strategic alliance partners MAN Diesel and R.W. Beck Inc., overseas contractors BWSC, ABB Power T&D Company Inc. and TESCO, as well as local companies, were thanked for their part in the shipping and installation of the Company's newest 16 MW generating unit at the 2007 Generation Expansion Ceremony in August.

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 July 31, 2007, the amount of unbilled revenue recorded in Accounts Receivable - Trade was \$1.2 million (July 31, 2006: \$1.0 million) on first quarter 2008 operating revenues of \$43.4 million (first quarter 2007: \$41.3 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 utilised by management in determining pension expense and obligations were the discount rate for the accrued benefit obligation, pension commencement date, inflation and the expected rate of return on plan assets. As at July 31, 2007, the Company had an accrued benefit liability of \$0 (July 31, 2006: \$0.3 million). During the first quarter of 2008 the Company recorded net

compensation expense of \$0.1 million (first quarter 2007: \$0.2 million).

### **Quarterly Results**

The table below ("Quarterly Results") summarises unaudited quarterly information for each of the eight quarters ended October 31, 2005 through July 31, 2007. 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 growth.

### July 2007/July 2006

Net earnings for the three months ended July 31, 2007 declined moderately 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 6% quarter-over-quarter decline in earnings applicable to Class A Ordinary Shares are increased depreciation, maintenance and interest expenses, partially offset by 8% kWh organic sales growth.

### 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

## **Quarterly Results** (Unaudited) (expressed in \$ thousands)

Quarter Ended	Operating Revenue	Net Earnings/ (Losses)	Income/(Loss) Applicable to Ordinary Shares	Earnings/(Losses) per Share (Basic)	Diluted Earnings/(Losses) per Share
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 31, 2006	34,822	3,884	3,771	0.15	0.15
October 31, 2005	35,936	6,657	6,545	0.26	0.26

for fourth quarter fiscal 2006. The primary reasons for the 20% decline in earnings per share were increased depreciation and maintenance expenses partially offset by 12% kWh sales growth.

### January 2007/January 2006

Primarily as a result of the disposal of the Company's steam turbine and boiler assets, net losses for the three months ended January 31, 2007 were \$0.6 million, a 115% decline from net earnings of \$3.9 million for the same period last year. Third quarter 2007 results were negatively impacted by \$0.7 million of unplanned maintenance resulting from a series of unexpected generator failures. Losses on Class A Ordinary Shares for third quarter 2007 were \$0.7 million, or \$0.03 losses per Class A Ordinary Share, as compared to \$3.8 million, or \$0.15 earnings per Class A Ordinary Share for the third quarter fiscal 2006.

### October 2006/October 2005

Net earnings for the three months ended October 31, 2006 were \$6.8 million, or \$0.27 per Class A Ordinary Share, a 1% increase over \$6.7 million for the same period last year, or \$0.26 per Class A Ordinary share for second quarter fiscal 2006. The primary reasons for the 3% quarter-over-quarter increase in earnings applicable to Class A Ordinary Shares are 10% kWh sales growth and a reduction in maintenance costs, partially offset by increased depreciation and interest expenses.



In August, CUC entered into an equipment lease contract agreement with Fortis Turks and Caicos for one of the Company's 1.4 MW mobile units. In late fiscal 2007, CUC opted to purchase two mobile units, which were being rented to maintain reliability levels.

### **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, summarised and reported within the time periods specified in the Canadian Securities Administrators rules and forms. The 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 July 31, 2007 and concluded that the Company's current disclosure controls and procedures are adequately designed.

### **Internal Controls over Financing Reporting**

The CEO and CFO of the Company, together with management, have evaluated the design of the Company's internal controls over financial reporting 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 July 31, 2007, CUC's internal controls over financial reporting 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 internal controls over financial reporting during the first quarter of fiscal 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

### **Subsequent Events**

(a) On August 7, 2007 the Company entered into an equipment lease contract agreement with Fortis Turks and Caicos, a wholly-owned subsidiary of the Company's majority shareholder, Fortis, for the rental of one of the Company's 1.4 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 are payable by Fortis Turks and Caicos.

(b) On August 9, 2007, 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 September 15, 2007 to shareholders of record August 24, 2007.

### Outlook

Licence negotiations with the Government continue and both parties remain committed to the earliest possible successful conclusion to these negotiations. CUC is also committed to investing in infrastructure to meet the demands of the Grand Cayman economy in the wake of the continued recovery of the tourism sector, the near completion of reconstruction efforts and the continued expansion of the financial services sector. This is reflected in the Company's \$39.7 million 2008 capital expenditure budget and \$171 million capital expenditure forecast for the next five years.

### **Outstanding Share Data**

At August 30, 2007, the Company had issued an outstanding 25,334,703 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 www.sedar.com and on the Company's website at www.cuc-cayman.com.

Letitia T. Lawrence

Vice-President Finance & Chief Financial Officer

August 30, 2007

## **Balance Sheets**

Unaudited - Fiscal 2008 (expressed in United States dollars)

	Note	As of July 31, 2007 \$	As of July 31, 2006 \$	As of April 30, 2007 \$
Assets				
Current Assets Cash and due from banks Accounts receivable - trade Inventories Prepayments	3	1,937,302 20,038,407 7,478,846 3,143,040	3,697,073 20,527,621 5,325,572 272,205	6,891,104 16,582,278 5,400,777 1,172,475
		32,597,595	29,822,471	30,046,634
Property, plant and equipment	4	300,940,117	275,717,630	287,337,841
Other assets	5	14,119,615	13,840,645	11,855,370
Total Assets		347,657,327	319,380,746	329,239,845
Liabilities and Shareholders' Equity Current Liabilities Bank overdraft Accounts payable and accrued expenses Short-term debt Current portion of long-term debt Consumers' deposits and advances for construction	6	3,913,399 26,906,245 8,000,000 10,520,060 3,459,097	20,086,150 10,000,000 10,504,826 3,244,223	24,931,116 17,000,000 10,512,443 3,415,071
		52,798,801	43,835,199	55,858,630
Long-term debt	7	156,388,652	138,286,225	138,028,100
Total Liabilities		209,187,453	182,121,424	193,886,730
Shareholders' Equity Share capital Share premium Contributed surplus Retained earnings	8	1,758,018 42,267,901 239,864 94,204,091 ————————————————————————————————————	1,755,050 41,679,498 177,291 93,647,483 ————————————————————————————————————	1,757,824 42,229,835 224,222 91,141,234 ————————————————————————————————————
Total Liabilities and Shareholders' Equity		347,657,327	319,380,746	329,239,845
, ,				

## **Statements of Earnings**

Unaudited - Fiscal 2008 (expressed in United States dollars)

	Note	Three montl 2007 \$	ns ended July 31 2006 \$
Operating Revenues Electricity sales		26,832,303	24,936,124
Hurricane Ivan cost recovery surcharge	12	1,260,969	1,165,268
Fuel factor	12	15,277,614	15,185,603
. 45. 145.5			
Total Operating Revenues		43,370,886	41,286,995
Operating Expenses			
Power generation		23,598,194	22,579,158
General and administration		3,120,373	2,809,619
Consumer service and promotion		329,182	279,732
Transmission and distribution		634,607	578,182
Depreciation and amortisation		3,943,719	3,740,110
Maintenance		2,052,428	1,588,729
Total Operating Expenses		33,678,503	31,575,530
Operating Income		9,692,383	9,711,465
Other Income/(Expenses)			
Interest expense		(2,548,758)	(2,356,591)
Foreign exchange gain		330,049	320,588
Other income		360,369	423,666
Total Net Other Expenses		(1,858,340)	(1,612,337)
Earnings for the Period		7,834,043	8,099,128
Dividends on preference shares		(592,500)	(427,500)
Earnings on Class A Ordinary Shares		7,241,543	7,671,628
Weighted average number of Class A			
Ordinary Shares issued and fully paid	9	25,332,593	25,284,501
Earnings per Class A Ordinary Share	9	0.29	0.30
Fully diluted earnings per Class A			
Ordinary Share	9	0.29	0.30
Dividends declared per Class A			
Ordinary Share		0.165	0.165

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# **Statements of Retained Earnings**Unaudited - Fiscal 2008 (expressed in United States dollars)

	Three month	Three months ended July 31	
	2007	2006	
Balance at Beginning of Period	91,141,234	90,147,802	
Earnings for the Period	7,834,043	8,099,128	
Dividends	(4,771,186)	(4,599,447)	
Balance at End of Period	94,204,091	93,647,483	

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## **Statements of Cash Flows**

Unaudited - Fiscal 2008 (expressed in United States dollars)

	Three months ended July 3	
	2007 \$	2006 \$
Operating Activities		
Earnings for the period	7,834,043	8,099,128
Items not affecting working capital:		
Depreciation and amortisation	3,943,719	3,740,110
Stock-based compensation	15,642	15,644
Profit on disposal of fixed assets	(1,589)	(15,558)
	11,791,815	11,839,324
Net (increase)/decrease in non-cash working		
capital balances related to operations	(9,127,367)	2,202,755
Cash flow provided by operating activities	2,664,448	14,042,079
Investing Activities		
Proceeds of sale of fixed assets	3,929	2,381
Purchase of property, plant and equipment	(17,548,335)	(8,723,474)
Cash flow used in investing activities	(17,544,406)	(8,721,093)
Financing Activities		
Proceeds from debt financing	36,000,000	10,000,000
Repayment of debt	(25,254,317)	(7,247,123)
Increase/(Decrease) in bank overdraft	3,913,399	(377,041)
Dividends paid	(4,771,186)	(4,599,447)
Net proceeds of share issues	38,260	24,107
Cash flow provided by/used in financing activities	9,926,156	(2,199,504)
(Decrease)/Increase in Net Cash	(4,953,802)	3,121,482
Net cash - beginning of period	6,891,104	575,591
Net Cash - end of period	1,937,302	3,697,073

### **Notes to Financial Statements**

Unaudited - Fiscal 2008 (expressed in 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").

### 2. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles 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, except as described below.

### 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 recognised in other comprehensive income must eventually be reclassified into the income statement 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 will not be designating any financial assets as available for sale, the Company did not have any adjustments recognised through comprehensive income upon adoption of this new standard.
- 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 financial instruments are measured subsequent to initial recognition and how the gains and losses are recognised. 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 is classified as "Held for Trading". After its initial fair value measurement, any change in fair value is recorded in net income.
- 2) Accounts receivables is 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, 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 recognised as a deferred charge and upon adoption of this standard the Company has reclassified \$1.4 million of unamortised 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 on the Company's fiscal 2008 opening retained earnings.

### **Notes to Financial Statements**

Unaudited - Fiscal 2008 (expressed in United States dollars)

### 2. Summary of Significant Accounting Policies (continued)

### **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 July 31, 2007 Interim Financial Statements.

#### 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 North Sound Road Power Plant Compound to the Esso terminal. CUC has also assumed responsibility for the management of the fuel pipeline and ownership of bulk fuel inventory at the Power Plant.

As a result of the Company's purchase of the bulk fuel inventory, the value of CUC's closing stock of fuel at July 31, 2007 was \$2.3 million (2007: \$0.2 million). This amount includes all fuel held in CUC's bulk fuel storage tanks, service tanks and day tanks located at the Power Plant.

	July 31,	July 31,
	2007	2006
	\$	\$
Inventory - Line spares	5,054,693	4,831,859
Inventory - Fuel	2,263,533	245,153
Inventory - Other	160,620	248,560
Total	7,478,846	5,325,572

### 4. Property, Plant and Equipment

	Adjusted Cost/ Appraised Value \$	Accumulated Depreciation \$	<b>July 2007</b> Net \$	Adjusted Cost/ Appraised Value \$	Accumulated Depreciation \$	July 2006 Net \$
Transmission & Distribution	185,808,247	46,484,902	139,323,345	185,166,097	40,172,371	144,993,726
Generation	194,394,744	60,430,659	133,964,085	169,192,941	58,922,752	110,270,189
Other:						
Land Buildings	6,408,342 17,917,909	- 6,261,682	6,408,342 11,656,227	1,170,193 17,378,332	5.064.437	1,170,193 12,313,895
Equipment, motor vehicles	17,517,505	0,201,002	11,030,227	17,370,332	3,004,437	12,313,073
and computers	19,342,317	9,754,199	9,588,118	16,617,347	9,647,720	6,969,627
Total Other	43,668,568	16,015,881	27,652,687	35,165,872	14,712,157	20,453,715
Property, plant and equipment	423,871,559	122,931,442	300,940,117	389,524,910	113,807,280	275,717,630

Included in PP&E are a number of capital projects in progress with a total cost to date of \$11,909,465 (July 31, 2006: \$26,769,634).

Also included in generation and transmission and distribution ("T&D") is freehold land with a cost of \$4,672,305 (July 31, 2006: \$4,672,305). During fiscal 2007, the Company entered into various agreements to purchase land adjacent to its North Sound Road Power Plant Compound to house future expansion with an approximate value of \$9.1 million. During first quarter 2008, the Company made payments of \$5.3 million against these agreements with the balance of \$3.8 million expected to be paid during the second half of the year.

In addition, engine spares with a net book value of \$10,806,674 (July 31, 2006: \$10,017,103) are included in generation.

During first guarter 2008, the Company capitalised interest of \$0.2 million (three months ended July 31, 2006: \$0.3 million).

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## **Notes to Financial Statements**

Unaudited - Fiscal 2008 (expressed in United States dollars)

### 5. Other Assets

	July 31,	July 31,
	2007	2006
	\$	\$
Deferred fuel costs	12,680,841	11,154,174
Deferred licence renewal costs (1)	1,233,099	1,053,824
Sundry assets	205,675	165,956
Deferred debt issue expense (2)	<del>-</del>	1,466,691
	14,119,615	13,840,645

### (1) Deferred licence renewal costs

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

### (2) Deferred debt issue expense

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 under the Royal Bank of Canada's ("RBC") credit facilities agreement. During the first quarter 2008 the Company drew down an additional \$6.0 million against the capital expenditure line of credit with RBC and \$3.9 million against the operating line of credit, bringing the total outstanding under the RBC credit facility agreement to \$11.9 million and the total available to \$20.1 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 from the 5.65% Senior Unsecured Notes is scheduled to close in December 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:

	Quarter ended July 31, 2007	
	Number of Shares	Amount \$
Balance beginning of period Employee Share Purchase Plan and Employee Long Service Bonus Plans	25,331,438 3,265	1,507,824 194
Class A Ordinary Shares issued and outstanding	25,334,703	1,508,018
9% Cumulative, Participating Class B Preference Shares	250,000	250,000

### **Notes to Financial Statements**

Unaudited - Fiscal 2008 (expressed in United States dollars)

### 9. Earnings Per Share

The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average ordinary shares outstanding were 25,332,593 and 25,284,501 for the quarters ended July 31, 2007 and 2006 respectively. Fully 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 1,051,677. 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.

			Quarter ended July 31, 2007
Outstanding at beginning of period Granted Exercised			619,119 - -
Forfeited			
Outstanding at end of period			619,119
Range of exercise prices			\$
Granted Exercised Forfeited			N/A N/A N/A
Outstanding at July 31, 2007			11.46 - 13.78
The position with respect to outstanding unexe	rcised options as at July 31, 2007 was as fo	llows:	
Date of Grant	Number of Class A Ordinary Shares under Option	Exercise Price \$	Term of Option
July 18, 2001 September 22, 2003	421,019 198,100	11.460 13.780	10 years 10 years
Outstanding at end of period	619,119		

### 11. Foreign Exchange

The closing rate of exchange on July 31, 2007 as reported by the Bank of Canada for the conversion of U.S. dollars into Canadian dollars was Cdn. \$1.0668 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 July 31, 2007 for conversion of Cayman Islands dollars into Canadian dollars was \$1.2802 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 losses. CRS revenues for the three months ended July 31, 2007 were \$1.3 million. As at July 31, 2007, a total of \$8.9 million has been collected since the implementation date leaving \$4.5 million to be recovered.

## **Notes to Financial Statements**

Unaudited - Fiscal 2008 (expressed in United States dollars)

### 13. Pension Plan

The pension costs of the defined benefit plan are actuarially determined using the projected benefits method. A defined benefit expense of \$0.1 million (2006: \$0.2 million) has been recorded in General and Administration expenses for the three months ending July 31, 2007. An accrued benefit liability of \$0 (July 31, 2006: \$0.3 million) is included within Accounts Payable and Accrued Expenses as in the balance sheets.

### 14. 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 affect a lower blended rate on short-term borrowings. Proceeds from the June 2007 private placement debt offering (see *Note 7: Long-Term Debt*) were used to repay the \$15 million Demand Note to Fortis, additional short-term indebtedness and to finance ongoing capital expenditures.

### 15. Subsequent Events

- a) On August 7, 2007 the Company entered into an equipment lease contract agreement with Fortis Turks and Caicos a wholly-owned subsidiary of the Company's majority shareholder, Fortis for the rental of one of the Company's 1.4 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 are payable by Fortis Turks and Caicos.
- b) On August 9th, 2007, 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 September 15, 2007 to shareholders of record August 24, 2007.

### 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.

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## **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 Company Secretary if you would like to receive information about the plan or obtain an enrolment form.

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

## **Shareholder Information**

### **Duplicate 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) 813-4600

Fax: (416) 643-5501

E-mail: inquiries@cibcmellon.ca

### Caribbean Utilities Company, Ltd.

Assistant to the Company Secretary P.O. Box 38 Grand Cayman KY1-1101 CAYMAN ISLANDS Tel: (345) 949-5200 Fax: (345) 949-4621 E-mail: investor@cuc.ky

Website: www.cuc-cayman.com

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:

### Caribbean Utilities Company, Ltd.

Robert D. Imparato
Company Secretary & Chief Governance Officer
P.O. Box 38
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CAYMAN ISLANDS
Tel: (345) 949-5200
Fax: (345) 949-4621

E-mail: investor@cuc.ky
Website: www.cuc-cayman.com

## **Trading Symbol**

CUC's Toronto Stock Exchange symbol is: Class A Ordinary Shares: **CUP.U**  World-class innovative service in our growing community!

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