

2006/2007 Third Quarter Report January 31, 2007



## **General Data**

#### Contents

To Our Shareholders	2
Management's Discussion and Analysis	4
Balance Sheets	14
Statements of Earnings	15
Statements of Retained Earnings	16
Statements of Cash Flows	17
Notes to Financial Statements	18
Shareholder Plans	22
Shareholder Information	22
CUC's Trading Symbol	22

## **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 120 megaWatts ("MW"). A record peak load of 86.8 MW was experienced in October 2006. Our 193 employees are committed to providing a safe and reliable supply of electricity to over 22,400 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**

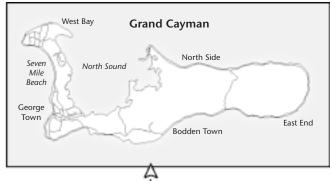
The expansion of the Company's Engine Room Five, which will house a fourth MAN B&W 16MW v48/60 medium-speed diesel generating unit, is nearing completion. A second 140-foot exhaust stack was erected in January 2007 for the fourth unit, which is scheduled for commissioning in summer 2007.

#### 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,

An expense of \$0.15 per share related to the disposal of the 2.4 megaWatt ("MW") steam turbine and boilers ("steam system") as part of the Power Plant restructuring, resulted in a net loss of \$0.03 per share in the third quarter. Excluding the significant impact of this unusual occurrence in the third quarter, the year-to-date earnings were in-line with expectations and the underlying fundamentals of the Company and its outlook remain positive.

The decision to dispose of the 2.4 MW steam turbine system came after a detailed review of the economics and the environmental impact of repairing the system and continuing in the same mode of operation as prior to Hurricane

Ivan, as well as various options of upgrading the system. This is a one-time event as part of the overall Power Plant restructuring and the Company does not anticipate further expenses related to the steam system in the future.

Sales growth continued at a healthy rate with third quarter electricity sales of 121.8 million kiloWatt-hours ("kWh"), an 11% growth over the same quarter last year. This growth was largely driven by a 9% increase in the total number of customers connected, which was 22,492 at quarter-end. With a number of large commercial projects expected to be connected in the last quarter of this fiscal year, Management is revising its projected 10% growth rate upward to the 10% to 12% range for this fiscal year.

The cash flow from operations, after working capital adjustments, for the quarter was \$7.9 million an increase of \$2.9 million over the same quarter last year. On February 8, 2007, The Board of Directors declared a regular quarterly dividend of \$0.165 per Class A Ordinary Share, payable March 15, 2007 to shareholders of record February 22, 2007.

CUC experienced in December 2006, unexpected failures of three large generator units representing 29.4 MW of capacity. As a result of these failures and the strong growth in customer demand, the Company has installed 5.6 MW of leased temporary generation, which it expects to retain through April 2007. One of the failed generators has returned to service with the remaining two expected to return to service by April 2007. The Company has taken advantage of the down-time on the affected generator units to complete preventative maintenance items that were due over the next few months. The availability of these units will therefore be high when they return to service in time for the peak summer period when they are needed most.

Continuity of service to our customers was down partly due to the reduced generator capacity and isolated transmission and distribution system faults. The Average System Availability Index ("ASAI") was 99.88% for the quarter compared to 99.92% in the previous quarter. Year-to-date the ASAI is 99.91% against a target ASAI of 99.93%, which the Company still expects to achieve at year-end.

Our customers continued to benefit from the falling fuel prices in the quarter with the fuel factor that appears on customers bills falling from CI\$0.109 per kWh in October 2006 to CI\$0.089 per kWh for January 2007. With crude oil prices continuing their run below \$60 per barrel through January this lower level of fuel factor is expected at least through March due to the two-month lag in the fuel factor process.

CUC continued to engage in meaningful community projects in line with our objective to be a leading corporate citizen.

Caribbean Utilities Company, Ltd. Financial Highlights		Nir	ne months ende	d January 31
	2007	2006	Change	Change %
Operating Revenues	122,150,744	102,526,774	19,623,970	19
Cash Flow from Operations *	29,597,885	25,604,804	3,993,081	16
Earnings Applicable to Ordinary Shares	13,687,015	16,982,546	(3,295,531)	-19
Basic Earnings per Ordinary Share	0.54	0.67	(0.13)	-19
Diluted Earnings per Ordinary Share	0.54	0.67	(0.13)	-19
* Before working capital adjustments				

## To Our Shareholders

During the quarter we participated in the completion of the Seven Mile Public Beach restoration as a platinum sponsor in partnership with the Leo's Club of Grand Cayman, First Caribbean Bank and MasTec Inc., our line construction contractor. We also completed another successful season as sponsor of the popular CUC Primary Football League with our employees dedicating many hours in organising and officiating the weekly matches and season ending tournament and rally. Volunteer hours for these and other projects such as Big Brothers Big Sisters and Meals on Wheels were 885 hours for the quarter (2,385 hours for the year).

Licence negotiations with the Cayman Islands Government continue. Meanwhile our current Licence remains in full force and effect until January 2011 or until replaced by a new Licence by mutual agreement.

CUC remains committed to providing value to our shareholders and to provide world-class, reliable service at least cost to our customers. The Company has taken a strategic decision in the third quarter which has negatively impacted earnings in the short term but which will provide long-term benefits to all stakeholders.

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

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 facing the Company.

J.F. Richard Hew

President & Chief Executive Officer

March 1, 2007



In February 2007, President and CEO Richard Hew (right) participated in the ribbon cutting ceremony for the reopening of the Seven Mile Public Beach with Leo's Club President Daniel Reid (centre) and Managing Director of First Caribbean Bank Tom Crawford (left). CUC volunteers along with our line contractors MasTec Inc., were instrumental in the reconstruction of the cabanas as well as the replacement and repainting of the beach playground.



January 2007 marked the conclusion of the second-year of sponsoring the CUC Primary Football League, which saw over 450 talented young footballers from 15 primary schools showcase their skills. CUC has committed to sponsor the League for six years where several employees participate with coaching and officiating.



Eddinton M. Powell, J.P. Senior Vice-President Finance & Corporate Services & 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 and nine months ended January 31, 2007 and the MD&A and audited financial statements for the year ended April 30, 2006 included in the Company's 2006 Annual Report. The material has been prepared in accordance with Multilateral Instrument 51-102 relating to MD&A. CUC includes forward-looking 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 materialize, 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 and distribute electricity on Grand Cayman, Cayman Islands pursuant to a 25-year exclusive Licence with the Cayman Islands Government ("Government").

#### **Earnings**

Primarily as a result of a one-time disposal of the Company's steam turbine and boilers ("steam system") assets (see "Unusual Item" section on page 5), net losses for the three months ended January 31, 2007 were \$0.6 million, as compared to net earnings of \$3.9 million for the same period last year. Earnings per Class A

Three months	ended Jan. 31	Nine months	ended Jan. 31		
2007	2006	2007	2006	Change	Change %
37,982,012	34,822,664	122,150,744	102,526,774	19,623,970	19
1,083,030	973,468	3,446,063	2,061,356	1,384,707	67
3,745,430	0	3,745,430	0	3,745,430	NA
36,911,237	30,450,397	102,959,633	85,594,226	17,365,407	20
(587,126)	3,883,582	14,339,515	17,635,046	(3,295,531)	-19
(0.03)	0.15	0.54	0.67	(0.13)	-19
0.12	0.15	0.69	0.67	0.02	3
0.165	0.165	0.495	0.495	-	Nil
130.74	116.29	412.73	368.65	44.08	12
85.90	73.68	86.83	79.04	7.79	10
121.77	109.80	387.39	346.49	40.90	12
22,492	20,698	22,492	20,698	1,794	9
	2007 37,982,012 1,083,030 3,745,430 36,911,237 (587,126) (0.03) 0.12 0.165 130.74 85.90 121.77	2007     2006       37,982,012     34,822,664       1,083,030     973,468       3,745,430     0       36,911,237     30,450,397       (587,126)     3,883,582       (0.03)     0.15       0.12     0.15       0.165     0.165       130.74     116.29       85.90     73.68       121.77     109.80	2007         2006         2007           37,982,012         34,822,664         122,150,744           1,083,030         973,468         3,446,063           3,745,430         0         3,745,430           36,911,237         30,450,397         102,959,633           (587,126)         3,883,582         14,339,515           (0.03)         0.15         0.54           0.12         0.15         0.69           0.165         0.165         0.495           130.74         116.29         412.73           85.90         73.68         86.83           121.77         109.80         387.39	2007         2006         2007         2006           37,982,012         34,822,664         122,150,744         102,526,774           1,083,030         973,468         3,446,063         2,061,356           3,745,430         0         3,745,430         0           36,911,237         30,450,397         102,959,633         85,594,226           (587,126)         3,883,582         14,339,515         17,635,046           (0.03)         0.15         0.54         0.67           0.12         0.15         0.69         0.67           0.165         0.165         0.495         0.495           130.74         116.29         412.73         368.65           85.90         73.68         86.83         79.04           121.77         109.80         387.39         346.49	2007         2006         2007         2006         Change           37,982,012         34,822,664         122,150,744         102,526,774         19,623,970           1,083,030         973,468         3,446,063         2,061,356         1,384,707           3,745,430         0         3,745,430         0         3,745,430           36,911,237         30,450,397         102,959,633         85,594,226         17,365,407           (587,126)         3,883,582         14,339,515         17,635,046         (3,295,531)           (0.03)         0.15         0.54         0.67         (0.13)           0.12         0.15         0.69         0.67         0.02           0.165         0.165         0.495         0.495         -           130.74         116.29         412.73         368.65         44.08           85.90         73.68         86.83         79.04         7.79           121.77         109.80         387.39         346.49         40.90

Ordinary Share for the third quarter excluding the \$3.7 million net impact from the disposal of the steam system would have been \$0.12 and earnings per Class A Ordinary Share for the nine months ended January 31, 2007 would have been \$0.69, which was in-line with the Company's expectations.

Third quarter 2007 results were also negatively impacted by \$0.7 million of unplanned maintenance resulting from a series of unexpected generator failures. After the adjustment for preference dividends, losses on Class A Ordinary Shares for the third quarter 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 third quarter fiscal 2006.

Year-to-date net earnings were \$14.3 million, compared to \$17.6 million for the first nine months of fiscal 2006. Year-to-date earnings on Class A Ordinary Shares were \$13.7 million, a 19% decline from \$17.0 million for the first nine months of fiscal 2006. This decline in earnings was caused by the significant one-time disposal described above, partially offset by strong kiloWatt-hours ("kWh") sales growth and revenues from the Hurricane Ivan Cost Recovery Surcharge ("CRS") which went into effect in August 2005. CRS revenues for the nine months ended January 31, 2007 were \$3.4 million, a 62% increase from \$2.1 million for the same period last year.

#### **Unusual Item**

The Company's steam system has not been operational since sustaining significant damage from Hurricane Ivan ("the hurricane") in 2004. In March 2006, the Company agreed to an insurance settlement of \$3.5 million for the reinstatement of the steam system. No depreciation charge has been expensed since September 2004 on the steam system.

Given the engineering complexities of the system, it was impractical to immediately initiate a repair and restoration programme for the steam system. Significant time and resources were required for a comprehensive review of damages so as to

determine the most economical and effective system restoration. Management also thought it an opportune time to undertake a strategic look at our overall Power Plant system to determine the most effective design going forward. During the third quarter fiscal 2007, the results of this review process were analyzed and evaluated and the Company has decided to restructure its Power Plant design and not repair the steam system.

As a result of this decision, a charge of \$3.2 million has been recognised in the third quarter for the disposal of these assets. This excludes approximately \$1.6 million of parts such as the cooling water discharge pipeline, that are useable with our other generating assets. In addition, the Company has taken a charge of \$0.5 million for the disposal of spare parts specifically maintained for the steam system (see "Costs Associated with the Power Plant Restructuring" table below).

The effects of the steam system disposal are reflected in the financial results of the third quarter and it is not expected that there will be any further disposals related to the steam system in future periods.

#### Sales

Electricity sales for the third quarter of fiscal 2007 increased 11% to 121.8 million kWh from 109.8 million for the same period last year. Residential electricity sales were particularly strong increasing by 12% and commercial electricity sales increased 9% as compared to third quarter fiscal 2006. Overall year-to-date electricity sales increased 12% to 387.4 million kWh for the nine months ended January 31, 2007 to from 346.5 million kWh for the same period in fiscal 2006. This is ahead of the Company's sales target for the period and reflective of Grand Cayman's growing economic base.

Total customers as at January 31, 2007 were 22,492, an increase of 9% over the number of customers at the same time last year and 5% more than the number of customers just prior to the hurricane in September 2004. The Company is currently

Costs Associated with the Power Plant Restructuring (\$)

Description	Net Book Value at October 31, 2006	Net Book Value of Salvaged Items	Book Value of Assets Disposed	Earnings per Share Impact
Steam system	4,771,600	(1,576,347)	3,195,253	(0.13)
Spare Parts	550,177	0	550,177	(0.02)
Total	5,321,777	(1,576,347)	3,745,430	(0.15)

connecting an average of 153 customers per month with the majority of new customer growth coming from the residential class.

## **Operating Revenues**

Operating revenues for the third quarter were \$38.0 million, a 9% increase over \$34.8 million for the same period last year. This \$3.2 million increase was comprised of a strong 14% increase in electricity sales revenues, a 1% increase in fuel factor revenues and a 10% increase in CRS revenues.

Operating revenues for the nine months ended January 31, 2007 totaled \$122.2 million, a 19% increase from \$102.5 million for the nine months ended January 31, 2006. This \$19.7 million increase was driven by a 12% increase in electricity sales revenues, a 29% increase in fuel factor revenues (which were offset by increased fuel expenses in the third quarter and in the nine months ended January 31, see "Power Generation" section) and a 67% increase in CRS revenues.

CRS revenues for the three months ended January 31, 2007 were \$1.1 million, an 11% increase from \$1.0 million for the same period last year. As at January 31, 2007, a total of \$6.5 million has been collected since the CRS implementation date of August 1, 2005 leaving \$6.9 million to be recovered from customers.

The Company's net loss for the third quarter of fiscal 2007 excluding the impact of the CRS would have been \$1.7 million or \$0.07 losses per share. On a year-to-date basis net earnings excluding the CRS would have been \$10.9 million or \$0.43 earnings per share.



CUC entered a new lease agreement for 5.6 MW of mobile capacity to meet current and summer demand until repairs are completed on existing units and the new MAN B&W 16 MW generating unit is commissioned.

#### **Operating Expenses**

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

Operating Expenses (\$ millions)			
	Three mont	ths ended Jar	nuary 31
	2007	2006	Change
	\$	\$	%
Fuel and lube oil costs	21,873,346	20,981,154	4
Other generating costs	812,026	913,803	-11
Total power generation expenses	22,685,372	21,894,957	4
Power Plant restructuring expenses	3,745,430	0	NA
Other operating expenses	10,480,434	8,555,440	23
Total operating expenses	36,911,236	30,450,397	21
	Nine mont	ths ended Jar	nuary 31
	2007	2006	Change
	\$	\$	%
Fuel and lube oil costs	68,211,828	55,175,757	24
Other generating costs	2,595,246	3,126,689	-17
Total power generation expenses	70,807,074	58,302,446	21
Power Plant restructuring expenses	3,745,430	0	NA
Other operating expenses	28,407,129	27,291,780	5
Total operating expenses	102,959,633	85,594,226	20

#### **Power Generation**

Power generation expenses increased \$0.8 million, or 4% to \$22.7 million for the three months ended January 31, 2007, from \$21.9 million for third quarter last year. This increase was caused by higher production levels quarter-over-quarter. The Company experienced a 12% quarter-over-quarter increase in kWh generation growth from 116.3 million kWh to 130.7 million kWh.

Year-to-date kWh generation growth increased 44.0 million kWh or 12% from 368.7 million kWh to 412.7 million kWh. Generation growth and an increase in average fuel prices have resulted in a 21% increase in power generation expenses for the nine months ended January 31, 2007 to \$70.8 million from \$58.3 million for the same period last year. Power generation expenses comprise over 70% of CUC's total operating expenses.

Power Generation Expenses						
Three months ended January 31						
	2007	2006	Change			
	\$	\$	%			
Fuel	19,633,092	18,658,872	5			
Deferred Fuel	1,901,437	2,040,926	-7			
Lube	338,817	281,355	20			
Leased Generation	49,649	189,401	-74			
Other	762,377	724,402	5			
Total	22,685,372	21,894,957	4			
	Nin	e months ended	January 31			
	2007	2006	Change			
	\$	\$	%			
Fuel	67,435,902	56,442,440	19			
Deferred Fuel	(466,891)	(2,191,946)	-79			
Lube	1,242,817	925,263	34			
Leased Generation	271,492	1,103,967	-75			
Other	2,323,754	2,022,722	15			
Total	70,807,074	58,302,446	21			

During the nine months ended January 31, 2007 CUC's average price per imperial gallon of fuel increased to \$2.98 from \$2.82 for the same time last year. This is down slightly from the average for the six months ended October 31, 2006 and reflective of price reductions in the third quarter. On an aggregate basis, rising average fuel prices have resulted in the Company's deferral of \$0.5 million of recoverable fuel costs in the nine months ended January 31, 2007 (2006: \$2.2 million). The Company defers excess fuel costs above the base price until they can be collected from the customer, on a two-month delay basis. Large swings in this account, although normal, occur infrequently. For any particular period the impact is timing in nature.

CUC leased 11.4 megaWatts ("MW") of mobile capacity in the aftermath of the hurricane. Total expenses related to these rental units were \$1.7 million for the year ended April 30, 2006, net of \$0.5 million recovered from the insurer. An additional \$0.2 million of leased generation expenses, including shipping costs, was incurred during the three months ended July 31, 2006. All of the rental units were returned by July 2006 as CUC's owned generation was brought back online and with the addition of the newly installed 8.4 MW gas turbine unit.

Due to the unexpected failures of three of the Company's generating units during the third quarter with a total capacity of 29 MW, CUC entered a new lease agreement for 5.6 MW of mobile capacity. This was done to meet current and summer demand until repairs are completed and the new MAN B&W 16 MW generating unit is commissioned. By the end of the third quarter a 10.3 MW generating unit that had failed was repaired and returned to service.

The rental units arrived in late January 2007 and are expected to be retained by the Company until early fiscal 2008. Current projections put the total cost of the new mobile units at \$0.5 million. Shipping costs were incurred during third quarter 2007 and the remainder, comprising rental and additional shipping costs are scheduled to be incurred in the fourth quarter 2007 and first quarter 2008.

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

G&A expenses for the three months ended January 31, 2007 of \$3.0 million increased 11% over \$2.7 million for the same period last year. For the nine months ended January 31, 2007 G&A expenses increased \$0.4 million or 5% to \$8.6 million from \$8.2 million for the same period last year. These increases are due primarily to higher insurance premiums and pension costs related to the defined pension benefit plans partially offset by reduced consulting fees which declined significantly following the settlement of the hurricane insurance claim.

Total insurance premium expenses increased \$0.3 million from \$2.3 million to \$2.6 million for the same period last year. In July 2006 the Company renewed its business interruption ("BI"), machinery breakdown and property insurance with major international insurers at a premium of \$3.2 million.

Terms and coverages include \$100.0 million in property insurance; \$55.0 million in BI insurance per annum with a 24-month indemnity period and a 45-day deductible; and \$15.0 million in machinery breakdown insurance. All transmission and distribution ("T&D") assets outside of 1,000 feet from the boundaries of the main plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of \$100.0 million. Each "loss occurrence" is subject to a deductible of \$1.0 million, except for windstorm (including hurricane) for which the deductible is 2% of the

value of each location that suffers loss, but subject to a minimum deductible of \$1.0 million and maximum deductible of \$4.0 million for all interests combined.

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

The pension costs of the defined benefit pension plans are actuarially determined using the projected benefits method which management reviews annually. A defined pension expense of \$0.5 million has been recorded for the nine months ended January 31, 2007, a 25% increase over the \$0.4 million recorded for the same period last year.

#### Transmission and Distribution (T&D)

T&D expenses in third quarter 2007 were comparable to the same period last year. T&D expenses for the nine months ended January 31, 2007 decreased \$0.2 million to \$1.6 million from \$1.8 million for the same period last year. This is due primarily to the T&D Division's focus on capital projects during fiscal 2007.

## Depreciation and Amortisation (D&A)

D&A expenses for the third quarter increased \$0.4 million, or 11% to \$3.9 million from \$3.5 million for the same period last year. This increase was a result of new growth-related capital expenditures and generation assets damaged by the hurricane being brought back into service.

#### Maintenance

Total maintenance expenses increased 86% for the three months ended January 31, 2007 to \$2.6 million from \$1.4 million for the same period last year. This was due to the impact of a series of unexpected generator failures (see "Power Generation" section on page 6) during the third quarter. In third quarter fiscal 2007 generator maintenance increased 225% or \$0.9 million to \$1.3 million from \$0.4 million for the same period last year.

On a year-to-date basis, maintenance expenses were comparable with the same period last year. The first six months of fiscal 2007 saw delays in the Company's scheduled maintenance programme which resulted in lower than usual generator maintenance expenses for that period. Despite the impact of the third quarter generator failures, the Company's

2007 generator maintenance expense is projected to remain on budget as a result of rescheduling of routine generator maintenance for the remainder of fiscal 2007. The Company has taken the opportunity to perform complete overhauls on the failed generating units before returning them to service. Normal generator maintenance expenses are expected for fiscal 2008, as several of the units which would have been brought offline in 2008, are presently involved in overhauls due to the unexpected failures.

## Other Income and Expenses

Interest expenses for the three months ended January 31, 2007 of \$2.3 million declined \$0.2 million from \$2.5 million for the same period last year. This 5% decrease in expenses is due primarily to a \$0.2 million increase in capitalised interest quarter-over-quarter.

Interest Expenses (\$ millions)	Three r ended ,		Nine n ended )	nonths Ian. 31
	2007	2006	2007	2006
	\$	\$	\$	\$
Total interest costs	2.6	2.6	7.9	7.2
Capitalised interest	(0.3)	(0.1)	(0.9)	(0.3)
Net interest expense	2.3	2.5	7.0	6.9

The Company's policy has been to capitalise interest on major construction projects, which is included as a cost in the appropriate capital assets account. In the third quarter, the Company refined its policy to capitalise interest on all significant construction projects. Accordingly, in the third quarter the Company recorded capitalised interest of \$0.1 million on its 2007 distribution system customer connection projects. These projects have an average construction period of three months. Refinement of this policy is not considered to have a material impact on net income reported in 2006 or the first six months of 2007.

In fiscal 2006, the Company agreed to a settlement on the insurance claim with the insurer. For the three months ended January 31, 2006 and the nine months ended January 31, 2006 BI proceeds on the hurricane claim amounted to \$1.2 million and \$5.5 million, respectively. There will be no BI proceeds in fiscal 2007.

Other income for the second quarter of \$0.3 million declined

slightly from \$0.4 million for the same period last year due to a reduction in gains from the metal recycling programme. Other income for the nine months ended January 31, 2007 was comparable to the same period last year.

#### The Economy

Government forecasts for the 2006/2007 (year ended June 30) and 2007/2008 period indicate continued sustainable growth in the Cayman Islands' economy with average gross domestic product (GDP) growth estimated at 3.3% for the period. The forecast for unemployment is for a continued decline from 4.5% in 2006/2007 to 4.4% in 2007/2008. Inflation is expected to remain modest for the period decreasing from 2.9% for 2006/2007 to 2.6% in 2007/2008.

Air arrivals for calendar 2006 exceeded arrivals for the same period last year by 32%. Hotel occupancy is expected to be strong during the winter season. Cruise arrivals also remained strong at 1.9 million for calendar 2006, a 36% increase over calendar 2005.

The following table presents tourist statistics for the year:

Arrivals	2006	2005	2004	2003	2002
By Air By Sea	267,257 1,930,136	202,961 1,430,762	99,715 1,115,299	214,372 1,191,593	187,287 1,063,511
Total	2,197,393	1,633,723	1,215,014	1,405,965	1,250,798

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

See table "Summary of Cash Flow".

#### **Operating Activities**

Cash flow from operations, after working capital adjustments, for the third quarter of fiscal 2007 was \$7.9 million, a \$2.9 million increase from \$5.0 million for the same quarter last year. The increase in cash from operations was primarily driven by a \$1.2 million reduction in trade receivables in 2007 versus the \$1.4 million decrease in cash resulting from increasing BI insurance receivables in 2006, partially offset by lower earnings quarter-over-quarter.

Cash flow from operations, after working capital adjustments, year to date increased \$9.4 million, or 37%, to \$35.0 million from \$25.6 million for the same period last year. This increase was primarily a result of full repayment on the insurance receivable balance of \$9.1 million in first quarter 2007.

(\$ millions)	Three months and	d January 21
	Three months ende	, ,
	2007 \$	2006 \$
Cash, beginning of period	2.35	0.60
Cash provided by (used in)		
Operating Activities	7.85	5.02
Investing Activities	(7.08)	(7.93
Net Financing Activities	4.78	5.75
Cash, end of period	7.90	3.43
	Nine months ende	ed January 31
	2007	2006
	\$	\$
Cash, beginning of period	0.58	0.96
Cash provided by (used in)		
Operating Activities	34.96	25.60
Investing Activities	(24.12)	(25.60
Net Financing Activities	(3.52)	2.47
Cash, end of period	7.90	3.43

#### **Investing Activities**

Cash used in investing activities decreased \$0.9 million to \$7.0 million for third quarter 2007, from \$7.9 million for the same period last year as a result of lower capital expenditures.

Similarly, cash used in investing activities for the nine months ended January 31, 2007 declined \$1.5 million to \$24.1 million from \$25.6 million for the same period last year. Total capital expenditures for fiscal 2006 were \$33.9 million including \$9.7 million for the reconstruction of the insured assets damaged by the hurricane. Capital expenditures for 2007 are projected at \$38.4 million.

## **Financing Activities**

Cash from financing activities for the three months ended January 31, 2007 were \$4.8 million, a \$0.9 million decrease from cash from financing activities for the same period last year of \$5.7 million. This decline is the result of a net increase in debt (including bank overdraft) of \$8.7 million in the third quarter of 2007 versus a net increase in debt of \$9.7 million during the same period last year.

Third quarter 2006 proceeds from debt financings were a combination of a \$4.0 million drawdown on the Company's capital expenditures credit facility with the Royal Bank of Canada ("RBC") and the issuance of 15-year 5.96% \$30.0 million Senior Unsecured Notes. The proceeds of the long-term debt were then used to repay borrowings under the RBC credit facilities.

### Transaction with Related Parties

Third quarter 2007 debt proceeds resulted from a 7%, \$15.0 million demand note agreement in January 2007 with the Company's controlling shareholder, Fortis Energy (Bermuda) Ltd. ("Fortis"). The Fortis transaction allowed the Company to effect a lower blended rate on short-term borrowings. The proceeds of the Fortis transaction were used, in part, to repay \$6.0 million of borrowings outstanding under the RBC credit facilities. The remainder of these funds will be used to finance planned capital expenditures and for general operating purposes. It is anticipated that the Fortis note will be repaid in June 2007 from new long-term debt.

Cash from financing activities year-to-date declined \$6.0 million from \$2.5 million in 2006 to cash used in financing activities of \$3.5 million in 2007. This is due to a \$4.0 million reduction in net borrowings year-over-year and a decrease in proceeds from share issues of \$2.0 million. The Company's

\$10.05 options expired in June 2005. 191,601 of these options were exercised for the period commencing May 1, 2005 and ending on the expiry date. Conversely, a total of 44,137 shares have been issued for the nine months ended January 31, 2007.

#### **Financial Position**

The table below ("Changes in Balance Sheets") is a summary of significant changes to the Company's balance sheets from April 30, 2006 to January 31, 2007.

#### **Capital Resources**

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

Capital Structure				
			As at Janua	ary 31
	2007 \$	%	2006	%
Total Debt	165,540,542	55	156,038,174	54
Shareholders' Equity	135,464,504	45	132,782,586	46
Total	301,005,046	100	288,820,760	100

## **Changes in Balance Sheets**

(from April 30, 2006 to January 31, 2007)

<b>Balance Sheet Account</b>	Increase/(Decrease) (\$ millions)	Explanation
Cash	7.3	Increase due to cash provided by operating activities of \$35.0 million partially offset by cash used in investing activities of \$24.1 million and cash used in financing activities of \$3.5 million.
Accounts receivable - trade	1.2	The increase is due to higher consumption and higher fuel factor billings as a result of higher fuel prices.
Other receivable - insurance	(9.1)	Decrease is due to final payment received from the insurer in June 2006.
Property, plant and equipment	8.9	The increase is comprised of capital expenditures of (1) \$24.1 million, (2) depreciation expense of \$11.3 million and (3) \$3.9 million for the disposal of assets.
Long-term debt	(10.5)	The decrease is due to repayments on the Company's Senior Unsecured Notes and European Investment Bank #3 loan.
Short-term debt	17.0	Increase is a result of \$2.0 million balance of RBC's credit facility and \$15.0 million Fortis note.
Retained earnings	1.2	The increase is due to a net profit for the period of \$14.3 million, Class A dividends of \$12.5 million and Class B dividends of \$0.6 million.

In November 2006, the Company renegotiated its credit facility agreement with RBC. Total credit facilities at January 31, 2007 were as follows:

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, \$30.0 million was available at January 31, 2007.

## **Contractual Obligations**

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

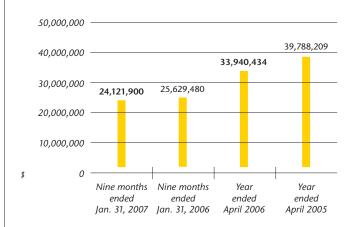
### **Capital Expenditures**

Capital expenditures for the nine months ended January 31, 2007 were \$24.1 million, a \$1.5 million, or 5.9% decrease from \$25.6 million in capital expenditures for the same period last year. Major capital projects for the third quarter included:

- (1) MAN B&W 16 MW generating unit \$2.2 million. During 2006, the Company entered into a project agreement with MAN B&W for the purchase and turnkey installation of one 16MW v48/60 medium-speed diesel generating unit and auxiliary equipment. The contract cost is \$18.4 million, and the total estimated cost for completion of the project is \$22.2 million.
- (2) Distribution system upgrades \$1.9 million

(3) Underground ductbank expansion and upgrades - \$0.4 million

#### **Capital Expenditures**



#### **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, 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

## **Contractual Obligations**

(period ended January 31 in \$ millions)

	Total (\$)	< 1 year (\$)	1 to 3 years (\$)	4 to 5 years (\$)	> 5 years (\$)
Total debt	165.5	27.5	38.8	25.0	74.5
MAN B&W 16 MW generating unit	14.3	14.3	-	-	-
Mid-America mobile generator lease agreement	0.5	0.5	-	-	-
Total	180.3	42.3	38.5	25.0	74.5

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 the hurricane, adverse conditions will always remain a risk notwithstanding any amount of preparation that is completed. In order to negate some of this risk, the Company maintains insurance coverage Management believes is proper and consistent with insurance policies obtained by similar companies.

## **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 revenue and expenses during the year.

#### **Correction of Insurance Claim Estimate**

During the insurance claim negotiation process in fiscal 2006, it was established that an element of the initial claim filed with the insurer included betterment of some assets and certain duplications within the claim that were adjusted in the final settlement. As a result, the Other Receivable - Insurance balance in fiscal 2005 was overstated by \$2,334,552 and the Property, Plant and Equipment was understated by the same amount. Correction of these estimates has been reflected in fiscal 2006 by adjusting Property, Plant and Equipment and the Other Receivable - Insurance by equal adjustments. These adjustments had no impact on net income reporting in fiscal 2005 or 2006.

## **Future Accounting Pronouncements**

During the three and nine months ended January 31, 2007 there were no changes to the Company's disclosure of future accounting pronouncements from those disclosed in the Company's MD&A for the year ended April 30, 2006.

#### **Quarterly Results**

The table below ("Quarterly Results") summarizes unaudited quarterly information for each of the eight quarters ended January 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.

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

Quarter Ended	Operating Revenue	Net (Losses)/ Earnings	(Loss)/Income Applicable to Ordinary Shares	(Losses)/Earnings per Share (Basic)	Diluted (Losses)/Earnings per Share
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	33,150	5,223	4,902	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
July 31, 2005	31,768	7,094	6,667	0.26	0.26
April 30, 2005	21,078	4,356	4,244	0.17	0.17

A summary of the past eight quarters reflects the Company's strong post-hurricane growth.

#### January 2007/January 2006

Primarily as a result of the disposal of the Company's steam turbine and boiler assets (see "Unusual Item" section on page 5), 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 also negatively impacted by \$0.7 million of unplanned maintenance resulting from a series of unexpected generator failures. After the adjustment for preference dividends, losses on Class A Ordinary Shares for the third quarter were \$0.7 million, or \$0.03 losses per ordinary share, as compared to \$3.8 million, or \$0.15 earnings per ordinary share for 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 ordinary share, a 1% increase over \$6.7 million for the same period last year, or \$0.26 per ordinary share, for second quarter fiscal 2006. The primary reasons for the 3% quarter-over-quarter increase in earnings applicable to ordinary shares are 10% kWh sales growth and a reduction in maintenance costs, partially offset by increased depreciation and interest expenses.

#### July 2006/July 2005

Net earnings for the first quarter were \$8.1 million, or \$0.30 per share, as compared to \$7.1 million, or \$0.26 per share, for the first quarter of fiscal 2006. The primary reasons for the 14% year-over-year increase in earnings are positive sales growth, implementation of the CRS and an overall decline in non-power generation operating expenses.

#### April 2006/April 2005

Net earnings for fourth quarter 2006 were \$5.2 million, or \$0.20 per share, compared to \$4.4 million, or \$0.17 per share, for fourth quarter 2005. The increase in earnings reflects continued post-hurricane sales recovery, CRS revenues of \$1.0 million and a gain of \$1.2 million resulting from the insurance settlement.

## **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. The disclosure process included a quality review performed by CUC's Disclosure Committee and Audit Committee.

The President and Chief Executive Officer and the Chief Financial Officer have evaluated the Company's disclosure controls and procedures as of January 31, 2007 and concluded that the Company's current disclosure controls and procedures are adequate and effective.

#### Outlook

The Cayman Islands economy continues to show strong growth in the tourism and financial services sectors. These two sectors, along with the construction industry, are the pillars of the Cayman Islands economy and drive CUC's sales growth.

Construction is robust and ubiquitous, with major projects in the tourism, general commercial and residential sectors.

Government and the private sector are adding much needed infrastructure, while supporting a growing economic base through development of roads, schools, shopping centres, restaurants, commercial buildings and warehouses, hotels and condominiums.

CUC sales growth forecasts for the 2006/2007 fiscal year have been revised to the 10% to 12% range bolstered by a growing Cayman Islands' economy. CUC expects to invest \$190.0 million in its capital programme over the next five years (predominately related to forecast sales growth), which will be financed by a combination of long-term and short-term debt and funds from operations.

Eddinton M. Powell, J.P.

MARIN

Senior Vice-President Finance & Corporate Services & Chief Financial Officer

March 1, 2007

# **Balance Sheets**

	Note	As of Jan. 31, 2007	As of Jan. 31, 2006	As of April 30, 2006 \$
Assets				
Current Assets  Cash and due from banks Accounts receivable - trade Other receivable - insurance Inventories Prepayments	3	7,901,113 16,910,958 - 4,947,217 1,834,484	3,429,561 16,337,851 9,469,062 5,584,139 1,757,479	575,591 15,681,991 9,075,125 5,172,908 911,092
		31,593,772	36,578,092	31,416,707
Property, plant and equipment	4	279,625,956	263,665,040	270,720,745
Other assets	11	11,516,884	10,339,110	10,856,169
Total Assets		322,736,612	310,582,242	312,993,621
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	12 9	18,351,520 17,000,000 10,512,442 3,380,046 49,244,008	18,969,592 7,497,632 2,791,890 29,259,114	377,041 20,046,905 - 7,497,632 2,811,611 30,733,189
Long-term debt		138,028,100	148,540,542	148,540,542
Total Liabilities		187,272,108	177,799,656	179,273,731
Shareholders' Equity Share capital Share premium Contributed surplus Retained earnings	2	1,757,556 42,177,501 208,577 91,320,870	1,754,215 41,516,989 146,004 89,365,378	1,754,929 41,655,512 161,647 90,147,802
		135,464,504	132,782,586	133,719,890
Total Liabilities and Shareholders' Equity		322,736,612	310,582,242	312,993,621

# **Statements of Earnings**

	Note	Three months en	nded January 31 2006	Nine months er 2007	nded January 31 2006
	Note	\$	\$	\$	\$
Operating Revenues					
Electricity sales		23,206,980	20,279,460	73,078,981	65,141,655
Hurricane Ivan cost recovery surcharge	10	1,083,030	973,468	3,446,063	2,061,356
Fuel factor		13,692,002	13,569,736	45,625,700	35,323,763
Total Operating Revenues		37,982,012	34,822,664	122,150,744	102,526,774
Operating Expenses					
Power generation		22,685,372	21,894,957	70,807,074	58,302,446
General and administration	12	3,031,171	2,720,056	8,596,968	8,157,898
Consumer service and promotion		344,544	315,037	951,869	928,831
Transmission and distribution		556,080	612,236	1,576,268	1,755,397
Depreciation and amortisation		3,925,400	3,509,895	11,296,376	10,304,278
Maintenance		2,623,239	1,398,216	5,985,648	6,145,376
Power Plant restructuring	4	3,745,430	0	3,745,430	0,143,370
Total Operating Expenses		36,911,236	30,450,397	102,959,633	85,594,226
Operating Income		1,070,776	4,372,267	19,191,111	16,932,548
Other (Expenses)/Income					
Interest expense		(2,342,469)	(2,461,074)	(7,032,096)	(6,867,336)
Foreign exchange gain		380,712	394,878	1,131,637	1,142,070
Business interruption insurance		-	1,182,208	-	5,467,521
Other income		303,855	395,303	1,048,863	960,243
Total Net Other (Expenses)/Income		(1,657,902)	(488,685)	(4,851,596)	702,498
(Loss)/Earnings for the Period		(587,126)	3,883,582	14,339,515	17,635,046
Dividends on preference shares		(112,500)	(112,500)	(652,500)	(652,500)
(Loss)/Earnings on Class A Ordinary Shares		(699,626)	3,771,082	13,687,015	16,982,546
Weighted average number of Class A Ordinary Shares issued and fully paid	6	25,309,408	25,253,370	25,302,531	25,220,581
(Loss)/Earnings per Class A Ordinary Share	6	(0.03)	0.15	0.54	0.67
Fully diluted (loss)/earnings per Class A Ordinary Share	6	(0.03)	0.15	0.54	0.67
Dividends declared per Class A Ordinary Share		0.165	0.165	0.495	0.495

# **Statements of Retained Earnings**

	Three months ended January 31		Nine months ended January	
	2007 \$	2006	2007 \$	2006
Balance at Beginning of Period	96,194,281	89,749,300	90,147,802	84,863,402
(Loss)/Earnings for the Period	(587,126)	3,883,582	14,339,515	17,635,046
Dividends	(4,286,285)	(4,267,504)	(13,166,447)	(13,133,070)
Balance at End of Period	91,320,870	89,365,378	91,320,870	89,365,378

# **Statements of Cash Flows**

		Three months er		Nine months er	
	Note	2007 \$	2006 \$	2007 \$	2006 \$
Operating Activities		(507124)	2 002 502	14 220 515	17725 047
(Loss)/Earnings for the period		(587,126)	3,883,582	14,339,515	17,635,046
Items not affecting working capital:					
Depreciation and amortisation		3,925,400	3,509,895	11,296,376	10,304,278
Stock-based compensation		15,643	15,644	46,930	46,931
Loss on disposal of fixed assets		178,559	29,744	169,634	36,543
Power Plant restructuring	4	3,745,430	0	3,745,430	0
		7,277,906	7,438,865	29,597,885	25,604,804
Net decrease/(increase) in non-cash working					
capital balances related to operations		574,883	(2,421,942)	5,360,684	(2,417,994)
Cash flow provided by operating activities		7,852,789	5,016,923	34,958,569	25,604,804
Investing Activities					
Proceeds of sale of fixed assets		2,619	1,190	5,357	27,812
Purchase of property, plant and equipment		(7,075,595)	(7,934,061)	(24,121,900)	(25,629,480)
Cash flow used in investing activities		(7,078,214)	(7,932,871)	(24,116,543)	(25,601,668)
Floring day Autotic					
Financing Activities Proceeds from debt financing		15,000,000	34,000,000	25,000,000	48,500,000
Repayment of debt		(6,250,509)	(22,865,262)	(15,497,632)	(33,982,822)
Decrease in bank overdraft		-	(1,421,034)	(377,041)	(1,429,889)
Dividends paid		(4,286,285)	(4,267,504)	(13,166,447)	(13,133,070)
Net proceeds of share issues		308,582	303,613	524,616	2,509,241
Cash flow from/(used in) financing activities		4,771,788	5,749,813	(3,516,504)	2,463,460
Increase in Net Cash		5,546,363	2,833,865	7,325,522	2,466,596
Net cash - beginning of period		2,354,750	595,696	575,591	962,965
Net Cash - end of period		7,901,113	3,429,561	7,901,113	3,429,561

Unaudited - Fiscal 2007 (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, 2006.

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. 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.

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

The Company also maintains defined benefit and defined contribution pension plans for its employees. The pension costs of the defined benefit plan are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. Past service costs from plan initiation are amortized on a straight-line basis over the remaining service period of the employee active at the date of initiation. The excess of any cumulative net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of the plan assets at the beginning of the year, are deferred and amortised over the remaining service period of the employee. The balance of any such actuarial gain (loss) is also deferred. This policy has been consistently applied for all reporting periods although the relevant accounting policy stated that such actuarial gain (loss) was recognised in income in the year incurred. Actuarial gains (losses) from inception of the plan in fiscal 2003 to fiscal 2005 were nil. In 2006 an actuarial loss of \$688,056 was deferred. The cost of the defined contribution pension plan is expensed as incurred.

Revenue derived from the sale of electricity is taken to income on a bills-rendered basis, adjusted for unbilled revenues. On August 1, 2005, the Company implemented a Cost Recovery Surcharge ("CRS") of \$0.0089 (CI\$0.0075) per kilowatt-hour ("kWh") to recover approximately \$13.4 million of direct Hurricane Ivan losses. Revenue derived from the CRS is taken to income on a bills rendered basis, adjusted for unbilled revenues.

Property, plant and equipment is stated on the basis of an appraised valuation at November 30, 1984 with subsequent additions at cost. The cost of additions to property, plant and equipment is the original cost of contracted services, direct labour and related overheads, materials, and interest on funds used during construction. Damaged property, plant and equipment ("P,P&E") are written off, or appropriate provision made, where damage relates to assets that will be reconstructed. The Company's policy has been to capitalise interest on major construction projects, which is included as a cost in the appropriate capital assets account. In the third quarter, the Company refined its policy to capitalise interest on all significant construction projects. Accordingly, in the third quarter the Company recorded capitalised interest of \$0.1 million on its 2007 distribution system customer connection projects. These projects have an average construction period of three months. Refinement of this policy is not considered to have a material impact on net income reporting in 2006 or the first six months of 2007.

#### 3. Other Receivable - Insurance

On September 11 and 12, 2004, Hurricane Ivan ("the hurricane"), a catastrophic category-four hurricane hit Grand Cayman. As a result of the hurricane the Company recognised an impairment of \$19,463,554 in respect of damaged P,P&E in fiscal 2005. During the negotiation process, it was established that an element of the initial claim filed with the insurer included betterment of some assets and certain duplications of the claim, which were adjusted in the final settlement. As a result, the Insurance Receivable balance in fiscal 2005 was overstated by \$2,334,552 and the P,P&E was understated by the same amount. Correction of these estimates has been reflected in fiscal 2006 by adjusting P,P&E and the Insurance Receivable by equal adjustments. These adjustments had no impact on net income reporting in fiscal 2005 or 2006.

Unaudited - Fiscal 2007 (expressed in United States dollars)

#### 4. Property, Plant and Equipment

As a result of the hurricane, the Company recognised an impairment in fiscal 2005 of its property, plant and equipment of \$19,463,554 for assets that were damaged during the hurricane. This amount was the sum of the estimated cost to reconstruct these assets, that would be reimbursed under the Company's insurance policy plus the estimated cost of the reconstruction of the submarine cable, which would be funded by the Company. See Note 3 which discusses an adjustment in fiscal 2006 relating to a correction of the estimate in the prior year with respect to determination of the impairment.

In addition, no depreciation charge had been expensed since September 2004 for various insured assets with a net book value of \$17,843,761, consisting mainly of the generation plant assets, requiring major reconstruction following the passage of the hurricane. These assets were considered to be under reconstruction and depreciation would commence when the asset was brought back into production. As at October 31, 2006, assets with a net book value of \$10,474,588 were completed and brought back into service, there by bringing the net book value of assets still not reinstated to \$7,369,173. This amount related to the damaged steam turbine and boilers ("steam system").

The Company's steam system has not been operational since sustaining significant damage from the hurricane in 2004. In March 2006, the Company agreed to an insurance settlement of \$3.5 million for the reinstatement of the steam system. No depreciation charge has been expensed since September 2004 on the steam system. Given the engineering complexities of the system, it was impractical to immediately initiate a repair and restoration programme for the steam system. Significant time and resources were required for a comprehensive review of damages so as to determine the most economical and effective system restoration. Management also thought it an opportune time to undertake a strategic look at our overall Power Plant system to determine the most effective design going forward. During the third quarter fiscal 2007, the results of this review process were analyzed and evaluated and the Company has decided to restructure its Power Plant design and not repair the steam system.

As a result of this decision, a charge of \$3.2 million has been recognised in the third quarter for the disposal of these assets. This excludes approximately \$1.6 million of parts such as the cooling water discharge pipeline, that are useable with our other generating assets. In addition, the Company has taken a charge of \$0.5 million for the disposal of spare parts specifically maintained for the steam system (see "Costs Associated with the Power Plant Restructuring" table below). The effects of the steam system disposal are reflected in the financial results of the third quarter and it is not expected that there will be any further disposals related to the steam system in future periods.

#### Costs Associated with the Power Plant Restructuring

Description	Net Book	Net Book	Book Value	Earnings
	Value at	Value of	of Assets	per Share
	October 31, 2006	Salvaged Items	Disposed	Impact
Steam system	4,771,600	(1,576,347)	3,195,253	(0.13)
Inventory	550,177	0	550,177	(0.02)
Total	5,321,777	(1,576,347)	3,745,430 *	(0.15)

<sup>\*</sup> Loss recorded to Power Plant restructuring expenses

## 5. Capital Stock

Authorised:

- a) 60,000,000 (2006: 60,000,000) Class A Ordinary Shares of CI\$0.05 each
- b) 250,000 (2006: 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 January 31, 2007		Year-to-date Ja	nuary 31, 2007
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance beginning of period Customer Share Purchase and Dividend	25,301,143	1,506,020	25,282,801	1,504,929
Reinvestment Plans	23,164	1,379	41,206	2,452
Employee Share Purchase Plan	1,450	87	1,750	105
Executive Stock Option Plan	1,181	70	1,181	70
	25,326,938	1,507,556	25,326,938	1,507,556

Unaudited - Fiscal 2007 (expressed in United States dollars)

#### 6. 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 25,309,408 and 25,253,370 for the quarters ended January 31, 2007 and 2006 respectively. The year-to-date weighted-average shares outstanding were 25,302,531 and 25,220,581 respectively. Fully diluted earnings per Class A Ordinary Share was calculated using the treasury stock method.

#### 7. 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 10 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 January 31, 2007	Year-to-date January31, 2007
628,300	628,300
(1,181) (3,000)	(1,181) (3,000)
624,119	624,119
\$	\$
N/A	N/A
11.46	11.46
13.78	13.78
11.46 - 13.78	11.46 - 13.78
	January 31, 2007 628,300 (1,181) (3,000) 624,119  \$ N/A 11.46 13.78

The position with respect to outstanding unexercised options as at January 31, 2007 was as follows:

Date of Grant	Number of Class A Ordinary Shares under Option	Exercise Price \$	Term of Option
July 18, 2001	429,019	11.460	10 years
September 22, 2003	195,100	13.780	10 years

#### 8. Foreign Exchange

The closing rate of exchange on January 31, 2007 as reported by the Bank of Canada ("RBC") for the conversion of U.S. dollars into Canadian dollars was Cdn. \$1.1770 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, 2007 for conversion of Cayman Islands dollars into Canadian dollars was \$1.412 per CI\$1.00.

Unaudited - Fiscal 2007 (expressed in United States dollars)

#### 9. Short-Term Financing

In June 2006, the Company drew down \$10.0 million against its credit facilities with RBC. These funds were used for the interim funding of capital expenditures. In October 2006, the Company repaid \$2.0 million on this outstanding debt.

In January 2007 the Company entered into a 7%, \$15.0 million demand note agreement with its controlling shareholder, Fortis Energy (Bermuda) Ltd. ("Fortis"). The Fortis transaction allowed the Company to effect a lower blended rate on short-term borrowings. The proceeds of the Fortis transaction were used in part to repay \$6.0 million of borrowings outstanding under the RBC credit facilities. This leaves an outstanding balance of \$2.0 million on the RBC credit facilities. The remainder of the Fortis note will used to finance planned capital expenditures and general operating purposes. It is anticipated that the Fortis note will be repaid in June 2007 from additional long-term debt.

## 10. 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 and nine months ended January 31, 2007 were \$1.1 million and \$3.4 million respectively. As at January 31, 2007, a total of \$6.5 million has been collected since the implementation date leaving \$6.9 million to be recovered.

#### 11. Other Assets

. Other / disease	January 31, 2007 \$	January 31, 2006 \$
Sundry assets Deferred licence renewal costs Deferred debt issue expense Deferred fuel costs	202,954 1,153,191 1,382,696 8,778,043	298,603 751,890 1,535,217 7,753,400
	11,516,884	10,339,110

#### 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.

#### 12. Pension Plan

During 2003, the Company established a defined benefit plan for the retired Chairman. In May 2005, the Company's Board of Directors approved the establishment of a defined benefit pension plan for its retired C.E.O. The pension costs of the defined benefit plans are actuarially determined using the projected benefits method. A defined benefit expense of \$181,893 (2006: \$146,671) has been recorded in General and Administration expenses for the three months ending January 31, 2007 and \$545,679 (2006: 440,014) for the nine months ended January 31, 2007. An accrued benefit liability of \$0 (2006: \$971,704) is included within Accounts Payable and Accrued Expenses as in the Balance Sheets.

#### 13. Subsequent Events

On February 8, 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 share, with a payable date of March 15, 2007 to shareholders of record on February 22, 2007.

#### 14. 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.

#### 15. Comparative Figures

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

## **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 Grand Cayman KY1-1101 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







