

Disclosure About Risk Factors

Provide a discussion of the risk factors that may have an impact on the results from operations or on the financial conditions. Avoid generalized statements. Typical risk factors include untested products, cash flow and liquidity problems, dependence on a key supplier or customer, management inexperience, nature of business, absence of a trading market (specific to the securities of the reporting issuer), etc. Indicate if any risk factors have increased or decreased in the time interval between the previous and current filing.

Discussion

NIL

Untested Products

NIL

Cash Flow Problems

1. Aging Trade Receivables

The Company faces the risk of high and aging trade receivables due to the adverse impact of the COVID-19 pandemic. The recent increases in fuel prices and levels of inflation are also contributing to the high receivables. Customer accounts continue to be monitored closely on an on-going basis to manage this risk. This risk is considered to be high. Although receivables are increasing the aging has improved significantly. Risk mitigation actions taken by management have been effective at reducing this risk. This risk is considered to be decreasing.

Liquidity Problems

NIL

Key Supplier Dependence

1. Supply Chain Disruptions

The Company faces the risk of disruption to its supply chain and delays in the fulfillment of orders for critical parts required for maintenance works and network expansion projects. Although this risk is considered to be high, it is stable as the impact is being reduced by factoring the longer lead times and increased order quantities into the procurement process. This risk is considered to be increasing.

2. Cost of Fuel

A significant portion of the total electricity price to consumers is the cost of fuel. The Company has identified the high cost of electricity, as well as the volatility of fuel prices on the world market, to be significant risks. The Company continues to use fuel price hedging to help mitigate the risk of volatility in fuel prices. This risk is considered to be stable.

Key Customer Dependence

NIL

Management Inexperience

NIL

Nature of Business

1. New Regulatory Framework

The Company had identified the risk that the new regulatory framework could include provisions that require significant changes to operations or could threaten its long-term viability. To mitigate this risk, the Company established a Regulatory Reform Team to spearhead the Company's involvement in the regulatory reform process. This risk is considered high due to the potential impact on the business; however, the likelihood of occurrence is considered to be low. This risk is stable.

2. Annual Hurricane Season

The annual hurricane season between June and November remains a constant threat to the Company's assets and operations. As far as practicable, the Company continues to design its systems to minimize the impact from hurricanes. The Company continues to maintain a robust disaster recovery plan in the event of extensive damage resulting from a weather system. The risk of Loss of T&D assets and resulting impact on the reliability of the power supply is increasing given the intensity of storms affecting the region. This risk is considered to be moderate but increasing.

3. Insurance Coverage

Obtaining insurance coverage for the Transmission & Distribution (T&D) plant on the market at a cost-effective rate continues to be a challenge. As such, the Company established a Self- Insurance Fund as a vehicle to mitigate losses in the event of catastrophic events. As at December 31, 2022, the Fund balance was EC\$46.7M. The Company has access to a standby credit facility of EC\$10.0M to meet any emergency asset restoration costs should the need arise. The Net Book Value of the T&D assets was EC\$164.8M at the end of December 2022. Although the Company's contribution to the Self Insurance Fund is deemed to be adequate, the fund would not be sufficient to cover a total loss of its T&D infrastructure. The Company has secured parametric insurance cover to further reduce its risk exposure to a catastrophic event. The likelihood of the self-Insurance fund failure is now less than 1% and the total risk exposure of the T& D assets has been reduced. This risk is considered high but stable.

4. Return on Equity

The Company utilizes Return on Equity as one of the measures of its performance. As shareholders' equity increases and profit levels remain fairly constant, the Company is faced with the risk of continued diminishing Return on Equity. Through its Strategic Business Plan, the Company plans to develop and implement initiatives that optimize cost of operations and create new business opportunities, as a means of mitigating this risk. This risk is considered to be increasing in light of the current economic and evolving technological environment.

5. System Losses

System Losses, specifically due to electricity theft, continue to be a concern for the Company, given the implications for unrecognized revenues and ultimately reduced shareholder returns. This risk is stable and does not show any sign of increasing.

6. Industrial Action

The fallout from industrial action can affect the Company's reputation and by extension that of the country, with regards to foreign direct investment. Employee engagement and staff relations continue

to be a priority in the Company's annual work plan. Until all union negotiations and outstanding issues are satisfactorily concluded, the risk of industrial action continues to be high but stable.

7. Cybersecurity

The Company faces the risk of cyber threats to its IT systems, OT infrastructure, employee and customer data. The Company has taken various measures such as regular penetration testing and cyber security awareness training to mitigate this risk. Although this risk is deemed low, it is increasing.

8. Inability to Meet Consumer Demand

The inability to meet consumer demand can be brought on by either an unforeseen increase in the demand for power or the loss of generators or substations. The Company employs a robust preventative maintenance programme to mitigate the risk of unplanned asset downtime. Uncertainty regarding the implementation of investment projects in the private and public sector contributes significantly to the assessment of this risk. This risk is considered low to moderate because of the current low growth in demand. As the existing generation assets near the end of their useful lives coupled with the uncertainty of future demand increases and the regulatory environment, this risk will increase.

9. Private Renewable Energy Generation

With a new regulatory framework, the threat of loss of sales due to the introduction of renewables and competition for generation is likely; however, at the current rate of growth of renewables, this threat appears to be low. Although this risk is considered low, uncertain events such as the price of fuel, the cost of renewable technology and the tariff regime, can increase the risk within a short period.

Trading Market Absence

NIL