# Management's Discussion and Analysis

*The following management's discussion and analysis ("MD&A") should be read in conjunction with the Caribbean Utilities Company, Ltd. ("CUC" or the "Company") consolidated financial statements and related notes for the year ended December 31, 2023 (the "2023 Financial Statements"). The material has been prepared in accordance with Canadian Securities Administrators National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") relating to the MD&A and is available on SEDAR at www.sedar.com together with the Company's annual information form for the year ended December 31, 2023, which contains additional information relating to the Company.*

*The accounting practices, which are disclosed in the notes to the 2023 Financial Statements, result in regulatory assets and liabilities, which would not occur in the absence of rate regulation. In the absence of rate regulation, the amount and timing of recovery or refund by the Company of the costs of providing services, including a fair return on rate base assets, from customers through appropriate billing rates would not be subject to regulatory approval.*

*Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements concerning anticipated future events, results, circumstances, performance or expectations with respect to the Company and its operations, including its strategy, financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts", "schedules", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward-looking statements are based on underlying assumptions and management's beliefs, estimates and opinions, and are subject to inherent risks and uncertainties surrounding future expectations generally that may cause actual results to vary from plans, targets and estimates. Some of the important risks and uncertainties that could affect forward-looking statements are described in the MD&A in the sections labelled "Business Risks", "Capital Resources" and "Corporate and Regulatory Overview" and include but are not limited to operational, general economic, market and business conditions, regulatory developments and weather. CUC cautions readers that actual results may vary significantly from those expected should certain risks or uncertainties materialise, or should underlying assumptions prove incorrect. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.*

*On May, 31, 2022, the Ontario Securities Commission issued a relief order which permits the Company to continue to prepare its financial statements in accordance with U.S. GAAP. The relief extends until the earliest of: (i) January 1, 2027; (ii) the first day of the financial year that commences after the Company ceases to have rate-regulated activities; or (iii) the first day of the Company's financial year that commences on or following the later of (a) the effective date prescribed by the International Accounting Standards Board (the "IASB") for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation (the "Mandatory Rate-regulated Standard") and (b) two years after the IASB publishes a final version of the Mandatory Rate-regulated Standard.*

*The Company is currently reviewing the implications of this order and analyzing alternate options to continue to report under US GAAP.*

*Financial information is presented in United States dollars unless otherwise specified. The 2023 Financial Statements and MD&A in this Annual Report were approved by the Audit Committee and the Board of Directors.*

*February 9, 2024*


## Financial and Operational Highlights

*($ thousands, except Basic Earnings, Dividends Paid and where otherwise indicated)*

| | Year Ended December 31, 2023 | Year Ended December 31, 2022 | Change | % Change |
|---|---|---|---|---|
| Electricity Sales Revenues | 114,220 | 101,551 | 12,669 | 12% |
| Fuel Factor | 166,573 | 159,856 | 6,717 | 4% |
| Renewables | 6,432 | 5,929 | 503 | 8% |
| Total Operating Revenues | 287,225 | 267,336 | 19,889 | 7% |
| Power Generation[3] | 177,734 | 170,821 | 6,913 | 4% |
| Other Expenses | 71,074 | 64,447 | 6,627 | 10% |
| Total Operating Expenses | 248,808 | 235,268 | 13,540 | 6% |
| Net Operating Income | 38,417 | 32,068 | 6,349 | 20% |
| Net Earnings for the Year | 38,660 | 33,179 | 5,481 | 17% |
| Cash Flow related to Operating Activities | 80,781 | 56,188 | 24,593 | 44% |
| *Per Class A Ordinary Share:* | | | | |
| Basic Earnings | 1.00 | 0.86 | 0.14 | 16% |
| Dividends Paid | 0.715 | 0.700 | 0.015 | 2% |
| Total Customers | 33,611 | 33,119 | 492 | 1% |
| Total Full-Time Employees | 263 | 253 | 10 | 4% |
| Customers per Employee (#) | 131 | 131 | - | - |
| System Availability (%) | 99.97 | 99.97 | - | - |
| Peak Load Gross (MW) | 124.1 | 113.6 | 10.5 | 9% |
| *Millions of kWh:* | | | | |
| Net Generation | 735.4 | 680.4 | 55.0 | 8% |
| Renewable Energy Generation | 22.7 | 21.9 | 0.8 | 4% |
| Total Energy Supplied | 753.6 | 698.7 | 54.9 | 8% |
| Kilowatt-Hour Sales | 727.0 | 674.1 | 52.9 | 8% |
| Sales per Employee | 2.76 | 2.66 | 0.10 | 4% |

[3] *All amounts from Fuel Factor and Renewables revenues are included within the Power Generation expense as they are passed through to customers without mark-up as a per kWh charge.*

## Corporate and Regulatory Overview

The principal activity of the Company is to generate, transmit, and distribute electricity in its licence area of Grand Cayman, Cayman Islands pursuant to a 20-year exclusive Transmission & Distribution ("T&D") Licence and a 25-year non-exclusive Generation Licence (the "Licences") granted by the Cayman Islands Government (the "Government", "CIG"). The T&D Licence, which expires in April 2028, contains provisions for an automatic 20-year renewal and the Company has reasonable expectation of renewal until April 2048. The Generation Licence expires in November 2039.

The Company is regulated by the Cayman Islands Utility Regulation and Competition Office ("OfReg"), which has the overall responsibility of regulating the electricity, information and communications technology, and the petroleum industries in the Cayman Islands. The OfReg assesses CUC's performance against the performance standard expectations in accordance with the Utility Regulation and Competition Office Act (2021). Performance standards provide a balanced framework of potential penalties or rewards compared to historical performance in the areas of planning, reliability, operating and overall performance. Standards include "zones of acceptability" where no penalties or rewards would apply.

A license fee of $2.9 million per annum and a regulatory fee of $1.4 million per annum are payable to the Cayman Islands Government in quarterly installments. Both fees apply only to customer billings with consumption over 1,000 kWh per month as a pass-through charge rate.

### Customer Rates

The Licenses contain the provision for a rate cap and adjustment mechanism ("RCAM") based on published consumer price indices. CUC's return on rate base ("RORB") for 2022 was 7.00% (2021: 7.00%). CUC's RORB for 2023 was targeted in the 7.50% to 9.50% range (2022: 6.25% to 8.25%).

CUC's base rates are designed to recover all non-fuel and non-regulatory costs and include per kilowatt-hour ("kWh") electricity charges and fixed facilities charges. Fuel, lube, and renewables cost charges and regulatory fees are billed as separate line items. Base rates are subject to an annual review and adjustment each June through the RCAM.

On June 1, 2023, following review and approval by the OfReg, the Company increased its base rates by 3.7%. This increase was a result of the 2022 RORB and the increase in the applicable United States ("US") and Cayman Islands consumer price indices, adjusted to exclude food and fuel, for calendar year 2022. The change in the base rates as a percentage of the US and Cayman Islands consumer price indices was 80% based on the range of the RORB values. The required rate adjustment of 3.7% can be calculated by applying 80% to the total price level index (60% of the Cayman Islands CPI and 40% of the US CPI) of 4.6%. All fuel, lubricating oil and renewables costs are passed through to customers without mark-up as a per kWh charge. Rate base is the value of capital upon which the Company is permitted an opportunity to earn a return. The value of this capital is the average of the beginning and ending values for the applicable financial year of: fixed assets less accumulated depreciation, plus the allowance for working capital, plus regulatory assets less regulatory liabilities.

In the event of a natural disaster, as defined in the T&D Licence, the actual increase in base rates will be capped for the year at 60% of the change in the Price Level Index and the difference between the calculated rate increase and the actual increase expressed as a percentage, shall be carried over and applied in addition to the normal RCAM adjustment in either of the two following years if the Company's RORB is below the target range. In the event of a disaster, the Company would also write-off destroyed assets over the remaining life of the asset that existed at the time of destruction. Z Factor rate changes will be required for insurance deductibles and other extraordinary expenses. The Z Factor is the amount, expressed in cents per kWh, approved by the OfReg to recover the costs of items deemed to be outside of the constraints of the RCAM.

The OfReg assesses CUC's performance against the performance standard expectations set out in the ERA (Standard of Performance) Rules 2012. Performance standards provide a balanced framework of potential penalties or rewards compared to historical performance in the areas of planning, reliability, operating and overall performance. Standards include "zones of acceptability" where no penalties or rewards would apply.

### Deferral Mechanism

In April 2022, the Company submitted its annual rate adjustment to OfReg for review and approval. The required rate increases as confirmed by OfReg was 5.4%, with an effective date of June 1, 2022. Due to economic conditions and rising fuel prices, OfReg approved the Company's proposal to defer billing of the required rate increase until January 1, 2023. For the period June 1, 2022 to December 31, 2022, the Company tracked the difference between billed revenues and revenues that would have been billed from the required rate increase as deferred revenue. The amount recorded as a regulatory asset for the year ended December 31, 2022 was $2.8 million and will be recovered within two years through a recovery rates of $0.0019 per kWh from the effective date of January 1, 2023. During the year, $1.4 million was recovered from customers related to the base rate increase deferral.

In October 2022, OfReg approved the proposed CUC Fuel Relief Programme applicable to all customers to reduce the fuel cost spike. The Programme capped the amount of the fuel factor paid by customers at $0.24/kWh for consumption effective October 1, 2022 through December 31, 2022. The amount recorded as a regulatory asset for the year ended December 31, 2022 was $6.3 million and was fully recovered from customers during Fiscal 2023 at $0.0089 per kWh with an effective date of January 1, 2023.

### DataLink, Ltd.

CUC's wholly-owned subsidiary, DataLink, Ltd. ("DataLink"), was incorporated under the Companies Act of the Cayman Islands and commenced operations with the granting of its licence to provide fibre optic infrastructure and other information and communication technology ("ICT") services to the ICT industry by the former ICTA, whose regulatory authority was assumed by the OfReg, on March 28, 2012. DataLink is subject to regulation by the OfReg in accordance with the terms and conditions of its licence, which has a term of 15 years, expiring on March 27, 2027. CUC and DataLink have entered into three regulator-approved agreements:

1. The Management and Maintenance agreement;
2. The Pole Attachment agreement; and
3. The Fibre Optic agreement.

## Consolidation Accounting Policy

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary DataLink. All intercompany balances and transactions have been eliminated on consolidation.

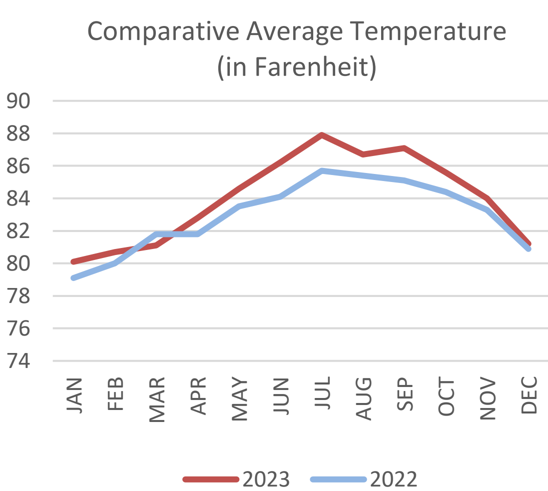
## Results of Operations

### Earnings

Operating income for the year ended December 31, 2023 (“Fiscal 2023”) totalled $38.4 million, a $6.3 million increase from operating income of $32.1 million for the year ended December 31, 2022 (“Fiscal 2022”). This increase is primarily attributable to an 8% increase in kWh sales and a 3.7% base rate increase effective June 1, 2023. These factors were partially offset by higher depreciation and general and administration costs.

Net earnings for Fiscal 2023 were $38.7 million, a $5.5 million increase from net earnings of $33.2 million for Fiscal 2022. This increase is primarily attributable to higher operating and other income partially offset by higher finance charges.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Fiscal 2023 were $37.7 million, or $1.00 per Class A Ordinary Share, as compared to $32.2 million, or $0.86 per Class A Ordinary Share, for Fiscal 2022. The Company calculates earnings per share on the weighted average number of Class A Ordinary Shares outstanding. The weighted average number of Class A Ordinary Shares outstanding were 37,779,724 and 37,481,959 for the years ended December 31, 2023 and December 31, 2022, respectively.




**Sales and Customer Highlights**

| | Year Ended December 31, 2023 | Year Ended December 31, 2022 | Change % |
|---|---|---|---|
| **Customers** | | | |
| *(fully stated, not in thousands)* | | | |
| Residential | **28,874** | 28,429 | 2% |
| General Commercial | **4,627** | 4,589 | 1% |
| Large Commercial | **110** | 101 | 9% |
| Total Customers | **33,611** | 33,119 | 1% |
| | | | |
| **Sales** *(in thousands kWh)* | | | |
| Residential | **396,680** | 364,114 | 9% |
| General Commercial | **152,924** | 144,816 | 6% |
| Large Commercial | **172,521** | 160,461 | 8% |
| Other | **4,898** | 4,733 | 3% |
| Total Sales | **727,023** | 674,124 | 8% |
| | | | |
| **Average Monthly Consumption Per Customer (kWh)** | | | |
| Residential | **1,153** | **1,084** | 6% |
| General Commercial | **2,771** | **2,678** | 3% |
| Large Commercial | **138,039** | **138,663** | - |
| | | | |
| **Revenues** (in thousands of $) | | | |
| Residential | **61,582** | 54,346 | 13% |
| General Commercial | **27,559** | 25,004 | 10% |
| Large Commercial | **23,963** | 21,334 | 12% |
| Other (street lights etc.) | **1,116** | 867 | 29% |
| Fuel Factor | **166,573** | 159,856 | 4% |
| Renewables | **6,432** | 5,929 | 8% |
| Total Operating Revenues* | **287,225** | 267,336 | 7% |

**Total CUC customers and revenue only*

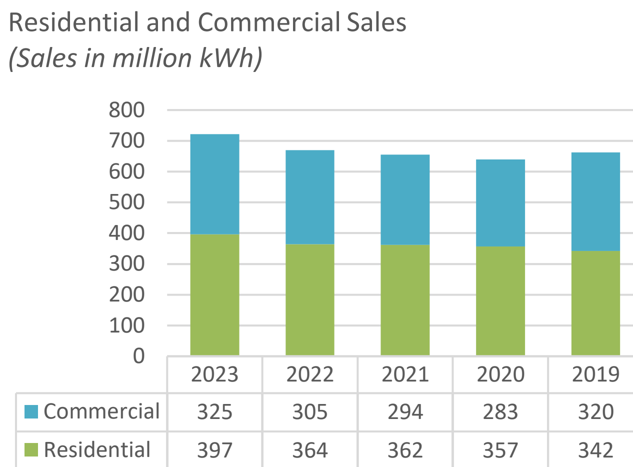
### Sales

Sales in kWh for Fiscal 2023 were 727.0 million kWh, an increase of 52.9 million kWh or 8% compared to 674.1 million kWh for Fiscal 2022. The increase was driven by the 1% growth in overall customer numbers and a degree increase in average temperature which impacts average consumption of residential and small commercial customers. The average monthly temperature for Fiscal 2023 was 84.0 degrees Fahrenheit when compared to 82.9 degrees Fahrenheit in Fiscal 2022. The hottest summer months in history were recorded during 2023 averaging 87.2 degrees Fahrenheit in Quarter 3 2023. The record peak load of 124.1 MW was experienced on July 18, 2023.

Total customers as at December 31, 2023 were 33,611, an increase of 492 or 1% compared to 33,119 customers as at December 31, 2022.

## Operating Revenues

Operating revenues for Fiscal 2023 totalled $287.2 million, an increase of $19.9 million from $267.3 million for Fiscal 2022. This increase in operating revenues was due to higher electricity sales and fuel factor revenues.




Electricity sales revenues increased by $12.6 million for Fiscal 2023 to $114.2 million when compared to electricity sales revenues of $101.6 million for Fiscal 2022. This increase is primarily driven by 8% kWh sales growth and the 3.7% base rate increase effective June 1, 2023.

Fuel factor revenues for Fiscal 2023 totalled $166.6 million, a $6.6 million increase from the $160.0 million in fuel factor revenues for Fiscal 2022. The net increase was due to the sales growth partially offset by the decrease in fuel cost. The average Fuel Cost Charge rate charged to consumers for Fiscal 2023 was $0.24 per kWh, compared to the Fuel Cost Charge rate of $0.27 per kWh for Fiscal 2022. The average fuel price per imperial gallon (“IG”) used to determine the fuel cost charge rate to consumers for the year ended December 31, 2023 was $4.24, compared to $4.37 for the year ended December 31, 2022. Fuel Factor revenues consist of charges from diesel fuel and lubricating oil costs, which are passed through to consumers on a two-month lag basis with no mark-up.

The renewables revenues are a combination of charges from the Customer Owned Renewable Energy (“CORE”) programme, Distributed Energy Resources (“DER”) and Bodden Town Solar 1, Ltd., which are passed-through to consumers on a two-month lag basis with no mark-up. The Company has a Power Purchase Agreement (“PPA”) with Bodden Town Solar 1, Ltd. for a 25-year term.

## Operating Expenses

Total operating expenses for Fiscal 2023 increased by $13.5 million to $248.8 million from $235.3 million for Fiscal 2022. The main contributing factors to the increase in operating expenses were increase in power generation, transmission and distribution, depreciation and general and administration costs partially offset by lower consumer services and maintenance costs.

The primary reasons for the changes in the Company’s operating expenses for the years ended December 31, 2022 and December 31, 2023 are as follows:

**Significant Changes in Operating Expenses**

*($ in thousands)*

| Item | Year Ended December 31, 2023 | Year Ended December 31, 2022 | Change | % Change | Explanation |
|---|---|---|---|---|---|
| Power Generation | **177,734** | 170,821 | 6,913 | 4% | Increase was primarily due to the 8% increase in kWh sales partially offset by decrease in compensation cost due to restructuring in 2022 |
| Depreciation of Property, Plant and Equipment (“PP&E”) | **41,119** | 38,018 | 3,101 | 8% | Increase was due to the completion of the Seven Mile Beach and Prospect substations in May 2022 and other capital projects completed during the period |

| Item | Year Ended December 31, 2023 | Year Ended December 31, 2022 | Change | % Change | Explanation |
|---|---|---|---|---|---|
| General and Administration ("G&A") | **13,847** | 10,446 | 3,401 | 33% | Increase was mainly due to higher compensation cost, insurance premiums and legal fees. These items were partially offset by higher General Expenses Capitalized. |
| Transmission and Distribution ("T&D") | **6,162** | 4,291 | 1,871 | 44% | Increase due to restructuring in 2022, partially offset by increase in labour recharge |

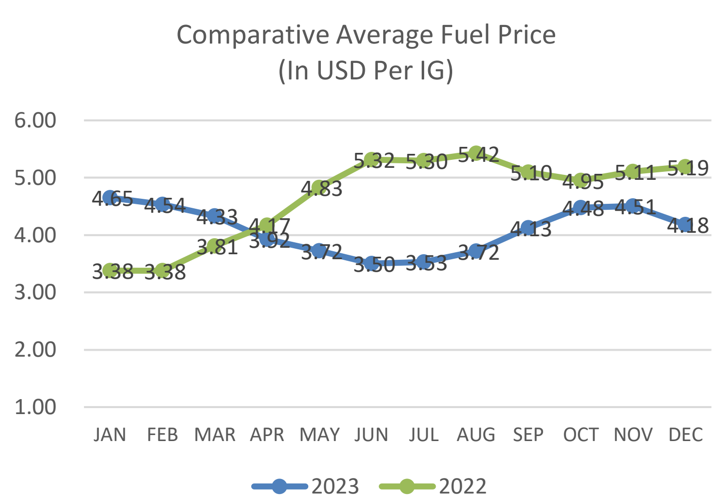
## Power Generation

Power generation expenses were as follows:

| Power Generation | | | | |
|---|---|---|---|---|
| ($ thousands) *Fuel, Lubricating Oil and Renewables costs stated net of deferred charges* | | | | |
| | Year Ended December 31, 2023 | Year Ended December 31, 2022 | Change | % Change |
| Fuel Costs (net of deferred fuel costs) | **164,182** | 157,945 | 6,237 | 4% |
| Lubricating Oil Costs (net of deferred lubricating oil costs) | **2,391** | 1,911 | 480 | 25% |
| Renewables Costs (net of deferred renewables costs) | **6,432** | 5,929 | 503 | 8% |
| Other Generation Expenses | **4,729** | 5,036 | (307) | -6% |
| **Total Power Generation expenses** | **177,734** | 170,821 | 6,913 | 4% |

The Company's average price per imperial gallon ("IG") of fuel for the year ended December 31, 2023 decreased by 12% to $4.11 in comparison to $4.67 for the twelve months ended December 31, 2022. The Company's average price per IG of lubricating oil for the twelve months ended December 31, 2023, increased by 19% to $16.38 when compared to $13.78 for the twelve months ended December 31, 2022.

During 2022, due to the significant increase in fuel cost, the Cayman Islands Government offered a fuel cost credit to residents across the country to help alleviate the price of electricity during the peak summer period. The temporary Government assistance offered a fuel cost credit for residential customers who have monthly consumption between 101 kWh and 2,000 kWh by subsidising the fuel cost in excess of $0.18/kWh which was paid to the Company in advance of each month's for energy consumed from July until December 2022.




Total energy supplied to the grid for Fiscal 2023 was 753.6 million kWh, an 8% increase when compared to 698.7 million kWh for Fiscal 2022. Total energy supplied is the net amount of energy available to be transmitted and distributed for consumer use, including energy provided by renewable resources such as the CORE and DER programmes, and the Bodden Town Solar 1, Ltd.'s Solar Farm.

Net fuel efficiency for Fiscal 2023 of 18.63 kWh per IG slightly decreased when compared to net fuel efficiency for Fiscal 2022 of 18.68 kWh per IG.

The fuel, lubricating oil and renewables costs are deferred for a period of two months. The deferrals are recorded in the Fuel Tracker Account *(see Note 7 of the Notes to the Annual Consolidated Financial Statements for further details)* and will be recovered from consumers.

## Customer Services

In accordance with its Allowance for Credit Losses policy, the Company maintains an accumulated provision for uncollectible customer accounts receivable that is estimated based on known accounts, historical experience and other currently available information, including the economic environment.

| Trade and Other Receivable | | |
|---|---|---|
| ($ thousands) | | |
| | As at December 31, 2023 | As at December 31, 2022 |
| Current | **25,625** | 19,473 |
| Past due 31-60 days | **1,237** | 1,026 |
| Past due 61-90 days | **125** | 480 |
| Past due over 90 days | **3,533** | 2,897 |
| **Total Trade and Other Receivable** | **30,520** | 23,876 |
| Less: Allowance for Credit Losses | **(2,817)** | (2,241) |
| Less: Consumer Deposits | **(13,889)** | (12,698) |
| **Net of Allowance of Credit Losses and Customer Deposits** | **13,814** | 8,937 |

Trade receivables, less allowances for credit losses, and consumer deposits as at December 31, 2023 were $13.8 million, an increase of $4.9 million when compared to $8.9 million as at December 31, 2022. This increase was related to an increase in current customer receivables partially offset by an increase in allowance for credit losses and consumer deposits. Customer deposits as at December 31, 2023 totalled $13.9 million, an increase of $1.2 million when compared to customer deposits of $12.7 million as at December 31, 2022. The increase in deposits was due to larger deposits in 2023 for new customer accounts.

## Other Income and Expenses

Other income and expenses were as follows:

| Other Income & Expenses | | | | |
|---|---|---|---|---|
| ($ thousands) | | | | |
| | Year Ended December 31, 2023 | Year Ended December 31, 2022 | Change | % Change |
| Total Interest Costs | **(18,443)** | (13,553) | (4,890) | 36% |
| Allowance for Funds Used During Construction ("AFUDC") | **11,988** | 8,778 | 3,210 | 37% |
| Total Finance Charges | **(6,455)** | (4,775) | (1,680) | 35% |
| | | | | |
| Foreign Exchange Gain | **2,253** | 1,877 | 376 | 20% |
| Other Income | **4,445** | 4,009 | 436 | 11% |
| **Total Net Other Income** | **243** | 1,111 | (868) | -78% |

Finance charges for Fiscal 2023 totalled $6.5 million, an increase of $1.7 million when compared to $4.8 million for Fiscal 2022.

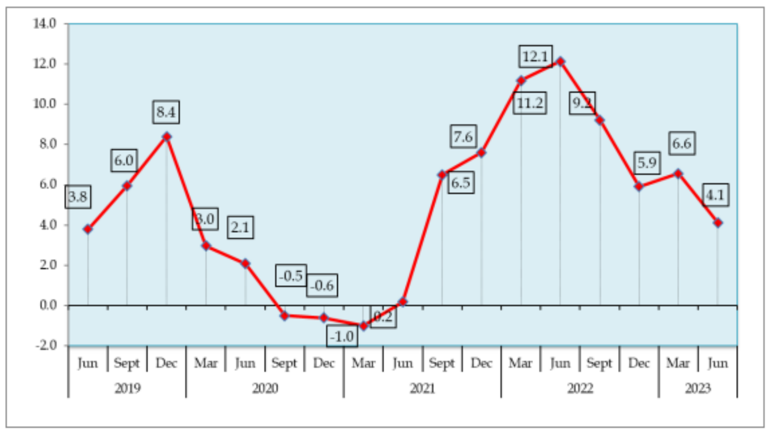
The T&D Licence allows for the capitalisation of the finance cost related to capital projects. AFUDC is calculated by multiplying the Company's cost of capital rate by the average work in progress for each month. The Company's cost of capital rate is reviewed annually. During 2023, the cost of capital was 7.50% (2022: 7.25%) as agreed with the OfReg in accordance with the T&D Licence. The AFUDC amount for Fiscal 2023 totalled $12.0 million, an increase of $3.2 million from $8.8 million for Fiscal 2022.

Foreign exchange gains and losses are the result of monetary assets and liabilities denominated in foreign currencies that are translated into United States dollars at the exchange rate prevailing on the date of the balance sheet. Revenue and expense items denominated in foreign currencies are translated into United States dollars at the exchange rate prevailing on the transaction date. Foreign exchange gains totalled $2.3 million for Fiscal 2023, a $0.4 million increase when compared to $1.9 million for Fiscal 2022. Foreign exchange gains increased due to higher foreign currency purchases.

Other income is comprised of income from the third-party customers of DataLink, income from pipeline operations, sale of meter sockets, sale of recyclable materials, performance rewards as part of the T&D Licence and other miscellaneous income. Other income totalled $4.4 million for Fiscal 2023, a $0.4 million increase from $4.0 million for Fiscal 2022. Revenues from DataLink recorded in other income for Fiscal 2023 amounted to $2.1 million, comparable to $2.1 million for Fiscal 2022.

## The Economy

In June 2023, credit rating agency Moody's has affirmed the Cayman Islands' Aaa country ceiling rating and stable economic outlook. Moody's has referenced the Cayman Islands' stable political environment, strong policy continuity, sound financial management and economic growth following the COVID-19 pandemic.




Cayman Islands % Change in CPI for Current Quarter over the same Quarter in the prior year, June 2019 – June 2023 Source: https://www.eso.ky/

In July 2023, the Cayman Islands Economics and Statistics Office published the Cayman Islands' Consumer Price Index ("CPI") Report for Second Quarter of 2023. The average CPI in the Second Quarter 2023 was 130.4, higher by 4.1% in comparison to Second Quarter 2022. This represents an increase in the overall index, driven mainly by higher prices of furnishing, household equipment and routine maintenance (10.7%), food and non-alcoholic beverages (7%) and housing and utilities (6%). When compared to the previous quarter ended March 2023, the Second Quarter 2023 CPI fell by 0.1% with the following divisions recording declines in their indices: Food and non-alcoholic beverages (1%), Restaurant and hotels (1%) and Housing and utilities (0.9%).

Financial services is one of the two main industries of the Cayman Islands. The table below itemises trends in some of the key financial sectors:

| Indicators for the Financial Services Industry | | | | | |
|---|---|---|---|---|---|
| *(for the years ended December 31)* | | | | | |
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Bank Licences | **87** | 94 | 101 | 110 | 125 |
| Mutual Funds* | **13,008** | 12,995 | 12,719 | 11,312 | 10,857 |
| Mutual Fund Administrators | **74** | 74 | 75 | 76 | 81 |
| Registered Companies* | **119,626** | 119,128 | 99,327 | 111,568 | 109,556 |
| Captive Insurance Companies | **708** | 686 | 686 | 679 | 672 |

**Data until September 30, 2023*

The tourism sector is the second main pillar of the Cayman Islands economy. In 2023, the Cayman Islands showed steady growth towards full tourism recovery. Stayover and cruise arrivals to the Cayman Islands maintained an upward momentum with the destination seeing a 105% increase in total visitation compared to the same period in 2022.

The following table presents statistics for tourist arrivals in the Cayman Islands for the year ending December 31:

Tourist Arrivals to the Cayman Islands

*(for the years ended December 31)*

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| By Air | **429,284** | 180,624 | 2,212 | 121,819 | 502,739 |
| By Sea | **1,270,981** | 426,293 | - | 538,140 | 1,831,011 |
| Total | **1,700,265** | 606,917 | 2,212 | 659,959 | 2,333,750 |

*All data is sourced from the Cayman Islands Government, Cayman Islands Economics & Statistics Office, Cayman Islands Monetary Authority and Cayman Islands Department of Tourism (www.gov.ky, www.eso.ky, www.cimoney.com.ky, www.caymanislands.ky).*

## Liquidity and Capital Resources

The primary sources of liquidity and capital resources are net funds generated from operations, debt markets, equity issuance, and bank credit facilities. These sources are used primarily to satisfy capital and intangible asset expenditures, service and repay debt, and pay dividends.

The following table outlines the summary of cash flow for Fiscal 2023 compared to Fiscal 2022:

Cash Flows

($ thousands)

| | Year Ended December 31, 2023 | Year Ended December 31, 2022 | Change | % Change |
|---|---|---|---|---|
| Beginning Cash | **7,948** | 7,360 | 588 | 8% |
| Cash Provided By/(Used In): | | | | |
| Operating Activities | **80,781** | 56,188 | 24,593 | 44% |
| Investing Activities | **(101,215)** | (97,191) | (4,024) | 4% |
| Financing Activities | **16,473** | 41,591 | (25,118) | -60% |
| **Ending Cash** | **3,987** | 7,948 | (3,961) | -50% |

Operating Activities:

Cash flow provided by operations, after working capital adjustments, for Fiscal 2023, was $80.8 million, an increase of $24.6 million from $56.2 million for Fiscal 2022. This increase was due to the movement in regulatory deferrals which include recoveries of deferred fuel and deferred revenue and movement in accounts receivable and inventories, partially offset by movement in accounts payable.

*Investing Activities:*

Cash used in investing activities for Fiscal 2023 totalled $101.2 million, an increase of $4.0 million from $97.2 million for Fiscal 2022. This increase was primarily due to higher capital expenditures during Fiscal 2023. Significant projects include generation, transmission, and distribution upgrades and the Battery Energy Storage System.

*Financing Activities:*

Cash provided by financing activities totalled $16.5 million for Fiscal 2023, a decrease of $25.1 million when compared to $41.6 million of cash provided by financing activities for Fiscal 2022. This net decrease was mainly due to reduction in debt financing and increase in loan repayments and dividend payments during 2023.

*Cash Flow Requirements:*

The Company expects that operating expenses and interest costs will generally be paid from the Company's operating cash flows, with residual cash flows available for capital expenditures and dividend payments. Borrowings under credit facilities may be required from time to time to support seasonal working capital requirements. Cash flows required to complete planned capital expenditures are expected to be financed through a combination of proceeds from operating cash, debt and equity transactions. The Company expects to be able to source the cash required to fund its 2024 capital expenditure programme (see the "Business Risks" section of this MD&A for details regarding the Company's liquidity risk).

## Credit Facilities

The Company currently has $82.5 million of unsecured credit financing facilities with Scotiabank & Trust (Cayman) Limited ("Scotia") and Royal Bank of Canada ("RBC"). The financing facilities are comprised of:

| Short-Term Financing | ($ thousands) |
|---|---|
| **Provided by Scotia:** | |
| MasterCard Agreement | 500 |
| Operating, Revolving Line of Credit | 10,000 |
| Letter of Credit | 13,000 |
| Standby Loan | 7,500 |
| Demand Loan Facility - Interim Funding of Capital Expenditures | 51,000 |
| **Total** | **82,000** |
| **Provided by RBC:** | |
| Corporate Credit Card Line | 500 |
| **Total** | **82,500** |

As at December 31, 2023, $22.4 million was available under the Company's credit facilities (2022: $82.0 million).

## Contractual Obligations

As at December 31, 2023, the contractual obligations of the Company over the next five years and periods thereafter are outlined in the following table:

| Contractual Obligations<br>($ thousands) | Total | < 1 year | 1 to 3 years | 4 to 5 years | > 5 years |
|---|---|---|---|---|---|
| Total Debt | 390,545 | 70,935 | 39,870 | 35,583 | 244,157 |
| Long-Term Debt Interest | 189,653 | 15,034 | 27,706 | 24,741 | 122,172 |
| **Total** | **580,198** | **85,969** | **67,576** | **60,324** | **366,329** |

*Power Purchase Agreement ("PPA")*

In 2015, the Company entered into a PPA with Bodden Town Solar 1, Ltd., which will provide a minimum generated energy of 8.8 gigawatt hours ("GWh") per year for a 25-year term. The PPA qualifies for the Normal Purchase Normal Sale exemption under Accounting Standards Codification ("ASC") 815 and does not qualify as a derivative.

*Fuel Purchase Obligation*

The Company has a primary fuel supply contract with RUBiS Cayman Islands Limited ("RUBiS"). Under the agreement, the Company is committed to purchase approximately 60% of its diesel fuel requirements for its generating plant from

RUBiS. The Company also has a secondary fuel supply contract with Sol Petroleum Cayman Limited ("Sol") and is committed to purchase approximately 40% of the Company's fuel requirements for its generating plant from Sol. In June 2018, the Company executed new fuel supply contracts with RUBis and Sol, each with a term of 24 months, with the option to renew for two additional terms of 18 months. The option to renew for an additional 18 months was exercised in June 2020 and again in December 2021, ending May 2023. Negotiations are underway to finalize new fuel supply contracts with Sol and RUBis and both suppliers are currently operating on bridging agreement based on the existing fuel supply contracts. The approval of the new fuel supply contracts is expected by March 31, 2024. Both contracts qualify for the Normal Purchase Normal Sale exemption under ASC 815 and do not qualify as derivatives.

## Financial Position

The following table is a summary of significant changes to the Company's balance sheet, when comparing Fiscal 2023 to Fiscal 2022.

**Significant Changes in Balance Sheet**

*(for the year ended December 31, 2023)*

| Balance Sheet Account | Increase/ (Decrease) *($ thousands)* | Explanation |
|---|---|---|
| Cash and Cash Equivalents | (3,961) | Net decrease due to cash provided by operating activities of $80.8 million and financing activities of $16.5 million offset by cash used in investing activities of $101.2 million. |
| Accounts Receivable | 6,068 | Increase due to higher kWh electricity sales. |
| Regulatory Assets | (7,348) | Decrease due to lower fuel and renewable costs which are passed through to customers without mark-up and the recovery of 2022 deferred revenues and deferred fuel. |
| Inventories | (2,261) | Decrease due to decrease in average fuel cost at yearend. |
| Property, Plant and Equipment | 58,203 | Increase due to capital expenditures for the period, partially offset by increase in accumulated depreciation. |
| Accounts Payable and Accrued Expenses | (5,127) | Decrease attributable to decreases in fuel costs payable offset by higher capital expenditure accruals and accrued interest. |
| Bank Overdraft | 8,637 | Increase due to utilization of the overdraft facility to support short term cash needs. |
| Short-Term Debt | 51,000 | Drawdown on short-term facility to meet capital expenditure obligations during Fiscal 2023. |
| Long-Term Debt | (19,820) | Decrease due to principal payments made on the Company's Senior Unsecured Notes in Fiscal 2023. |
| Share Premium | 4,276 | Increase due to the issuance of 343,472 Class A Ordinary Shares through its share purchase plans. |
| Retained Earnings | 10,678 | Increase due to net earnings for the year of $38.7 million, offset by dividend payments on the Class A Ordinary Shares of $27.0 million and Class B Preference Shares of $1.0 million. |

## Capital Resources

To ensure access to capital, the Company targets a long-term capital structure of approximately 45% equity, including preference shares, and 55% debt. The Company's objective is to maintain investment-grade credit ratings. The Company sets the amount of capital in proportion to risk. The debt to equity ratio is managed through various methods such as the Offering and the Company's share purchase plans.

Certain of the Company's long-term debt obligations have covenants restricting the issuance of additional debt such that consolidated debt cannot exceed 65% of the Company's consolidated capital structure, as defined by short-term and long-term debt agreements. As at December 31, 2023, the Company was in compliance with all debt covenants.

The Company's capital structure is presented in the following table:

| Capital Structure | December 31, 2023 ($ thousands) | % | December 31, 2022 ($ thousands) | % |
|---|---|---|---|---|
| Total Debt | **389,145** | **55** | 357,511 | 54 |
| Shareholder's Equity | **324,742** | **45** | 308,234 | 46 |
| **Total** | **713,887** | **100** | 665,745 | 100 |

The change in the Company's capital structure between December 31, 2023 and December 31, 2022 was a net effect of short-term debt acquired during the year and principal payments of $19.8 million made on the Company's Senior Unsecured Notes.

The Company's credit ratings under Standard & Poor's ("S&P") and the DBRS Morningstar ("DBRS") are as follows:

DBRS A (low)/ Stable
S&P BBB+/ Negative

The S&P rating is in relation to long-term corporate credit and senior unsecured debt while the DBRS rating relates to senior unsecured debt.

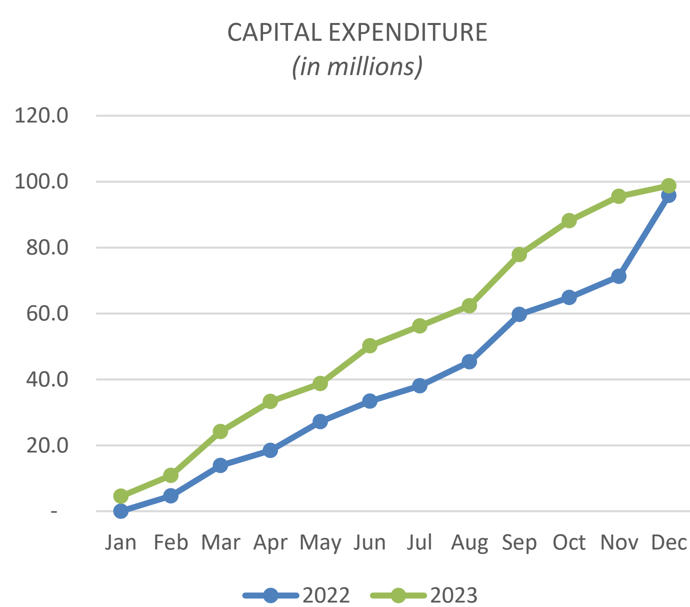
In February 2024, DBRS Morningstar affirmed the Company's "A" credit rating while maintaining the categorization of low with a Stable trend. The current ratings reflect (1) CUC's key credit metrics for 2022 and the first nine months of 2023 are strong within the current rating category; (2) cash flow stability that continues to benefit from CUC having no exposure to fuel price risk and only reasonable regulatory lag associated with the recovery of non-fuel and non-regulatory costs as well as capital spending; and (3) the Company's liquidity that remains solid, reflecting sizable credit facilities, and minimal long-term debt due in the near term.

In May 2023, S&P affirmed its stable rating outlook of the Company with the expectation that CUC will continue to generate stable and predictable stand-alone cash flows that are consistently above the downgrade threshold while focusing on its core regulated utility business. In November 2023, following the review of Fortis Inc., S&P revised its outlook from stable rating to negative due to rising physical risks. S&P has assessed the elevated exposure to physical events, including wildfires, storms, hurricanes and flooding as an effect of climate change.

## Capital Expenditures

Capital expenditures net of contribution in aid of construction for Fiscal 2023 were $97.6 million, a $1.8 million or 2% increase from $95.8 million in capital expenditures for Fiscal 2022. The capital expenditures for Fiscal 2023 primarily related to:

- Distribution System Extension and Upgrades - $29.0 million.
- Generation Replacement - $17.7 million.
- Engine Room 5 Dual Fuel Conversion - $12.6 million
- Battery Energy Storage System - $11.3 million.
- Alternate Energy Technologies – $5.8 million.
- AFUDC of $12.0 million was capitalised in Fiscal 2023 compared to $8.8 million in Fiscal 2022.



| Capital Expenditures | | | | | |
|---|---|---|---|---|---|
| ($ thousands) | | | | | |
| | Year Ended December 31, 2023 | Year Ended December 31, 2022 | Change | % Change | Forecast 2024 |
| Transmission | **5,233** | 6,661 | (1,428) | -21% | 9,213 |
| Distribution | **29,748** | 28,542 | 1,206 | 4% | 36,216 |
| Generation | **60,709** | 57,838 | 2,871 | 5% | 63,350 |
| Other | **1,902** | 2,720 | (818) | -30% | 13,236 |
| Total | **97,592** | 95,761 | 1,831 | 2% | 122,015 |

## Off Balance-Sheet Arrangements

The Company has no 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.

## Business Risks

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

*Operational Risks*

Operational risks are those risks normally inherent in the operation of generation, transmission and distribution facilities. The Company's facilities are subject to the risk of equipment failure due to deterioration of the asset from use or age, latent defects and design or operator error, among other things. These risks could lead to longer-than-forecasted equipment downtimes for maintenance and repair, disruptions of power generation, customer service interruptions, or could result in injury to employees and the public. Accordingly, to ensure the continued performance of the physical assets, the Company determines expenditures that must be made to maintain and replace the assets. Electricity systems require ongoing maintenance, improvement and replacement. Service disruption, other effects and liability caused by the failure to properly implement or complete approved maintenance and capital expenditures, or the occurrence of significant unforeseen equipment failures, despite maintenance programmes could have a material adverse effect.

The operation of transmission and distribution assets is subject to risks, including the potential to cause fires, mainly as a result of equipment failure, falling trees and lightning strikes to lines or equipment.

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

*Economic Conditions*

As with most utility companies, the general economic condition of CUC's service area, Grand Cayman, influences electricity sales. Changes in consumer demographic, 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. World economic conditions, particularly those in North America, directly impact Grand Cayman's tourism industry. Rising inflationary pressures and fuel cost also impacts the customer behavior, particularly the consumption for residential customers.

*Regulation*

The Company operates within a regulated environment and the operations of the Company are subject to the normal uncertainties faced by regulated companies. Such uncertainties include approval by the OfReg of adjustments to billing rates that allow a reasonable opportunity to recover, on a timely basis, the estimated costs of providing services, including a fair return on rate base assets and the assessment of penalties against the Company for not meeting regulatory performance standards. The Company's capital expenditure plan requires regulatory approval. There is no assurance that capital projects determined as being required by management of the Company will be approved by the OfReg. In addition, while in the event of a large uninsurable loss the Company would apply to the OfReg for recovery of these costs through higher rates, there is no assurance that the OfReg would approve such application.

*Environmental Matters*

CUC's operations are subject to local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters, noise, land use activities, and the handling, storage, processing, use, and disposal of materials and waste products.

CUC's Environmental Management System ("EMS") is registered to the ISO 14001 Environmental Standard. The Company was initially registered in 2004, pursuant to an audit by a third party of the EMS to ensure that the Company was meeting requirements put in place by the Government as well as self-imposed requirements. Under the ISO 14001 standard companies are required to establish, document, implement, maintain and continually improve their environmental performance with an aim of prevention of pollution. In order to maintain the Company's registration to this Standard an external surveillance audit is conducted annually, and an external audit is conducted every three years for re-certification. Internal audits of the system must also be conducted on an annual basis. CUC has most recently conducted, and successfully passed its re-certification audit in 2023.

In May 2002, the United Kingdom ("UK") ratified the Kyoto Protocol, which sets targets and timetables for the reduction of greenhouse gas ("GHG") emissions, which was later extended to the Cayman Islands in March 2007. Under the Kyoto Protocol, the UK is legally bound to reduce its GHG emissions, however, Cayman has no emissions reduction target. As an overseas territory, the Cayman Islands are required to give available national statistics on an annual basis to the UK which will be added to its inventory and reported to the United Nations Framework Convention on Climate Change ("UNFCCC") Secretariat. Under the UNFCCC, governments are obligated to gather and report information on GHG emissions through the preparation of a national greenhouse gas inventory. The inventory primarily requires the Cayman Islands to quantify as best as possible the country's fuel consumption across a variety of sectors, production processes and distribution means. CUC continues to supply the Department of Environment with data for Cayman's GHG inventory.

In July 2023, the Cayman Islands' Ministry of Sustainability & Climate Resiliency and the Energy Policy Council led a five-year review of the National Energy Policy ("NEP") and Implementation Plan. Approved in 2017, the initial NEP covered the period 2017 – 2037 and will be reviewed every five years, not only to monitor and report on progress, but also to reset the targets and implementation plans in recognition of opportunities that will arise from the constantly changing technological environment. The NEP seeks to establish a framework with which all stakeholders can identify, which sets the stage for the achievement of the territory's energy goals and considers the imperative need to reduce greenhouse gas emissions, thereby lowering the carbon footprint of the Cayman Islands. The revised NEP covers the period from 2023 to 2040 and focuses on renewable energy, energy conservation methods and the promotion of energy efficiency. The revised NEP is currently being reviewed by Cabinet.

Through the EMS, CUC has determined that its exposure to environmental risks is not significant and does not have an impact on CUC's financial reporting including the recording of any asset retirement obligations.

*Weather and Natural Disasters*

CUC's facilities are subject to the effects of severe weather conditions, principally during the hurricane season months of June through November. In addition, the Cayman Islands lie close to the boundary zone of the Caribbean and North American tectonic plates. This transform boundary, where the plates slide past each other, is known to generate earthquakes from time to time. Despite preparations for disasters such as hurricanes and earthquakes, adverse conditions will always remain a risk. This risk is partially mitigated by the Company's comprehensive insurance, which management of the Company believes is appropriate and consistent with insurance policies obtained by similar companies.

During severe weather or other natural disasters, generation equipment, facilities and T&D assets are subject to risks. These risks include equipment breakdown and flood damage, which may result in interruption of fuel supply, lower-than-expected operational efficiency or performance, and service disruption. There is no assurance that generation equipment, facilities and T&D assets will continuously operate in accordance with expectations in these situations.

*Climate Change and Physical Risks*

Climate change is predicted to lead to more frequent and intense weather events, changing air temperatures, and regulatory responses, each of which could have a material adverse effect. Increased frequency of extreme weather events could increase the cost of providing service. Extreme weather conditions in general require system backup and can contribute to increased system stress, including service interruptions. Longer-term climate change impacts, such as sustained higher temperatures, higher sea levels and larger storm surges, could result in service disruption, repair and replacement costs, and costs associated with strengthened design standards and systems, each of which could have a material adverse effect if not resolved in a timely and effective manner.

*Global Pandemic*

The development and rapid evolution of the COVID-19 pandemic in 2020 has illustrated the risk to global economies, including that of the Cayman Islands, with the closure of businesses, schools, hotels, restaurants, seaports and airports. Steps warranted to protect the health and safety of employees, customers and communities, including actions based on guidance from the Cayman Islands Government and the relevant health authorities inevitably influence the economic conditions in the service area of the Company and impact electricity sales. The evolution of a pandemic increases uncertainty with regard to operational and financial performance of the Company that may result in material adverse effects and affect the Company's ability to execute business strategies and initiatives within expected time frames. Potential key impact areas could include revenue, capital expenditures, liquidity, and regulatory matters.

*Insurance - Terms and Coverage*

The Company renewed its insurance policy as at July 1, 2023 for one year under similar terms and coverage as in prior years. Insurance terms and coverage include $250.0 million in property and machinery breakdown insurance and business interruption insurance with a 24-month indemnity period and a waiting period on non-named Wind and other perils of 60-days. Any Named Wind, Quake and Flood occurrence has a 45-day waiting period. All T&D assets outside of 1,000 feet from the boundaries of the main power plant and substations are excluded, as the cost of such coverage is not considered economical. There is a single event cap of $100 million for Named Wind, Quake or Flood and $250 million otherwise. Each "loss occurrence" is subject to a deductible of $1.0 million, except for Named Wind (including hurricane) and Quake for which the deductible is 2% of the value of each location that suffers loss, but subject to a minimum deductible of $1.0 million and maximum deductible of $4.0 million for all interests combined.

In accordance with the T&D Licence, when an asset is impaired or disposed of within its original estimated useful life, the cost of the asset is reduced and the net book value is charged to accumulated depreciation. This treatment is in accordance with rate regulated accounting and differs from the accounting principles generally accepted in the United States of America ("US GAAP") treatment of a loss being recognised on the statement of earnings. The amount charged to accumulated depreciation is net of any proceeds received in conjunction with the disposal of the asset. Insurance proceeds are included within the criteria.

*Defined Benefit Pension Plan*

The Company maintains a defined benefit pension plan, which provides a specified monthly benefit on retirement irrespective of individual investment returns. There are currently two participants in the pension plan. The assumed long-term rate of return on pension plan assets for the purposes of estimating pension expense for 2023 is 5.9%. This compares to assumed long-term rates of return of 5% used during 2022. There is no assurance that the pension plan assets will be able to earn the assumed rate of returns. The gain on pension plan assets during 2023 was 43% due to the investment performance (2022: loss of 32%).

Market driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the assumed return on the assets causing material changes in consolidated pension expense and funding requirements. Net pension expense is impacted by, among other things, the amortisation of experience and actuarial gains or losses and expected return on plan assets. Market driven changes impacting other pension assumptions, including the assumed discount rate, may also result in future consolidated contributions to pension plans that differ significantly from current estimates as well as causing material changes in consolidated pension expense. The discount rate assumed for 2023 is 5.2% compared to the discount rate assumed during 2022 of 2.8%.

There is also measurement uncertainty associated with pension expense, future funding requirements, the accrued benefit asset, accrued benefit liability and benefit obligation due to measurement uncertainty inherent in the actuarial valuation process.

A discussion of the critical accounting estimates associated with pensions is provided under the "Critical Accounting Estimates" section of this MD&A.

*Cybersecurity and Information and Operations Technology*

The ability of the Company to operate effectively is dependent upon using and maintaining complex information systems and infrastructure that: (i) support the operation of generation, transmission and distribution facilities; (ii) provide customers with billing, consumption and load settlement information, where applicable; and (iii) support financial and general operations.

Information and operations technology systems may be vulnerable to unauthorized access or disruption due to cyber- and other attacks, including hacking, malware, acts of war or terrorism, and acts of vandalism, among others. CUC has a Cyber Risk Management Programme which was initiated in 2019. The programme mandates minimum cybersecurity requirements, annual risk assessments of information and operational technology assets with findings being tracked and remediated based on risk rating. Annual business continuity and vulnerability/penetration testing are also required. The programme adheres to the National Institute of Standards and Technology and ISO 27001 standards.

## Financial Instruments

The Company is primarily exposed to credit risk, liquidity risk, and interest rate risk as a result of holding financial instruments in the normal course of business. Financial instruments of the Company consist mainly of cash, accounts receivable, accounts payable, accrued expenses, consumers' deposits and advances for construction and long-term debt.

*Credit Risk*

The Company is exposed to credit risk in the event of non-payment by counterparties to derivative financial instruments, which include fuel option contracts. If a counterparty fails to perform on its contractual obligation to deliver payment when the market price of fuel is greater than the strike price, the Company may find it necessary to purchase diesel at the market price, which will be higher than the contract price. The Company manages this credit risk associated with counterparties by conducting business with high credit-quality institutions. The Company does not expect any counterparties to fail to meet their obligations.

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

*Liquidity Risk*

The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by ratings agencies and general economic conditions. These factors are mitigated by the terms of the Licences, which allows for rates to be set to enable the Company to achieve and maintain a sound credit rating in the financial markets of the world. The Company has also secured committed credit facilities to support short-term financing of capital expenditures and seasonal working capital requirements. The cost of renewed and extended credit facilities could increase in the future; however, any increase in interest expense and fees is not expected to materially impact the Company's consolidated financial results in 2023.

The ongoing economic impact from rising fuel cost and global inflationary environment may affect CUC's customers' ability to pay their energy bills.

*Interest Rate Risk*

Long-term debt is issued at fixed interest rates, thereby minimizing cash flow and interest rate exposure. The Company is primarily exposed to risks associated with fluctuating interest rates on its short-term borrowings and other variable interest credit facilities. The current amount of short-term borrowings is $51.0 million (December 31, 2022: $nil).

## Accounting Policies

The 2023 Annual Consolidated Financial Statements have been prepared following the same accounting policies and methods as those used to prepare the Company's 2022 annual audited consolidated financial statements.

## Future Accounting Policies

The Company considers the applicability and impact of all Accounting Standards Updates issued by the Financial Accounting Standards Board ("FASB"). ASUs were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on CUC's consolidated financial statements and related disclosures.

## Critical Accounting Estimates

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

*Employee Future Benefits*

The Company's defined benefit pension plan is subject to judgments utilised in the actuarial determination of the expense and related obligation. There are currently two participants in the Company's defined benefit pension plan. The main assumptions utilised by management of the Company in determining pension expense and obligations were the discount rate for the accrued benefit obligation, inflation and the expected rate of return on plan assets. As at December 31, 2023, the Company has a long-term liability of $0.5 million (December 31, 2022: $1.8 million).

*Property, Plant and Equipment ("PP&E") Depreciation*

Depreciation is an estimate based primarily on the estimated useful life of the asset. Estimated useful life is based on current facts and historical information and takes into consideration the anticipated physical life of the assets. As at December 31, 2023, the net book value of the PP&E was $695.2 million, compared to $637.0 million as at December 31, 2022, increasing as a result of the Company's generation and T&D capital expenditures. Depreciation expense for Fiscal 2023 was $41.1 million compared to $38.0 million for Fiscal 2022. Due to the value of the Company's PP&E, changes in depreciation rates can have a significant impact on the Company's depreciation expense.

## Selected Annual Financial Information

The following table sets out the annual financial information of the Company for the financial years ended December 31, 2023, 2022 and 2021.

**Selected Annual Financial Information**

($ thousands, except Earnings per Class A Ordinary Share, Dividends declared per Class A Ordinary Share and where otherwise indicated)

| | Year Ended December 31, 2023 | Year Ended December 31, 2022 | Year Ended December 31, 2021 |
|---|---|---|---|
| Total Operating Revenues | **287,225** | 267,336 | 198,478 |
| Net Earnings for the Year | **38,660** | 33,179 | 30,319 |
| Earnings on Class A Ordinary Shares | **37,690** | 32,209 | 29,349 |
| Total Assets | **777,807** | 726,539 | 634,150 |
| Short Term Debt and Current Portion of Long Term Debt | **70,935** | 19,481 | 15,558 |
| Long Term Debt | **318,210** | 338,030 | 277,733 |
| Preference Shares | **250** | 250 | 250 |
| Total Shareholders' Equity | **324,742** | 308,234 | 297,878 |
| Earnings per Class A Ordinary Share | **1.00** | 0.86 | 0.79 |
| Diluted Earnings per Class A Ordinary Share | **1.00** | 0.86 | 0.79 |
| Dividends Declared per Class A Ordinary Share | **0.715** | 0.700 | 0.700 |
| Dividends Declared per Class B Preference Share | **3.94** | 3.88 | 3.88 |

***Comparative results 2023/2022***

Operating revenues for Fiscal 2023 totalled $287.2 million, an increase of $19.9 million from $267.3 million for Fiscal 2022.

Net earnings for Fiscal 2023 were $38.7 million, a $5.5 million increase from net earnings of $33.2 million for Fiscal 2022. This increase is primarily attributable to higher operating income and higher other income. For a discussion of the reasons for the changes in Operating Revenues, Earnings on Class A Ordinary Shares and Earnings per Class A Ordinary Share, refer to the "Operating Revenues" and "Earnings" sections of this MD&A.

The growth in total assets was mainly due to the transmission & distribution system extension and upgrades and generation replacement and upgrades.

## 2023 Fourth Quarter Results

Net earnings for the three months ended December 31, 2023 ("Fourth Quarter 2023") were $9.5 million, a $0.5 million increase when compared to $9.0 million for the three months ended December 31, 2022 ("Fourth Quarter 2022"). This increase was due to higher electricity sales revenues of $28.8 million (Fourth Quarter 2022: $26.0 million), lower maintenance costs of $0.8 million (Fourth Quarter 2022: $1.4 million) and lower consumer services costs of $1.2 million (Fourth Quarter 2022: $1.6 million), offset by higher transmission and distribution cost of $1.8 million (Fourth Quarter 2022: $1.0 million), and higher general and administration expenses of $3.4 million (Fourth Quarter 2022: $2.7 million).

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2023 were $8.9 million, or $0.23 per Class A Ordinary Share, as compared to $8.3 million, or $0.22 per Class A Ordinary Share for the Fourth Quarter 2022.

Sales for the Fourth Quarter 2023 were 179.7 million kWh, an increase of 10.2 million kWh when compared to 169.5 million kWh for the Fourth Quarter 2022. The increase was driven by an increase in the large commercial and residential customers' kWh consumption in Fourth Quarter 2023.

Total operating expenses for the Fourth Quarter 2023 decreased by 7% or $4.7 million to $65.3 million from $70.0 million for the Fourth Quarter 2022. The main contributing factors to this decrease were due to lower maintenance and consumer services costs offset by higher depreciation and transmission and distribution costs.

Cash flow provided by operations, after working capital adjustments, for the Fourth Quarter 2023, was $15.1 million, an increase of $9.9 million when compared to $5.2 million for the Fourth Quarter 2022. This increase was primarily due to changes in non-cash working capital balances particularly the recovery of deferred fuel and deferred revenue. Cash used in investing activities totalled $22.1 million for the Fourth Quarter 2023, a decrease of $9.3 million from $31.4 million for the Fourth Quarter 2022. This decrease was due to lower capital expenditures. Cash provided by financing activities totalled $4.5 million for the Fourth Quarter 2023, a decrease of $20.9 million from $25.4 million provided by financing activities for the Fourth Quarter 2022. This net decrease was mainly due to reduction in debt financing and increase in loan repayments and dividend payments during 2023.

Capital expenditures for the Fourth Quarter 2023 were $23.9 million, a $6.1 million, or 20%, decrease from $30.0 million for the Fourth Quarter 2022.

## Quarterly Results

The following table summarises unaudited quarterly information for each of the eight quarters ended March 31, 2022 through December 31, 2023. This information has been obtained from CUC's unaudited interim financial statements, which management of the Company prepared in accordance with US 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**

*($ thousands, except Earnings per Class A Ordinary Share and Diluted Earnings per Class A Ordinary Share)*

| | Operating Revenue | Net Earnings | Earnings on Class A Ordinary Shares | Earnings per Class A Ordinary Share | Diluted Earnings per Class A Ordinary Share |
|---|---|---|---|---|---|
| December 31, 2023 | **74,702** | **9,523** | **8,890** | **0.24** | **0.24** |
| September 30, 2023 | **73,574** | **13,936** | **13,824** | **0.36** | **0.36** |
| June 30, 2023 | **67,868** | **9,988** | **9,876** | **0.26** | **0.26** |
| March 31, 2023 | **71,081** | **5,213** | **5,100** | **0.14** | **0.14** |
| December 31, 2022 | 78,491 | 8,961 | 8,329 | 0.22 | 0.22 |
| September 30, 2022 | 79,031 | 10,420 | 10,308 | 0.28 | 0.28 |
| June 30, 2022 | 58,167 | 8,310 | 8,197 | 0.22 | 0.22 |
| March 31, 2022 | 51,648 | 5,485 | 5,372 | 0.14 | 0.14 |

*December 2023/December 2022*

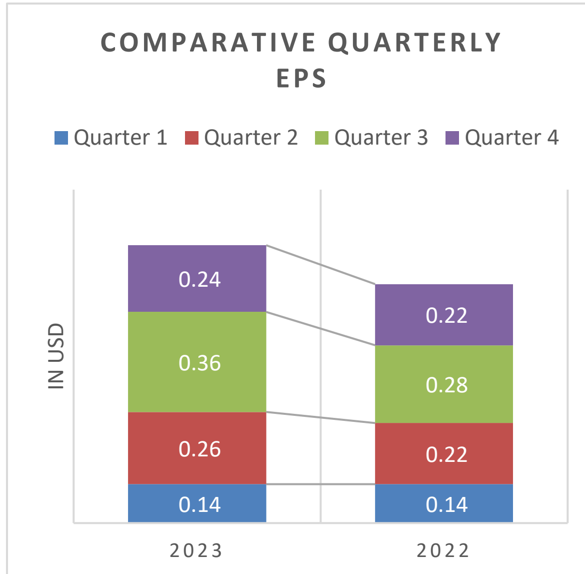
Net earnings for the three months ended December 31, 2023 ("Fourth Quarter 2023") were $9.5 million, a $0.5 million increase when compared to $9.0 million for the three months ended December 31, 2022 ("Fourth Quarter 2022"). This increase was due to higher electricity sales revenues of $28.8 million (Fourth Quarter 2022: $26.0 million), lower maintenance costs of $0.8 million (Fourth Quarter 2022: $1.4 million) and lower consumer services costs of $1.2 million

(Fourth Quarter 2022: $1.6 million), offset by higher transmission and distribution cost of $1.8 million (Fourth Quarter 2022: $1.0 million), higher depreciation of $10.6 million (Fourth Quarter 2022: $9.4 million) and higher general and administration expenses of $3.4 million (Fourth Quarter 2022: $2.7 million).

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for the Fourth Quarter 2023 were $8.9 million, or $0.24 per Class A Ordinary Share, as compared to $8.3 million, or $0.22 per Class A Ordinary Share for the Fourth Quarter 2022.

*September 2023/September 2022*

Operating income for the Third Quarter 2023 totalled $13.9 million, an increase of $3.7 million compared to operating income of $10.2 million for the Third Quarter of 2022. This increase was primarily attributable to the 10% increase in kWh sales and the 5.4% and 3.7% base rate increases effective June 1, 2022 and June 1, 2023, respectively, partially offset by higher general and administration and transmission and distribution expenses.




Net earnings for Q3 2023 were $13.9 million, a $3.5 million or 34% increase from net earnings of $10.4 million for Q3 2022. This increase was primarily attributable to higher operating income partially offset by higher finance charges.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Q3 2023 were $13.8 million, or $0.36 per Class A Ordinary Share, as compared to $10.3 million, or $0.28 per Class A Ordinary Share for Q3 2022.

*June 2023/June 2022*

Operating income for the Second Quarter 2023 totalled $9.9 million, an increase of $1.8 million compared to operating income of $8.1 million for the Second Quarter of 2022. This increase was primarily attributable to the 8% increase in kWh sales and the 5.4% and 3.7% base rate increase effective June 1, 2022 and June 1, 2023, respectively, partially offset by higher depreciation and general and administration cost.

Net earnings for Q2 2023 were $10.0 million, a $1.7 million or 20% increase from net earnings of $8.3 million for Q2 2022. This increase was primarily attributable to higher operating income partially offset by higher finance charges.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Q2 2023 were $9.9 million, or $0.26 per Class A Ordinary Share, as compared to $8.2 million, or $0.22 per Class A Ordinary Share, for Q2 2022.

*March 2023/March 2022*

Operating income for the First Quarter 2023 totalled $5.3 million, an increase of $0.1 million compared to operating income of $5.2 million for the First Quarter of 2022. This increase was primarily attributable to the 6% increase in kWh sales and a 5.4% base rate increase effective June 1, 2022 offset by higher depreciation and general and administration cost.

Net earnings for Q1 2023 were $5.2 million, a $0.3 million decrease from net earnings of $5.5 million for Q1 2022. This decrease was primarily attributable to higher finance charges partially offset by higher other income.

After the adjustment for dividends on the preference shares of the Company, earnings on Class A Ordinary Shares for Q1 2023 were $5.1 million, or $0.14 per Class A Ordinary Share, as compared to $5.4 million, or $0.14 per Class A Ordinary Share, for Q1 2022.

### Disclosure Controls and Procedures

The President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), together with management of the Company, have established and maintained the Company's /disclosure controls and procedures ("DC&P"), to provide reasonable assurance that material information relating to the Company is made known to them by others, including during the year ending December 31, 2023; and information required to be disclosed by the issuer in its annual filings, interim filings, or other reports filed or submitted by it under securities legislation is recorded, processed, summarised and reported within the time periods specified in securities legislation. Based on the evaluation performed of DC&P, it was concluded that the DC&P of CUC is adequately designed and operating effectively as of December 31, 2023.

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

The CEO and CFO of the Company, together with management of the Company, have established and maintained the Company's ICFR, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The design of CUC's internal controls over financial reporting has been established and evaluated using the criteria set forth in the 2013 Internal Control-Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, it was concluded that CUC's internal controls over financial reporting are adequately designed and operating effectively as of December 31, 2023.

There have been no changes in the Company's ICFR that occurred during the year ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Outlook

With the strong economic growth in the Cayman Islands, combined with record high average temperatures, the Company is expecting growth in the demand of electricity in 2024 and beyond. The T&D licence mandates the Company to maintain adequate reserves margins of power and requires the Company to identify additional capacity needs three years in advance. While the Company continues its efforts on integrating additional utility-scale renewable energy, small-scale temporary generation will be utilised to reliably meet base load and accommodate the expected demand growth. CUC is committed to dispatching generating capacity prudently in accordance with the licence's least-cost principle.

During 2023, the Company contracted to lease an additional 5MW of Temporary Generation ("Block Two") to meet the increasing energy demand. The lease period is for a minimum of 12 calendar months with option to renew commencing on the day the equipment was received by the Company in September 2023. In January 23, 2024, OfReg granted the Company approval for all rental fees and costs associated with Block Two to be treated as a Regulatory Asset until the end of the lease term. At the end of the rental period, this will be recovered from the customer through an approved Z factor rate. The period of recovery is pending discussion and approval from OfReg.

With the increasing physical risk and continuing impact of climate change, CUC has since established a more progressive approach to system hardening and resiliency of existing and proposed electrical utility infrastructure in Grand Cayman. As a result, standards have been set that will, on average, ensure that the infrastructure will have the capacity for weathering sustained winds of 108mph, with a safety factor allowance increasing potential resiliency to a Category 3 hurricane on the Saffir-Simpson scale. For transmission infrastructure, some additional measures have been utilized such as limited undergrounding, concrete poles, and indoor Gas Insulated Switchgear ("GIS") substations. During 2023, the undergrounding of the main 69kV transmission circuit between Butterfield Round-a-bout and Jacques Scott's Plaza has been completed which is about 2,000 feet or approximately one-third of a mile. CUC continues to support the undergrounding of distribution line for major private developments and government-initiated projects such as the George Town Revitalization and the road widening projects.

In September 2022, the Company signed an Agreement with the technology group Wärtsilä for the supply of two 10-megawatt Battery Energy Storage System ("BESS") to CUC. This project, which will be CUC's first energy storage facility, will allow for increased renewable energy capacity on Grand Cayman. It is also anticipated that this project will lower fuel costs and improved fuel efficiency by up to 5% to 6% and a proportionate reduction of $CO_2$ emissions. It will also increase CUC's level of reliability and its power quality. The 20-megawatt BESS is expected to be commissioned during the first half of 2024 at the Hydesville and Prospect substations.

In 2022, the Company initiated and received regulatory approval for an infrastructure project for dual-fuel conversion of five MAN generating units totalling 68MW of capacity. This Life Cycle Upgrade project aims to reliably meet base load and capacity needs while the Company continues its focus on integrating additional utility-scale renewable energy projects. These upgrades will bring the engines up to the most current specification and facilitate a further 25 years of service after the upgrade. It will also prepare the engines for conversion to run on natural gas. The commencement of the first unit upgrade is scheduled for January 2024 and upgrade of two units are expected to be complete in 2024.

In September 2023, in its continuous effort to reduce the cost of energy production and carbon emissions, the Company sought qualification submissions from prospective natural gas suppliers. In line with the Cayman Islands National Energy Policy and the Company's Integrated Resource Plan, CUC is committed to increase the use of cleaner energy and reduce greenhouse gas emissions over the long term. The Request for Proposal will be finalized and issued to market by March 31, 2024.

In October 2021, following a consultation process, OfReg announced the adoption of a new Renewable Energy Auction Scheme ("REAS") to solicit additional solar and wind power over the next decade. In April 2022, OfReg issued a Request for Qualification ("RFQ") for the REAS Competition Round 1. The REAS Round 1 is intended to select a party, or parties, to operate and maintain Solar Photovoltaic Plants and Energy Storage up to 100MW with 60MW Battery Energy Storage System Facility. OfReg also issued an RFQ for a 23MW Dispatchable Photovoltaic generation plant paired with energy storage facility. CUC prequalified for both opportunities and is preparing to participate in these bid invitations. The Company has been working with OfReg to provide all information required for issuing RFP.

In October 2023, the Company submitted its 2024-2028 Capital Investment Plan ("CIP") in the amount of $390.1 million to OfReg for approval, which includes $62 million in alternative energy and resiliency projects. OfReg's decision on the proposed 2024-2028 CIP is anticipated in February 2024.

In November 2023, as required by the T&D License every five years, the Company completed and submitted a Cost of Service Study to OfReg. The purpose of the Study is to determine how base rates should be rebalanced to reflect the allocated cost of service to respective customer groups. OfReg's decision on the cost of service study is anticipated during the first quarter of 2024.

### Subsequent Events: Outstanding Share Data

At February 9, 2024, the Company had issued and outstanding 38,008,196 Class A Ordinary Shares and 249,500 9% cumulative Participating Class B Preference Shares.