

UEP Penonome II, S. A.

**Report and Interim Financial Statements
September 30, 2020**

UEP Penonome II, S. A.

Index to the Interim Financial Statements September 30,2020

	Pages
Report on Review of Interim Financial Information	1
Interim Financial Statements:	
Condensed Balance Sheet	2
Condensed Statement of Comprehensive Income	3
Condensed Statement of Changes in Equity	4
Condensed Statement of Cash Flow	5
Notes to the Condensed Financial Statements	6 - 39



Report on review of interim financial information

To the Board of Directors and Shareholders of
UEP Penonome II, S. A.

Introduction

We have reviewed the accompanying condensed interim balance sheet of UEP Penonome II, S. A. as at September 30, 2020 and the related condensed interim statements of comprehensive income, changes in equity and cash flow for the nine-month period then ended and notes, comprising significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with IAS 34 - Interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 - Interim financial reporting.

PricewaterhouseCoopers

November 21, 2020
Panama, Republic of Panama

UEP Penonome II, S. A.

Condensed Balance Sheet

September 30, 2020

(All amounts in US\$ unless otherwise stated)

	Notes	September 2020	December 2019
Assets			
Current assets			
Cash and cash equivalents	2 and 5	17,420,575	25,126,029
Restricted cash	2, 5 and 6	51,165,263	51,165,263
Trade and other receivables	2, 7 and 12	7,185,122	6,988,755
Prepaid expenses		<u>689,756</u>	<u>573,720</u>
Total current assets		<u>76,460,716</u>	<u>83,853,767</u>
Non-current assets			
Plant and equipment, net	2, 8 and 9	233,383,007	243,796,082
Restricted cash	6	17,272,000	17,272,000
Goodwill	2 and 10	<u>20,000,000</u>	<u>20,000,000</u>
Total non-current assets		<u>270,655,007</u>	<u>281,068,082</u>
Total assets		<u>347,115,723</u>	<u>364,921,849</u>
Liabilities and Equity			
Current liabilities			
Current portion of long-term debt	2 and 13	12,296,000	12,803,000
Trade and other payables	2, 11 and 12	<u>26,265,934</u>	<u>34,248,298</u>
Total current liabilities		<u>38,561,934</u>	<u>47,051,298</u>
Non-current liabilities			
Shareholders' loans	12, 14	50,000,000	50,000,000
Lease liabilities long term	9	8,252,995	8,385,098
Deferred income tax	17	2,048,455	2,224,202
Long-term debt	2 and 13	203,844,250	220,002,710
Derivative financial instrument		<u>18,758,977</u>	<u>7,822,058</u>
Total non-current liabilities		<u>282,904,677</u>	<u>288,434,068</u>
Total liabilities		<u>321,466,611</u>	<u>335,485,366</u>
Equity			
Common shares with US\$1.00 par value each; authorized and issued: 1,050 shares	2 and 14	1,050	1,050
Capital contribution	2 and 14	74,998,950	74,998,950
Accumulated deficit		(49,331,735)	(45,563,517)
Prepaid dividend tax		<u>(19,153)</u>	<u>-</u>
Total equity		<u>25,649,112</u>	<u>29,436,483</u>
Total liabilities and equity		<u>347,115,723</u>	<u>364,921,849</u>

The accompanying notes are an integral part of these condensed financial statements.

UEP Penonome II, S. A.

Condensed Statement of Comprehensive Income For the three and nine-month period ended September 30, 2020 (All amounts in US\$ unless otherwise stated)

	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2020	2019	2020	2019
Energy revenue		2,391,753	5,440,598	40,337,052	49,801,619
Costs of goods and services	8, 9 and 15	<u>(3,754,968)</u>	<u>(3,884,851)</u>	<u>(11,811,907)</u>	<u>(12,256,351)</u>
Gross (loss) profit		<u>(1,363,215)</u>	<u>1,555,747</u>	<u>28,525,145</u>	<u>37,545,268</u>
Expenses	15				
Administrative expenses		(1,065,112)	(832,489)	(3,101,052)	(3,236,240)
Operating expenses		<u>(1,509,158)</u>	<u>(1,864,160)</u>	<u>(4,217,826)</u>	<u>(4,452,674)</u>
Total expenses		<u>(2,574,270)</u>	<u>(2,696,649)</u>	<u>(7,318,878)</u>	<u>(7,688,914)</u>
Operating (loss) profit		<u>(3,937,485)</u>	<u>(1,140,902)</u>	<u>21,206,267</u>	<u>29,856,354</u>
Finance cost amortization	13	(199,176)	(199,176)	(597,528)	(597,528)
Finance cost, net	16	<u>(2,377,072)</u>	<u>(8,668,707)</u>	<u>(24,546,477)</u>	<u>(27,034,607)</u>
Total finance cost		<u>(2,576,248)</u>	<u>(8,867,883)</u>	<u>(25,144,005)</u>	<u>(27,632,135)</u>
Other loss		<u>(2,217)</u>	<u>-</u>	<u>(6,227)</u>	<u>(64,251)</u>
(Loss) profit before income tax		(6,515,950)	(10,008,785)	(3,943,965)	2,159,968
Income tax	17	<u>2,344,137</u>	<u>1,001,163</u>	<u>175,747</u>	<u>(2,551,272)</u>
Loss for the period		<u>(4,171,813)</u>	<u>(9,007,622)</u>	<u>(3,768,218)</u>	<u>(391,304)</u>

The accompanying notes are an integral part of these condensed financial statements.

UEP Penonome II, S. A.

Condensed Statement of Changes in Equity For the nine-month period ended September 30, 2020

(All amounts in US\$ unless otherwise stated)

	<u>Common Shares</u>	<u>Capital Contribution</u>	<u>Accumulated Deficit</u>	<u>Prepaid Dividend Tax</u>	<u>Total Equity</u>
Balance at January 1, 2019	1,050	74,998,950	(44,177,907)	-	30,822,093
Loss for the nine-months period ended September 30, 2019	-	-	(391,304)	-	(391,304)
Balance at September 30, 2019	<u>1,050</u>	<u>74,998,950</u>	<u>(44,569,211)</u>	<u>-</u>	<u>30,430,789</u>
Balance at December 31, 2019	1,050	74,998,950	(45,563,517)	-	29,436,483
Prepaid dividend tax	-	-	-	(19,153)	(19,153)
Loss for the nine-months period ended September 30, 2020	-	-	(3,768,218)	-	(3,768,218)
Balance at September 30, 2020	<u>1,050</u>	<u>74,998,950</u>	<u>(49,331,735)</u>	<u>(19,153)</u>	<u>25,649,112</u>

The accompanying notes are an integral part of these condensed financial statements.

UEP Penonome II, S. A.

Condensed Statement of Cash Flow For the nine-month period ended September 30, 2020 (All amounts in US\$ unless otherwise stated)

	Notes	September 2020	September 2019
Cash flows from operating activities			
(Loss) profit before income tax		(3,943,965)	2,159,968
Adjustments to reconcile profit before income tax to net cash provided by operating activities:			
Depreciation and amortization	8, 9 and 15	10,456,326	10,361,768
Finance cost amortization	13	597,528	597,528
Interest on borrowings and lease liabilities, net	16	13,609,557	15,295,720
Fair value loss on derivative financial instrument	16	10,936,920	11,738,887
Changes in assets and liabilities:			
Trade and other receivables		(196,367)	6,599,665
Trade and other payables		(4,150,676)	1,754,589
Prepaid expenses		(116,035)	587,473
Interest paid		<u>(17,472,140)</u>	<u>(19,502,762)</u>
Net cash provided by operating activities		<u>9,721,148</u>	<u>29,592,836</u>
Cash flows from investing activities			
Additions of plant and equipment	8	<u>(43,251)</u>	<u>(27,829)</u>
Net cash used in investing activities		<u>(43,251)</u>	<u>(27,829)</u>
Cash flows from financing activities			
Repayment of long-term debt		(17,262,988)	(14,451,000)
Prepaid dividend tax		(19,153)	-
Principal lease payments		<u>(101,210)</u>	<u>(61,822)</u>
Net cash used in financing activities		<u>(17,383,351)</u>	<u>(14,512,822)</u>
Net (decrease) increase in cash and cash equivalents		(7,705,454)	15,052,185
Cash and cash equivalents and restricted cash at the beginning of the year		<u>76,291,292</u>	<u>60,837,269</u>
Cash and cash equivalents and restricted cash at end of the period	5	<u>68,585,838</u>	<u>75,889,454</u>

The accompanying notes are an integral part of these condensed financial statements.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

1. General Information

UEP Penonome II, S. A. (the “Company”) is incorporated on January 18, 2013 under the laws of the Republic of Panama. The Company is engaged in the production of electricity through its five wind parks located in Penonome, Province of Cocle, Republic of Panama.

The ultimate parent company of UEP Penonome II, S. A. is Interenergy Partners, L. P., incorporated in Cayman Island.

The local regulator, Autoridad Nacional de los Servicios Públicos (ASEP, by its acronym in Spanish), approved the Company’s electricity generation license to 215 MW capacity (Note 18).

The Company is located in Torre de las Americas, Punta Pacifica, Republic of Panama, and the wind turbines are in Penonome, Republic of Panama.

These interim financial statements have been approved for issue by the Finance Manager on November 20, 2020.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these interim financial statements are set out below.

Basis of Preparation

The interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and the related interpretations adopted by the International Accounting Standards Board (IASB). The interim financial statements have been prepared on the historical cost convention.

These interim financial statement for the nine-month period ended September 30, 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company’s last annual financial statements as at and for the year ended December 31, 2019. They do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the change in the Company’s financial position and performance since the last annual financial statement. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

Basis of Preparation (continued)

New standards, amendments and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for September 30, 2020 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Monetary Unit and Functional Currency

The interim consolidated financial statements are expressed in U.S. Dollars (US\$), monetary unit of the United States of America, which is at par with the Balboa (B/.), monetary unit of the Republic of Panama. The U.S. Dollar (US\$) circulates and is freely exchangeable in the Republic of Panama and is the functional currency.

Financial Assets

The Company classifies its financial assets in the category of loans and receivables and assets at fair value through profit or loss, based on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables with maturities not greater than 12 months are included in current assets.

Cash and Cash Equivalents

For purposes of the cash flow statement, cash and cash equivalents include cash in hand and other short-term highly liquid investments with original maturities of three months or less.

Restricted Cash

Cash is classified as restricted when it is not available for the use of the Company. The restricted cash is classified as current when its release is expected to occur within one year, and non-current when its availability is longer than such period.

Trade and Other Receivables

The Company maintains trade and other receivables in order to collect the contractual cash flows and, therefore, subsequently measures them at amortized cost using the effective interest method, less any estimate for impairment.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

Plant and Equipment

Plant and equipment are stated at cost, less accumulated depreciation, amortization and impairment losses. Depreciation and amortization are calculated on the straight-line method over the estimated useful lives of the assets. Costs of maintenance, repairs, minor refurbishments and improvements are charged to expense. Subsequent costs are capitalized only when it is probable that a future economic benefit associated with the item will flow to the Company and the cost of the item can be measured reliably. The Company has a maintenance program that includes inspecting, testing and repairing all operational power equipment based on the equivalent operating hours (EOH).

Expenditure on the construction, installation or completion of infrastructure facilities, such as constructions, generators and electric power plants facilities, is capitalized within property, plant and equipment according to its nature. No depreciation or amortization is charged during the construction phase. The Company begins depreciating an item of property, plant and equipment when it is available for use.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Depreciation and amortization rates used are described as follows:

Buildings	2.50%
Right of Use Assets	5%
Generators and plant facilities	5% - 10%
Tools and minor equipment	25%
Equipment of transportation	25%
Furniture and office equipment	25%

Impairment of Long-lived Assets

Plant and equipment and other non-current assets which are non-financial assets that are subject to depreciation and amortization, are reviewed for impairment whenever events or changes in the circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

Leases

The Company has initially applied IFRS 16, for the first time for their annual reporting period commencing January 1, 2019.

- IFRS 16 - Leasing. The IASB issued in January 2016, IFRS 16, which replaces IAS 17- Leases. This standard introduces significant changes in accounting by lessee.
- The Company applied the simplified approach, in which the comparative figures are not restate at the date of initial application. The right-of-use assets for property leases will be initially measured on a retrospective basis as if the new standard had always been applied. All other right-of-use assets will be measured at the amount equal to the lease liability at the time of adoption (adjusted for prepaid or accrued lease payments relating to that lease recognized). In addition, the Company has decided not to apply the new standard to leases whose term will end within twelve months of the date of initial application. In such cases, the leases are accounted for as short-term leases and the lease payments associated with them are recognized as an expense from short-term leases. There is not any lease under the low value exemption.

In the context of the transition, the Company recognized as of January 1, 2019 a right of use asset for US\$ 8,568,447 and a lease liability of US\$8,568,447. (See Note 9).

Lease Liabilities

Lease liabilities include the following lease payments:

- fixed payments, less any lease incentives receivable
- variable lease payment that are based on an index or a rate,
- amounts expected to be payable by the Company under residual value guarantees
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, to the extent that this can be determined. Otherwise, the discount is the lessee's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability.
- No restoration costs, and no payments were made at or before the lease commencement date as well as not initial direct costs.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

Goodwill

Goodwill arises and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognized directly in the condensed statement of comprehensive income.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or Company of CGUs, that is expected to benefit from the synergies of the combination. Each unit or Company of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal Management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Trade and Other Payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the normal course of the business from suppliers. Trade and other payables are classified as current liabilities as payments are due within one year or less.

Trade and other payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost, using the effective interest method.

Borrowing Costs

General and specific borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in the condensed statement of comprehensive income in the period in which they are incurred.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

Current and Deferred Income Tax

Income tax expense for the period comprises current and deferred income tax. Income tax is recognized in the condensed statement of comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted at the condensed balance sheet date over the taxable income.

Deferred income tax is provided in full, using the liability method, where temporary differences arise between the fiscal bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability, in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the condensed balance sheet date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available, and the temporary differences can be utilized against it.

Deferred income tax is provided for temporary differences originated by loss drag.

Employee Benefits

Seniority Premium and Severance Trust Fund

According to the Labor Code of the Republic of Panama, employees with a permanent contract of employment are entitled to receive, upon termination of employment, a seniority premium, equal to one week's wage for each year of work, determined from the date of commencement of employment.

In addition, employees dismissed under certain circumstances are entitled to receive compensation based on years of service. Law No.44 of 1995 provides that companies must make a contribution to a fund to cover the Layoff seniority premium payments to dismissed workers. This contribution is determined based on the compensation paid to employees. To manage this fund, the Company established a trust with an authorized private entity. The contributions are treated as defined contribution plans, where the Company has no further payment obligations in addition to those contributions. The contribution for the nine-months period amounted to US\$10,865 (2019: US\$12,296).

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

Employee Benefits (continued)

Social Security

According to Law No.51 of December 27, 2005, the companies must realize monthly contributions to the Panama Social Security (i.e., Caja de Seguro Social de Panama), based on a percentage of the total wages paid to their employees. A portion of these contributions is used by the Panamanian State for the payment of the future retirements of the employees. The contribution for the nine-months period amounted to US\$105,271 (2019: US\$99,745).

Share Capital

Common shares are classified as equity.

Energy Revenue Recognition

The Company recognizes energy revenue in the periods that it delivers electricity. Contracted prices are billed in accordance to provisions of applicable power sales agreements and spot sales are billed in accordance with prevailing market prices. The unit of measurement of the contract prices is megawatts (MW). The following criteria should be met in order to recognize revenue: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the price to the buyer is fixed or determinable; and (4) collection is reasonably assured. Revenues are measured at fair value of the consideration received or receivable for the sale of the energy.

In accordance of IFRS 15, the Company recognized the revenue from contracts with customers based on a five step model detailed below:

- Step 1. Identify contracts with customers: A contract is defined as the agreement between two or more parties, which creates rights and obligations required and establishes criteria that must be met for each contract. The contracts that are handled are written and grouped in the same type of contracts because all of them are categorized in the same concept of energy sales.
- Step 2. Identify the contract obligations: An obligation is a promise in a contract with a client for the transfer of a good or service.
- Step 3. Determine the price of transaction: The transaction price is the amount of the payment that the Company expects to have the right in exchange for the transfer of the promised goods or services to a client.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

Energy Revenue Recognition (continued)

- Step 4. Assignment of the transaction price: The Company recognizes the price of the contract payable as specified in the contract, subject to the stipulated conditions and adjustments or proposed deductions, as applicable.
- Step 5. Recognition of revenue according to the criteria established by IFRS 15, the Company continues recognizing revenues over time instead of during a certain time.

The Company principally satisfies its performance obligations over time, when, or as, a performance obligation is satisfied, the Company recognizes as revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price is the amount of consideration to which the Company expects to be entitled. The transaction price is allocated to the performance obligations in the contract based on standalone selling prices of the goods or services promised.

Finance Cost

Comprise interest expense on borrowings, unwinding of the discount of provision and deferred consideration.

3. Financial Risk Management

Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

Risk management is carried out by the General Manager and the Director of Financial Department under the supervision of the Board of Directors. They identify and evaluate financial risks in close co-operation with Management of Departments within the Company.

Market Risk

Foreign exchange risk

The Company is not substantially exposed to the foreign exchange risk fluctuation, since its revenues and expenses are mainly expressed in U. S. Dollars.

Interest rate risk

Interest rate risk is mainly originated from long-term debt with variable interest rates that expose the Company to the cash flows risk.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

3. Financial Risk Management (Continued)

Financial Risk Factors (continued)

Interest rate sensitivity

As at September 30, 2020, if interest rates on the variable United States dollar denominated borrowings has been 50 basis points higher/lower with all other variables held constant, net income for the year would have been US\$10,721,425 (US\$12,506,455) higher/lower.

Credit Risk

Credit risk arises mainly from cash and cash equivalents, restricted cash, trade and other receivables. The Company works only with well-known foreign and local financial institutions and energy distribution companies.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit rating.

	September 2020	December 2019
Cash at banks and short-term bank deposits international credit rating - Fitch (A and AA-)	<u>68,585,838</u>	<u>76,291,292</u>

The Company has a concentration of its revenues and accounts receivable with the three offtaker companies operating in the Republic of Panama. Sales of energy made to these customers represent approximately 85% (September 2019: 85%) of total revenues and 70% (September 2019: 61%) of total accounts receivable at the end of the nine-months period. This concentration of risk is mitigated by the fact that demand for electricity in Panama continues to grow steadily and that the energy market is very well structured and regulated by government authorities. For each PPA a guarantee is required and the payment term of invoices originating in the electric market of Panama is averaged in a range of 30 days from the date of presentation of the invoice. The guarantee is a performance bond payable to the collection against any event of default for bad debts or bad debt. There were no default events for unpaid bills as of September 30, 2020.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

3. Financial Risk Management (Continued)

Financial Risk Factors (continued)

Liquidity Risk

Liquidity risk is the risk that the Company might not be able to comply with all its obligations. The Company minimizes this risk by maintaining adequate levels of cash on hand or in current accounts for fulfilling commitments with recurring suppliers and borrowers. The current liabilities are covered by the cash flow generated by operations.

Cash flows forecasting is performed by the operating entities of the Company in and aggregated by Company finance. The Company finance monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements.

The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances as the impact of discounting is not significant.

	<u>Less than 1 year</u>	<u>Between 1 and 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
September 30, 2020				
Long-term debt	29,601,248	152,121,970	160,062,559	341,785,777
Trade, lease and other payables	26,265,934	1,182,976	7,070,019	34,518,929
Shareholders' loans	<u>3,960,000</u>	<u>15,840,000</u>	<u>75,740,000</u>	<u>95,540,000</u>
	<u>59,827,182</u>	<u>169,144,946</u>	<u>242,872,578</u>	<u>471,844,706</u>
	<u>Less than 1 year</u>	<u>Between 1 and 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
December 31, 2019				
Long-term debt	31,149,117	153,565,493	196,408,994	381,123,604
Trade, lease and other payables	34,248,298	997,488	7,387,610	42,633,396
Shareholders' loans	<u>3,960,000</u>	<u>15,840,000</u>	<u>77,720,000</u>	<u>97,520,000</u>
	<u>69,357,415</u>	<u>170,402,981</u>	<u>281,516,604</u>	<u>521,277,000</u>

The contractual maturity of the derivative financial instrument carried at fair value in the condensed balance sheet that is associated with the long-term debt is on 2031.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

3. Financial Risk Management (Continued)

Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt. The Company monitors capital on the basis of the "liabilities to tangible net worth ratio", which is one of the ratios that the Company should consider at the time of paying dividends or incurring debt. Capital is defined by Management as the Company's shareholders' equity. This ratio is calculated as liabilities divided by tangible net worth. Liabilities are calculated as total long-term debt, including current portion of long-term debt. Tangible net worth is calculated as "equity" as shown in the condensed balance sheet, including shareholders loan and excluding intangible assets.

This ratio basically measures the leverage of the Company as a percent of the equity invested by the shareholder and provides the percentage of the funding of the Company with borrowing versus shareholders' equity.

The liabilities to tangible net worth ratio were as follows:

	September 2020	December 2019
Liabilities w/o subordinated debt and lease liabilities	<u>88,292,867</u>	<u>85,030,967</u>
Total tangible net worth w/o subordinated debt	<u>230,931,034</u>	<u>251,783,585</u>
Total liabilities to tangible net worth ratio	<u>0.38</u>	<u>0.34</u>

Fair Value Estimation

For disclosure purposes, the International Financial Reporting Standards specify a fair value hierarchy that categorizes into three levels based on the inputs used in valuation techniques to measure fair value: The hierarchy is based on the transparency of variables used in the valuation of an asset at the date of valuation. These three levels are:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset and liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

3. Financial Risk Management (Continued)

Fair Value Estimation (continued)

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates its fair value due to the short-term nature.

The fair value of loans payables is disclosed in Note 13.

4. Critical Accounting Estimates and Judgement

Estimates and judgements are continually evaluated by Management and are based on historical experience and on various other assumptions that management believes to be reasonable under the circumstances, the results of which form the basis for making judgements.

Critical Accounting Estimates and Assumptions

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Depreciation and Amortization of Plant and Equipment

The Company makes judgements in assessing its assets estimated useful lives and in determining estimated residual values, as applicable. Depreciation and amortization are calculated on the straight-line method, based on the estimated useful lives of the assets.

These estimates are based on analysis of the assets' lifecycles and potential value at the end of its useful life. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Current and Deferred Income Tax Estimation

The Company is subject to income tax. Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Impairment of Goodwill

The Company tests annually whether goodwill has suffered any impairment, in accordance with the corresponding accounting policy disclosed herein. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. (See Note 10).

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

5. Cash and Cash Equivalents for Cash Flows Statement

The cash and cash equivalents for cash flows statement purposes are detailed as follows:

	September 2020	December 2019
Cash in U. S. currency	908,323	1,264,206
Short-term bank deposits at 0.25% (2019: 0.25%) annual interest rate	<u>67,677,515</u>	<u>75,027,086</u>
	<u><u>68,585,838</u></u>	<u><u>76,291,292</u></u>

The Company reports the restricted cash of US\$51,165,263 as cash and cash equivalents for cash flows statement purposes. This amount is presented as part of the short-term bank deposits.

6. Restricted Cash

The current restricted cash represents a committed deposit for the major maintenance plan. The amount arises as a result of the cash compensation as a conclusion of the arbitration process with Goldwind.

The long-term restricted cash represents the balance standing to the credit of the Senior Debt Service Reserve account and the C-Loan Debt Service Reserve accounts, which balance will be used to service the long-term debt described in Note 13.

7. Trade and Other Receivables

Trade and other receivables are detailed as follows:

	September 2020	December 2019
Clients	5,119,638	5,480,249
Related parties (Note 12)	2,009,597	765,248
Insurance claim	-	560,927
Others	<u>55,887</u>	<u>182,331</u>
	<u><u>7,185,122</u></u>	<u><u>6,988,755</u></u>

Account receivables are less than two months. At September 30, 2020 and December 31, 2019, there were no past due receivables, therefore, the Company has not recorded any provision for impairment.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

7. Trade and Other Receivables (Continued)

The Company revenues in PPAs have been paid in the same proportion than the Distribution Companies have been paying since March, April, May and September; the average payments received has been 63%, 89%, 93% and 92%, respectively. Total accounts receivables on hold for the months of March through September is USD4.152 million.

8. Plant and Equipment, Net

Following is the movement of plant and equipment:

	Transportation Equipment	Building	Furniture and Office Equipment	Generators and Plant Facilities	Right of Use Assets	Total
Cost at December 31, 2019	394,461	805,472	639,771	318,834,736	8,568,447	329,242,887
Accumulated depreciation at December 31, 2019	(383,183)	(62,080)	(561,344)	(83,979,048)	(461,150)	(85,446,805)
Net Book Amount	11,278	743,392	78,427	234,855,688	8,107,297	243,796,082
Period ended September 30, 2020						
Opening Net Book Amount	11,278	743,392	78,427	234,855,688	8,107,297	243,796,082
Additions	-	20,135	23,116	-	-	43,251
Depreciation charge	(10,124)	(15,278)	(44,944)	(10,040,118)	(345,862)	(10,456,326)
Closing Net Book Amount	1,154	748,249	56,599	224,815,570	7,761,435	233,383,007
At September 30, 2020						
Cost at September 30, 2020	394,461	825,607	662,887	318,834,735	8,568,447	329,286,137
Accumulated Depreciation	(393,307)	(77,358)	(606,288)	(94,019,165)	(807,012)	(95,903,130)
Net Book Amount	1,154	748,249	56,599	224,815,570	7,761,435	233,383,007

The Company recognized as of January 1, 2019 a right of use asset for US\$8,568,447 and a lease liability of US\$8,568,447. (See Note 9).

Plant and equipment include interest on borrowings that are directly attributed to the construction of the assets. During the period ended September 30, 2020 and 2019, there were no interest capitalized.

Plant and equipment are included into the onshore Security Agreements which includes the mortgage on movable and immovable assets. (See Note 13).

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

9. Lease

As of September 30, 2020 plant and equipment include leases which correspond to the operating land lease located in Penonome. Lease terms are between 14-yr and 25-yr contract with 2% interest rate per year until expiration (See Note 8).

The leased properties are presented below:

	September 2020	December 2019
<i>Right-of-use assets</i>		
Cost	8,568,447	8,568,447
Accumulated depreciation	<u>(807,012)</u>	<u>(461,150)</u>
Net balance	<u>7,761,435</u>	<u>8,107,297</u>
<i>Lease liabilities</i>		
Current	135,194	104,301
Non-current	<u>8,252,995</u>	<u>8,385,098</u>
	<u>8,388,189</u>	<u>8,489,399</u>

In applying IFRS 16 for the first time on January 1, 2019, the Company has used the following practical expedients permitted by the standard:

- Applying a single discount rate (7.5%) to a portfolio of leases with reasonably similar characteristics, for the nine-months period ended as of September 30, 2020 the Company has recognised US\$636,705 (2019: US\$619,796) as interest expense related to lease liabilities.
- Relying on previous assessments on whether leases are onerous
- Accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

10. Goodwill

In April 2014, IEH Penonome Holdings (former IEH Penonome Panama, S. A., see Note 1) acquired the share capital of UEP Penonome II, S. A. for US\$8,518,361. In December 2014, it acquired a further share capital for US\$20,000,000 and obtained control of UEP Penonome II, S. A.

The following table summarizes the consideration paid for UEP Penonome II, S. A., the fair value of assets acquired at the acquisition date:

Consideration transferred	
Cash	28,518,361
Recognized amounts of identifiable assets acquired and construction in progress	<u>(8,518,361)</u>
Goodwill	<u>20,000,000</u>

The recoverable amounts of the business unit are calculated based on their value in use. The value in use is determined by discounting the future cash flows expected from the continuous use of each unit. The calculation of value in use is based on the following basic assumptions:

- Business plan for 2019 was used to project future cash flows. Future cash flows were projected using average growth rates based on the long-term assumptions growth rates, projected power generation, power contract price and spot market price. The forecast period is based on the long-term perspective of the Company with respect to the operation of this unit which was determined in 15 years.
- The discount rate of 6.50% was applied in determining the amounts recoverable for the business unit. This rate is calculated on the basis of market experience and the weighted average cost of capital (WACC) allocated for this unit.

The key assumptions described above may change as economic and market conditions change. The Company estimates that reasonably possible changes in these assumptions are not expected to affect the recoverable amount of the business unit or drops below the value of the carrying amount.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

11. Trade and Other Payables

Trade and other payables are detailed as follows:

	September 2020	December 2019
Interest payable on shareholder's loans (Notes 12 and 14)	15,385,172	15,385,172
Related parties (Note 12)	5,084,388	4,838,739
Suppliers	4,590,061	7,858,469
Interest payable	686,333	5,349,737
Others	384,786	711,880
Lease liabilities short-term (Note 9)	<u>135,194</u>	<u>104,301</u>
	<u>26,265,934</u>	<u>34,248,298</u>

12. Balances and Transactions with Related Parties

The Company is fully controlled by InterEnergy Partners, L. P., its ultimate parent company. The Company carried out transactions and maintained balances with related companies, as described below:

	Three months ended September 30,	
	2020	2019
Transactions		
Professional fees expenses (a)	<u>142,916</u>	<u>-</u>
Energy purchases in the spot market (b)	<u>536</u>	<u>4,551</u>
Energy sold in the spot market (b)	<u>1,419</u>	<u>1,964</u>
Energy sold under reserve contracts (c)	<u>172,515</u>	<u>364,097</u>

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

12. Balances and Transactions with Related Parties (Continued)

	Nine months ended September 30,	
	2020	2019
Transactions		
Professional fees expenses (a)	<u>372,996</u>	<u>-</u>
Energy purchases in the spot market (b)	<u>872</u>	<u>11,321</u>
Energy sold in the spot market (b)	<u>13,020</u>	<u>89,192</u>
Energy sold under reserve contracts (c)	<u>1,552,546</u>	<u>1,615,679</u>
	September	December
	2020	2019
Balances		
Accounts receivable energy spot market (b)	784	1,461
Accounts receivable energy reserve contracts (c)	1,552,546	307,520
Accounts receivable professional fees (d)	<u>456,267</u>	<u>456,267</u>
	<u>2,009,597</u>	<u>765,248</u>
Accounts payable professional fees (a)	5,083,977	4,836,821
Accounts payable energy spot market (b)	<u>411</u>	<u>1,918</u>
	<u>5,084,388</u>	<u>4,838,739</u>
Shareholders' loans (Note 14)	<u>50,000,000</u>	<u>50,000,000</u>
Interest payable - shareholders' loans (Note 14)	<u>15,385,172</u>	<u>15,385,172</u>

- (a) Administrative and asset management services rendered by related parties.
- (b) Sales and purchases of energy with related parties in the energy spot market.
- (c) Energy Reserve Contracts described in Note 18.
- (d) Accounts receivable for services rendered to a related party.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

12. Balances and Transactions with Related Parties (Continued)

Key Management Compensation

Key management includes directors (executive and non-executive) and some members of the internal executive committee. The Company does not have post-employment benefits, share-based payments nor other long-term benefits. The compensation paid or payable to key management for employee services is shown below:

	Three months ended September 30,	
	2020	2019
Salaries and other short-term employee benefits	<u>193,995</u>	<u>45,474</u>
	Nine months ended September 30,	
	2020	2019
Salaries and other short-term employee benefits	<u>283,466</u>	<u>131,888</u>

13. Long-Term Debt

September 2020 December 2019

International Finance Corporation (IFC)

US\$250 million senior debt, International Finance Corporation (IFC); The Netherlands Development Finance Company (FMO); French Development Institution (Proparco); Development Bank of the (Austrian Republic OeEB); Central American Bank for Economic Integration (Cabei); Banco Nacional as Lenders; Tenor: 17-years door to door. Tailored amortization scheduled stepping up from 2.4% in average for the first 22 semesters (53% of total amount); 3.66% for the following 6 semesters (22% of total amount) and 6.27% for the last 4 semesters (25% of total amount), hedging agreement to fix rate on a minimum of US\$180 million of the total Senior

	<u>187,790,012</u>	<u>203,025,000</u>
Carry forward...	<u>187,790,012</u>	<u>203,025,000</u>

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

13. Long-Term Debt (Continued)

	September 2020	December 2019
Brought forward...	187,790,012	203,025,000
Banco General and Corporacion Interamericana para el Financiamiento de Infraestructura, S. A. (CIFI)		
US\$34 million, Tailored amortization scheduled stepping up from 2.91% in average for the first 16 semesters (47% of total amount) and 4.45% for the following 12 semesters (53% of total amount); Priced at LIBOR + 4.50%	24,208,000	25,500,000
IFC Subordinated C-Loan of US\$16 million		
US\$16 million 17-years door to door. Tailored amortization scheduled stepping up from 2.17% in average for the first 18 semesters (39% of total amount); 3.50% for the following 10 semesters (35% of total amount) and 6.5% for the last 4 semesters (26% of total amount); Fix rate at 12%. 13% per annum at any time following the occurrence and during the continuance of a C-Loan Deficiency	<u>12,704,000</u>	<u>13,440,000</u>
	224,702,012	241,965,000
Less: Unamortized finance costs	<u>8,561,762</u>	<u>9,159,290</u>
Long-term debt, net	216,140,250	232,805,710
Less: Current portion	<u>12,296,000</u>	<u>12,803,000</u>
	<u>203,844,250</u>	<u>220,002,710</u>

The movement of the unamortized finance costs is as follows:

	September 2020	December 2019
Beginning balance	9,159,290	9,955,994
Amortization	<u>(597,528)</u>	<u>(796,704)</u>
Ending balance	<u>8,561,762</u>	<u>9,159,290</u>

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

13. Long-Term Debt (Continued)

The fair value of the borrowings is US\$213,196,784 (2019: US\$274,236,211), based on discounted cash flows using a rate based on the borrowing rate of 6.5% and is within Level 3 of the fair value hierarchy.

The main conditions and terms on the outstanding borrowings are described as follows:

Senior Debt Agreements:

a) Senior Debt of US\$250 million:

International Finance Corporation (IFC); The Netherlands Development Finance Company (FMO); French Development Institution (Proparco); Development Bank of the Austrian Republic (OeEB); Central American Bank for Economic Integration (Cabei); Banco Nacional as Lenders:

- Tenor: 17-years door to door. Tailored amortization scheduled stepping up from 2.4% in average for the first 22 semesters (53% of total amount); 3.66% for the following 6 semesters (22% of total amount) and 6.27% for the last 4 semesters (25% of total amount).
- Priced at LIBOR + 4.75%.
- Hedging agreement to fix rate on a minimum of US\$180 million of the total Senior with IFC. (On which the Company has not applied hedge accounting).
- On March 9, 2015, the Company contracted a receive-floating interest rate swaps by which the Company agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts for US\$180,000,000. Such contract enables the Company to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt.

b) Senior Debt of US\$34 million:

- Banco General and Corporacion Interamericana para el Financiamiento de Infraestructura, S. A. (CIFI) as Lenders.
- Tenor: 15-years door to door. Tailored amortization scheduled stepping up from 2.91% in average for the first 16 semesters (47% of total amount) and 4.45% for the following 12 semesters (53% of total amount).
- Priced at LIBOR + 4.50%.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

13. Long-term Debt (Continued)

c) Subordinated C-Loan of US\$16 million:

- IFC as lender.
- Tenor: 17-years door to door. Tailored amortization scheduled stepping up from 2.17% in average for the first 18 semesters (39% of total amount); 3.50% for the following 10 semesters (35% of total amount) and 6.5% for the last 4 semesters (26% of total amount).
- Fix rate at 12%. 13% per annum at any time following the occurrence and during the continuance of a C-Loan Deficiency.
- Subordination: in the event that on a debt service payment date a C-Loan deficiency occurs, IFC agrees that it shall not exercise any remedies with respect to the relevant outstanding due and payable amount of principal arising from such C Loan Deficiency.

Common Term Agreement (CTA): Whereby the Lender of each of the Senior Debt and the Subordinated C-Loan the Lenders set forth the terms and conditions in common to each loan.

Security Agreements:

- Offshore Security Agreements: Whereby the Borrowers - IEH Penonome Panama, S. A. and UEP Penonome II, S. A. (hereinafter "UEP II") - grant first priority security interest in all of its rights, titles and interest of Major Project Documents (Turbine Supply Agreement, Goldwind Parent Master Agreement, BOP Contract, Transportation Agreement, Interconnection Agreement, Shared Asset Agreement); proceeds from asset disposals, insurance proceeds. Citibank N. A. acting as Offshore Security Agent.
- Onshore Security Agreements: Includes the pledge on the shares of the Borrowers; collateral assignment on generation licenses, power purchase agreements and ANATI lease titles; mortgage on movable and immovable assets. The Bank of Nova Scotia (Panama) acting as Onshore Security Agent and trustee.
- Master Account and Security Agreements: Whereby the Borrowers certify that they have established Offshore Accounts with the Offshore Account Bank (Citibank, NA) and Onshore Account Banks [The Bank of Nova Scotia (Panama)] in accordance with the Trust Agreements. Offshore Accounts includes Senior Debt Service Reserve account and C-Loan Debt Service Reserve accounts representing the following Debt Service amount on each Loan. The agreement states the procedures to transfer from the Revenue account in accordance with the Common Term Agreement; including Restricted Payments.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

13. Long-term Debt (Continued)

Security Agreements: (continued)

Covenants: a) maintenance of existence and conduct of business; b) accounting and management operation system in accordance with the Accounting Standard c) Auditors: maintain at all times international recognized independent public accountant firm acceptable to the lenders d) Access: upon lender request, give access to the site, books and records and borrower employees e) maintain at all times in full force and effect authorizations, security in favor of lenders and project documents payment of obligations f) comply with the construction budget and the major maintenance plan g) interest rate hedging with initial amount of no less than hundred and eighty million Dollars h) financial ratios: prospective debt service coverage ratio of at least 1.15:1.00; among others.

Negative Covenants: The following activities are prohibited: a) make any restricted payment (which means declaration or payment of dividends, distribution of capital securities, payment of shareholder loan capital or interest), unless such restricted payment (i) is made from the restricted payment account (ii) such payment will be made within thirty (30) days after an Interest Payment Date (iii) the Prospective Debt Service Coverage Ratio is not less than 1.20:1.0 (iv) the Prospective Total Debt Service Coverage Ratio is not less than 1.10:1.0 (v) after giving effect to any such action the Financial Debt to Tangible Net Worth Ratio is not more than 3.1:1.0 and (vi) debt service reserve account, major maintenance reserve account and the C-Loan reserve account are fully funded. b) Capital expenditures besides those required to carry out operations normally c) additional financial debt d) guarantees or liens e) asset sales f) financial investments other than permitted investments in high grade securities, among others.

14. Shareholders' Equity

	<u>Common Shares</u>	<u>Capital Contribution</u>	<u>Total</u>
Initial and ending balances for the period ended September 30, 2020 and December 31, 2019	<u>1,050</u>	<u>74,998,950</u>	<u>75,000,000</u>

The Company reclassified the equity contribution pursuant the subscription of shares into a combination of common stocks and bearing interest shareholders' loans. The combination is as follows:

- IEH Penonome Holdings: 95.24% economic interest in common shares (US\$71.4 million).
- IEH Penonome Holdings: US\$47.6 million in bearing interest shareholder loan, fixed rate at 8%, maturity 2031.
- Greenfield Panama, S. A.: 4.76% economic interest in common shares (US\$3.5 million).

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

14. Shareholders' Equity (Continued)

- Greenfield Panama, S.A.: US\$2.4 million in bearing interest shareholder loan, fixed rate at 8%, maturity 2031.

After the aforementioned contribution took place, the shareholders composition of the Company is the following:

IEH Penonome Holdings	95.24% economic interest
Greenfield Panama, S. A.	4.76% economic interest

15. Costs and Expenses

The Company classifies its costs and expenses by nature, as follows:

	Three months ended September 30,	
	2020	2019
Cost of goods and services		
Depreciation and amortization (Notes 8 and 9)	3,485,749	3,381,025
Fee transmission cost	53,081	18,837
Salaries and other benefits to employees	103,437	132,332
Energy purchase	112,701	352,657
Repairs and maintenance	-	-
	<u>3,754,968</u>	<u>3,884,851</u>
Administrative expenses		
Salaries and other benefits to employees	194,545	175,226
Insurance costs	144,903	151,180
Other expenses	97,247	(266,614)
Regulator fees	120,521	106,209
Connection Fee Substation	119,490	112,223
Wake effect compensation (Note 18)	144,905	83,519
Professional fees	135,297	609,725
Management service agreement	95,594	(202,533)
Communication expenses	3,047	26,912
Maintenance office	4,919	14,957
Fuel	3,750	5,516
Office expenses	894	2,143
Donations	-	13,608
Electricity	-	418
	<u>1,065,112</u>	<u>832,489</u>
Operating expenses		
Repairs and maintenance	1,438,952	1,756,269
Security	70,206	107,891
	<u>1,509,158</u>	<u>1,864,160</u>
	<u>6,329,238</u>	<u>6,581,500</u>

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

15. Costs and Expenses (Continued)

	Nine months ended September 30,	
	2020	2019
Cost of goods and services		
Depreciation and amortization (Notes 8 and 9)	10,456,326	10,361,768
Fee transmission cost	809,391	880,282
Salaries and other benefits to employees	359,907	363,487
Energy purchase	185,320	642,540
Repairs and maintenance	963	8,274
	<u>11,811,907</u>	<u>12,256,351</u>
Administrative expenses		
Salaries and other benefits to employees	563,909	499,737
Insurance costs	499,810	453,540
Other expenses	402,758	243,687
Regulator fees	361,564	318,625
Connection Fee Substation	358,469	354,184
Wake effect compensation (Note 18)	324,017	584,719
Professional fees	296,547	609,725
Management service agreement	241,875	-
Communication expenses	30,719	98,564
Maintenance office	12,103	24,759
Fuel	6,695	14,250
Office expenses	2,586	6,464
Donations	-	27,196
Electricity	-	790
	<u>3,101,052</u>	<u>3,236,240</u>
Operating expenses		
Repairs and maintenance	3,994,646	4,093,037
Security	223,180	359,637
	<u>4,217,826</u>	<u>4,452,674</u>
	<u>19,130,785</u>	<u>19,945,265</u>

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

15. Costs and Expenses (Continued)

Salaries and other benefits to employees are summarized as follows:

	Three months ended September 30,	
	2020	2019
Salaries and wages	247,667	229,233
Statutory contributions	38,006	33,869
Other	7,649	28,563
Seniority premium and indemnity	<u>4,660</u>	<u>15,893</u>
	<u>297,982</u>	<u>307,558</u>

	Nine months ended September 30,	
	2020	2019
Salaries and wages	770,889	668,015
Statutory contributions	105,271	99,745
Other	26,614	47,846
Seniority premium and indemnity	<u>21,042</u>	<u>47,618</u>
	<u>923,816</u>	<u>863,224</u>

Salaries and other benefits to employees are included in costs of goods and services, administrative and operating expenses as follows:

	Three months ended September 30,	
	2020	2019
Cost of goods and services	103,437	132,332
Administrative expenses	<u>194,545</u>	<u>175,226</u>
	<u>297,982</u>	<u>307,558</u>

	Nine months ended September 30,	
	2020	2019
Cost of goods and services	359,907	363,487
Administrative expenses	<u>563,909</u>	<u>499,737</u>
	<u>923,816</u>	<u>863,224</u>

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

16. Finance Cost, Net

Finance cost are detailed as follows:

	Three months ended September 30,	
	2020	2019
Interest on borrowings and lease liabilities, net	(4,235,510)	(5,012,481)
Fair value loss on derivative financial instrument	<u>1,858,438</u>	<u>(3,656,226)</u>
	<u>(2,377,072)</u>	<u>(8,668,707)</u>

	Nine months ended September 30,	
	2020	2019
Interest on borrowings and lease liabilities, net	(13,609,557)	(15,295,720)
Fair value loss on derivative financial instrument	<u>(10,936,920)</u>	<u>(11,738,887)</u>
	<u>(24,546,477)</u>	<u>(27,034,607)</u>

17. Income Tax

The income tax is presented as follows:

	September 2020	September 2019
Current tax	-	307,602
Deferred tax	<u>(175,747)</u>	<u>2,243,670</u>
	<u>(175,747)</u>	<u>2,551,272</u>

The movement in deferred income tax liabilities during the year is as follows:

	September 2020	September 2019
<i>Deferred income tax liabilities</i>		
At January 1	2,224,202	580,149
Accelerated tax depreciation charged to the condensed statement of comprehensive income	<u>(175,747)</u>	<u>2,243,670</u>
At September 30	<u>2,048,455</u>	<u>2,823,819</u>

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

17. Income Tax (Continued)

Deferred tax liability is the result of temporary differences from accelerated tax depreciation.

Under current tax legislation in the Republic of Panama, the profits of the Company from local operations are subject to income tax.

Income tax is based on the higher of the following computations:

- a. The rate of 25% on taxable income.
- b. The net taxable profit resulting from applying 4.67% to the total taxable income times the rate of 25% which represents 1.17% of taxable income (alternative minimum tax).

In certain circumstances, if the application of 1.17% of revenue results in the entity incurring losses for tax reasons, or the effective tax rate is higher than 25%, then the entity may choose to request not to apply minimum tax. In such cases, the Company must file a petition to the Tax Authority, who may authorize the no application for a term of three years.

The income tax resultant by applying the in-force rates to the net profit (loss), is reconciled with the income tax provision presented in the financial statements, as follows:

	2020	2019
(Loss) profit before income tax	(3,943,965)	2,159,968
Fiscal adjustment to recognize accelerated depreciation	(8,193,821)	(11,295,276)
Less: Non-taxable income	(54,403)	(142,760)
Plus: Non-deductible expenses	<u>10,936,919</u>	<u>11,738,887</u>
Taxable (loss) income	<u>(1,255,270)</u>	<u>2,460,819</u>
Loss carried forward	<u>-</u>	<u>(1,230,409)</u>
Net taxable gain	<u>-</u>	<u>1,230,410</u>
Income tax (traditional method)	<u>-</u>	<u>307,602</u>

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

17. Income Tax (Continued)

According to Tax Legislation of Panama, income tax returns for the last three (3) years are subject to review by fiscal authorities, including year ended December 31, 2019.

Management requested to the Tax Authority the non-application of the CAIR for the 2019 fiscal year. The request was accepted and approved for the fiscal years 2019, 2020 and 2021.

Law No.52 of August 28, 2012, established the transfer pricing regime oriented to regulate tax purposes transactions between related parties, and applicable to the taxpayer to perform operations with related parties that are tax residents of other jurisdictions. The most important aspects of this regulation include:

- Taxpayers must submit annually an information return related operations with related parties, within six (6) months following the close of the relevant fiscal period. This obligation applies to transactions from fiscal year 2012.
- Failure to submit the report shall be punishable by a fine equivalent to 1% of the total amount of transactions with related parties.
- Persons required to submit the report referred to in the preceding paragraph, shall maintain a transfer pricing study, which shall contain the information and analysis to assess and document their transactions with related parties, in accordance by Law. The taxpayer must present study only at the request of the Department of Revenue of the Ministry of Economy and Finance within 45 days of your request.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

18. Commitments

- The Company has twelve PPA Contract's assigned by three to Nuevo Chagres, Portobelo, Rosa de los Vientos and Maranon parks. The PPA's were awarded on March 21, 2012, by which energy production is sold to the three distribution companies in Panama: Empresa de Distribucion Electrica Metro-Oeste, S. A. (EDEMET) (controlled by Gas Natural Fenosa), Empresa de Distribucion Electrica Chiriqui, S. A. (EDECHI) (controlled by Gas Natural Fenosa) and Elektra Noreste, S. A. (ENSA) (controlled by Empresas Publicas de Medellin).

Each PPA states that the energy supply period is for 180 months, beginning on July 1, 2014 and finishing on September 30, 2029. Portobelo and Maranon PPA's were extended until December 2033. Price will be reset annually, keeping 75% of the base price fixed and the remaining 25% will be indexed to Panamanian Consumer Price Index (CPI). In the event that the Company is unable to fulfill its obligations under any of the contracts, the performance bonds that support the obligations may be drawn by the customers. The amounts of the performance bonds outstanding as at September 30, 2020 were US\$17,884,164 (2019 US\$21,492,232).

In December 2014, the Company signed the Wake Effect Agreement with UEP Penonome I, S. A., in which UEP II must compensate UEP Penonome I, S. A. (hereinafter "UEP I") for the energy losses caused by the preferred physical position of the wind turbines which impact the wind regime. The Company agrees to pay a monthly payment beginning with the Commercial Operation Date occurred on February 19, 2018, for 25 years term. The wake effect compensation amount is disclosed in Note 15.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

18. Commitments (Continued)

- In January 2016, the Company signed the Amendment No.4 of the PPA's with the offtaker to solve some sections that were ambiguous and penalized UEP II, even if the Company supplied the energy generated.

This amendment clarifies the following subjects:

1. The PPAs contemplate a penalty if the wind farm does not reach the expected generation committed in the PPAs. The portion that the wind farm has to comply in order to avoid such penalty is 0.6 (60%), "Fraccion de la Generacion Esperada" (FGE, for its acronym in Spanish) that represents the portion of the expected generation on an annual basis.

Based on the historical data, the probability of such penalty is remote because it depends on the energy compromised in the PPA. Historical data shows that even in the worst-case scenario the wind farm complies with 0.6. Also, the buyer must acquire all the energy produced by the seller, so the committed energy in PPAs is less than the energy produced and sold.

2. The base Consumer Price Index (CPI) was fixed to 93.05 to match with the CPI base that reports the Contraloria Nacional de Panama each month.
- On March 16, 2016, the Company was awarded four PPA Contract's by ETESA, through Resolution GC-03-2016, for hiring short-term energy supply only for 2017 until 2019, which will address the requirements of the companies EDEMET, EDECHI and ENSA. This energy it will be supply for Rosa de los Vientos (SPOT).
 - On November 10, 2017, the Company has signed a reserve contract with its affiliated generator Tecnisol I, by which the excess energy production of Rosa de los Vientos II (50 MW) Wind farm is sold to cover the affiliated company obligations with the market. The Reserve Contract states that the energy supply period is for 12 months (extendable), beginning at the moment the CND (National Dispatch Center) declares the Contract manageable and finishing one year later with the option to extend the supply period if desired by the Contract Parties. Contract Price will be fixed for all the energy supply period.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

18. Commitments (Continued)

- Turbine Supply Agreement (TSA) consists in 86 Goldwind G109 2.5 MW wind turbine generators with a hub height of 90 meters to be procured pursuant to an Amended and Restated Turbine Supply Agreement entered on April 23, 2014 (TSA) and further amended on December 10, 2014 with Goldwind International Holdings (HK) Limited, a subsidiary of wind manufacturer Xinjiang Goldwind Science and Technology (“Goldwind”) and together Goldwind Company; for the supply of:
 - 66 turbines contracted energy totaling 165 MW; divided in four wind parks:
 - Nuevo Chagres 62.5 MW.
 - Portobelo 32.5MW.
 - Rosa de los Vientos 52.5 MW.
 - Maranon 17.5 MW and.
 - 20 turbines partially contracted and merchant energy totaling 50 MW.
- Under the TSA, Goldwind Company provides a five years warranty on the equipment for defects, power curve, availability and noise. Availability is guaranteed at 95% during the warranty period. In addition, the Company entered into a 5-year service and maintenance agreement (SMA) with Goldwind Company for the operation, maintenance, repair and replacement services on the wind turbines at a fixed price adjusted for inflation, including warranties for availability and noise in line with those during the warranty period. It includes a full warranty for years 3 to 5, and the availability guarantee of 95% for those years. This SMA contract can be extended by UEP II until year ten.
- Balance of plant works are performed pursuant to a turn-key agreement for the civil works, electric and communication infrastructure, interconnection to the medium tension gird (34,5 kV), construction of the control and operations buildings and all other installation required by the Interconnected System (BOP Contract); entered into by the Company and Instalacion y Servicios CODEPA, S. A. is a Panamanian subsidiary of Grupo Cobra, on October 14, 2014, and amended on April 23, 2014.
- Delivery of turbines under the TSA was at China Port. Sea and inland transportation are provided by Tree Logistic pursuant a transportation agreement dated April 23, 2014, ended 2015.

UEP Penonome II, S. A.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

18. Commitments (Continued)

- ASEP (the regulator) granted final license for the construction, operation, maintenance, power generation and sale of wind farms Marañon, Portobelo Ballestillas, Rosa de los Vientos and New Chagres a Panamanian company Union Eolica Panameña, S. A. (UEP) through Resolutions AN No.4075-Elec the December 10, 2010, AN No.4092-Elec the December 15, 2010, AN No.5379-Elec the September 13, 2012 and AN No.4094-Elec the December 15, 2010, respectively. This final license is granted for a term of forty (40) years from September 26, 2014.
- Subsequently, the ASEP issued resolutions AN No.7252-Elec the April 11, 2014, AN No.7274-Elec the April 11, 2014, AN No.7278-Elec the April 14, 2014 and No.7326 AN-Elec of May 2, 2014, in which is authorized yield UEP for Penonome II, S. A., the final licenses originally granted to UEP.
- On September 15, 2018, the Company and UEP Penonome I, S. A., signed the Phase II Shared Assets Access Agreement, pursuant to which the Company agreed to pay to UEP I, who is the owner of and maintains the El Coco Substation to which UEP II's wind park connects, a monthly access fee of US\$27,130 and the reimbursement of maintenance costs.

19. Impact of COVID-19

On March 11, 2020, the World Health Organization declared the coronavirus strain (COVID-19) in the category of pandemic.

The COVID-19 pandemic has affected the Wholesale Electricity Market (The Market) in Panama, since March the Government decreed a total quarantine with movement restrictions, this caused many businesses and industries to remain closed or reduce their production capacity, which in turn caused a wave of layoffs and work contract suspensions, this caused an economic crisis in the country and in the electricity sector since many people did not have the resources to pay for their electricity bills.

Notes to the Condensed Financial Statements

September 30, 2020

(All amounts in US\$ unless otherwise stated)

19. Impact of COVID-19 (Continued)

To minimize the effect of the pandemic the Government approved the Decree 291 of May 13th, 2020 that established a moratorium for the months from March to September to establish a non-obligation of payment for the people affected by the pandemic. With great part of the regulated clients not paying, this decreased the cash flow of the Distribution Companies and these could not keep with their payments to the Generation Companies. The foregoing caused a domino effect in the Market since the lack of liquidity of the Distribution Companies prevented them from fulfilling the full payments of the PPAs with the Generation Companies and ASEP through resolution AN No- 16095-Ele of May 21th 2020 let the Distribution Companies to pay proportionally with their income the commitments with the Market and also allows the Generation Companies affected by the pandemic due to this lack of payment by the Distribution Companies to pay their DTE (Economic Transactions Document) obligations proportionally without their payment guarantee being executed by the CND (National Dispatch Center).