

Compañía de Electricidad de San Pedro de Macorís, S. A.

(Branch in Dominican Republic)

Independent Auditor's Report and

Financial Statements as at

December 31, 2020

Compañía de Electricidad de San Pedro de Macorís, S. A.
(Branch in Dominican Republic)

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December 31, 2020

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Independent Auditor's Report

To the Shareholders and
Board of Directors of
Compañía de Electricidad de San Pedro de Macorís, S. A.
(Branch in Dominican Republic)

Our qualified opinion

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the financial statements present fairly, in all material respects, the financial position of Compañía de Electricidad de San Pedro de Macorís, S. A. (Branch in Dominican Republic) ("the Branch") as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Branch's financial statements comprise:

- The balance sheet as of December 31, 2020;
- The statement of comprehensive income for the year then ended;
- The statement of changes in equity for the year then ended;
- The statement of cash flows for the year then ended; and
- The notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for qualified opinion

As described in Note 6 to the financial statements, as of December 31, 2020 the balance of trade and other receivables includes \$13.5 million (2019: \$12.6 million) related to a reimbursement that has not been accepted by the counterparty and, for which the Branch initiated an arbitration process in 2020. According to IFRS, this receivable shall be recognised only when it is virtually certain that reimbursement will be received. Our audit opinion on the financial statements for the year ended December 31, 2019 was qualified for this matter. Accordingly, the balance of trade and other receivables and of opening retained earnings as of December 31, 2020 should be reduced by \$13.5 million and \$12.6 million, respectively (2019: \$12.6 million and \$5.2 million, respectively), and the total comprehensive loss for the year 2020 should be increased by \$0.9 million (2019: the comprehensive income should be decreased by \$7.4 million).

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.



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Independence

We are independent of the Branch in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Institute of Authorized Public Accountants of the Dominican Republic (ICPARD), that are relevant to our audit of the financial statements in the Dominican Republic. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of ICPARD.

Other responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Branch's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.



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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A large, stylized signature of "PricewaterhouseCoopers" in a cursive script, with a large loop at the beginning.

May 25, 2021

Compañía de Electricidad de San Pedro de Macorís, S. A.
(Branch in Dominican Republic)

Balance Sheet

(All amounts in \$ unless otherwise stated)

		December 31,	
	Notes	2020	2019
Assets			
Current assets			
Cash	5, 10 and 11	6,132,755	7,498,182
Trade and other receivables	6, 10 and 11	43,723,737	21,677,141
Inventories	7	37,416,402	42,597,770
Prepaid expenses	8	15,112,837	18,896,497
Total current assets		102,385,731	90,669,590
Non-current assets			
Long-term prepaid expenses	8	3,205,118	4,192,070
Property, plant and equipment, net	9	126,805,503	110,967,033
Other assets		133,349	127,792
Total non-current assets		130,143,970	115,286,895
Total assets		232,529,701	205,956,485
Liabilities and Equity			
Current liabilities			
Short-term and current portion of long-term debt	10 and 14	24,727,273	-
Trade and other payables	10 and 12	9,324,724	10,091,128
Tax payable	16	666,249	-
Other current liabilities	10 and 13	1,197,594	830,207
Total current liabilities		35,915,840	10,921,335
Long-term debt	10 and 14	32,472,938	13,209,469
Deferred income tax liabilities	16	19,763,544	23,294,329
Total liabilities		88,152,322	47,425,133
Equity	15		
Capital contribution		76,942,000	76,942,000
Retained earnings		67,435,379	81,589,352
Total equity		144,377,379	158,531,352
Total liabilities and equity		232,529,701	205,956,485

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

Compañía de Electricidad de San Pedro de Macorís, S. A.
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Statement of Comprehensive Income
(All amounts in \$ unless otherwise stated)

		Year Ended December 31,	
	Notes	2020	2019
Revenue	17	56,690,769	138,357,500
Costs of providing services	18	<u>(67,838,520)</u>	<u>(135,608,877)</u>
Gross (loss) profit		<u>(11,147,751)</u>	<u>2,748,623</u>
Administrative expenses	18	(7,023,287)	(98,136)
Other income - net		242,149	359,134
Foreign exchange loss – net		<u>(252,469)</u>	<u>(175,654)</u>
		<u>(7,033,607)</u>	<u>85,344</u>
Operating (loss) profit		<u>(18,181,358)</u>	<u>2,833,967</u>
Financial income, net	19	<u>496,600</u>	<u>807,549</u>
(Loss) profit before income tax		<u>(17,684,758)</u>	<u>3,641,516</u>
Income tax	16	<u>3,530,785</u>	<u>(96,050)</u>
Total comprehensive (loss) income		<u><u>(14,153,973)</u></u>	<u><u>3,545,466</u></u>

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

Compañía de Electricidad de San Pedro de Macorís, S. A.
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Statement of Changes in Equity
(All amounts in \$ unless otherwise stated)

	Note	Capital Contribution	Retained Earnings	Total
Balance as of January 1, 2019		76,942,000	79,555,886	156,497,886
Total comprehensive income		-	3,545,466	3,545,466
Dividends paid	15	-	(1,512,000)	(1,512,000)
Balance as of December 31, 2019		76,942,000	81,589,352	158,531,352
Total comprehensive loss		-	(14,153,973)	(14,153,973)
Balance as of December 31, 2020		76,942,000	67,435,379	144,377,379

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

Compañía de Electricidad de San Pedro de Macorís, S. A.
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Statement of Cash Flows

(All amounts in \$ unless otherwise stated)

	Notes	Year Ended December 31, 2020	2019
Cash flows from operating activities			
(Loss) profit before income tax		(17,684,758)	3,641,516
Adjustments to reconcile (loss) profit before income tax to net cash used in operating activities			
Depreciation and amortization	18	6,805,292	6,101,497
Amortization of debt financing costs		52,242	-
Finance income	19	(883,635)	(820,269)
Financial expense		387,035	-
Impairment of inventories		-	(345,417)
Write off accounts payable	20	-	(786,968)
Write off accounts receivable	18	-	1,748,677
Changes in assets and liabilities:			
Trade and other receivables		(22,046,596)	9,284,564
Inventories		5,181,368	(55,093)
Prepaid expenses		5,117,533	(2,731,508)
Other assets		(15,621)	(3,144)
Trade and other payables		(3,258,218)	(18,784,161)
Other current liabilities		<u>1,033,636</u>	<u>(1,720,035)</u>
Cash used in operating activities		(25,311,722)	(4,470,341)
Interest received		883,635	820,269
Interest paid		(1,144,931)	-
Taxes paid		<u>(346,921)</u>	<u>(1,420,348)</u>
Net cash used in operating activities		<u>(25,919,939)</u>	<u>(5,070,420)</u>
Cash flows from investing activities			
Additions of property, plant and equipment and net cash used in investing activities	9	<u>(19,383,988)</u>	<u>(15,171,820)</u>
Cash flows from financing activities			
Dividends paid	15	-	(1,512,000)
Debt financing costs		-	(364,800)
Proceeds from short and long-term debt	14	49,038,500	13,561,500
Payment of short-term debt	14	<u>(5,100,000)</u>	<u>-</u>
Net cash provided by financing activities		<u>43,938,500</u>	<u>11,684,700</u>
Net decrease in cash during the year		(1,365,427)	(8,557,540)
Cash at beginning of year		<u>7,498,182</u>	<u>16,055,722</u>
Cash at end of year		<u><u>6,132,755</u></u>	<u><u>7,498,182</u></u>

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

Compañía de Electricidad de San Pedro de Macorís, S. A.

(Branch in Dominican Republic)

Notes to the Financial Statements

December 31, 2020

(All amounts in \$ unless otherwise stated)

1. General information

Compañía de Electricidad de San Pedro de Macorís, S. A. (Branch in Dominican Republic) (commercially known as “ENERGAS”), is a Limited Company redomiciled on January 7, 2019 to the Republic of Panama, and authorized to establish legal domicile in Dominican Republic as a Branch by decree No. 435-98 issued by the Executive Power.

ENERGAS is a wholly owned subsidiary of CESPM Holdings S. A. Its Branch in Dominican Republic was formed for the sole purpose of owning a ‘300-megawatt’, combined-cycle, oil-fired, electric generating facility (the “Facility”), located in the province of San Pedro de Macorís, Dominican Republic. Until April 2019, the Facility was managed and operated by Basic de la República Dominicana (Basic) (Note 21). The Branch sells 100% of its capacity and energy available from the Facility to the Corporación Dominicana de Empresas Eléctricas Estatales (“CDEEE”), under a Power Purchase Agreement (“PPA”) and First Amendment Power Purchase Agreement (Note 21).

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Branch have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretations Committee (“IFRIC Interpretations”) applicable to entities reporting under IFRS.

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch’s accounting policies. 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.

2.2 Changes in accounting policies and disclosures

There are neither IFRS or IFRS interpretations that are applicable to year 2020, nor new IFRS or IFRS interpretations that are not yet effective and that would be expected to have a material impact on the Branch.

2.3 Foreign currency translation

(a) Functional and presentation currency

The United States dollar (\$) is the functional and presentation currency of the Branch under IFRS due to its prevailing use in most of the Branch’s transactions, such as billing, purchase of fuel, spare parts and property, plant and equipment.

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(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in the statement of comprehensive income.

2.4 Financial assets

The Branch classifies its financial assets at amortized cost. This classification was applied based on the business model defined to manage the financial assets and the characteristics of the contractual flows. Management determines the classification of its financial assets at initial recognition.

The financial assets at amortized cost include cash, trade and other receivables.

Debt instruments are classified at amortized cost when the assets held for collection of cash flows only represent payments of principal and interests. Financial income from these assets is calculated by using the effective interest rate method.

A financial asset is derecognized when the rights to receive its cash flows have expired, or the Branch has transferred the rights to receive the asset's cash flows or has assumed the obligation to pay the total cash flows received without dilation to a third party under a transfer agreement; and the Branch (a) has transferred substantially all the risks and benefits of the assets, or (b) has not transferred or retained substantially all the risks and benefits of the assets, but has transferred its control.

Any gains or losses arising from the derecognition of these assets is directly recognized in the statement of comprehensive income.

2.4.1 Cash

For the purpose of presentation in the statement of cash flows, cash includes cash on hand and cash at bank accounts.

2.4.2 Trade and other receivables

Trade and other receivables are amounts due from customers for services provided in the ordinary course of business. They are classified as current assets as collection is expected in one year or less. Trade and other receivables are initially recognized at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognized at fair value. They are subsequently measured at amortized cost using the effective interest method, less loss allowance.

The Branch applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. The carrying amount of trade receivables is directly reduced by the impairment loss. Management has no expectation of loss, considering that there have been no past or short-term loss events for accounts receivable.

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2.5 Inventories

Inventories are stated at the lower of cost and net realizable value. Inventories consist of fuels and spare parts. Fuel is recorded at average cost that does not exceed market price since fuel generally has a very short turnover period. Spare parts are recorded at average cost and written down when consumed or ruled out.

Spare parts inventories consist of major plant equipment and recurring maintenance supplies maintained in order to facilitate routine maintenance activities.

2.6 Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment, if any. Depreciation is 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 Branch and the cost of the item can be measured reliably. The Branch 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 construction and installation electric power plants, is capitalized within property, plant and equipment according to its nature. Interest expense applicable under the construction period is capitalized. The Branch begins depreciating an item of property, plant and equipment when it is available for use.

Land is not depreciated.

Depreciation rates are as follows:

Asset	Useful Life in Years
Buildings	40
Electric plant	30
Machinery and equipment	5
Transportation equipment	5
Office equipment and furniture	3-5

2.7 Prepaid expenses

Mainly comprised by payments for a long-term service agreement (Note 21) to provide maintenance and spare parts to a generation plant that are measured at cost and the amortization is recorded in the statement of comprehensive income once the good or service is received.

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2.8 Impairment of long-lived assets

Property, 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).

2.9 Trade and other payables

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

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

2.10 Debt

Debt is recognized initially at fair value, net of transaction costs incurred. The debt is subsequently carried at amortized cost, using the effective interest method.

2.11 Borrowing costs

The general and specific financial costs directly attributable to the acquisition, construction or production of a qualified asset, which are assets that necessarily take a substantial period of time to be ready for use or sale, are added to the cost of those assets, up to the time when such assets are substantially ready for use or sale.

All other financing costs are recognized in profit or loss in the period in which they are incurred.

2.12 Income tax

The tax expense for the period comprises current and deferred income tax and dividend tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, tax is also recognized in other comprehensive income or directly in equity.

Under Dominican tax legislation, there is an alternative or minimum tax (tax on assets) that is calculated, in the case of power generation, transmission and distribution companies defined in the General Electricity Law No. 125-01, on the basis of at 1% of the balance of property, plant and equipment, net of depreciation. The asset tax is coexistent with the income tax, and taxpayers must settle and pay the higher one annually. In the event that in one year the Branch has a tax obligation to pay the tax on assets, the excess over income tax is recorded as an operating expense in the statement of comprehensive income.

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Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is determined using tax rates that have been enacted or substantially enacted at the 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 only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

2.13 Employee benefits

Local regulations require the employers to pay severance compensations to employees that are dismissed without justification and other reasons established in the Dominican Labour Code. The amount of this compensation depends on several factors, including the length of service. This dismissal indemnity is charged to expense when incurred.

The Branch's employees are affiliated to Administrators of Pension Funds and the contributions are charged as expense in the statement of comprehensive income. As from the monthly payment of this accrual, the Branch does not maintain any other liability for this concept.

The Branch provides other benefits to employees, such as bonus, Christmas bonus and vacations, among others, in accordance with the Dominican Labour Code, as well as other benefits according to their internal policies. These benefits are charged to expense when incurred.

2.14 Provisions

Provisions are recognized when the Branch has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the amount of the expenditures expected to be required to settle the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.15 Dividend distribution

Dividend distribution to the Branch's shareholders is recognized as a liability in the Branch's financial statements in the period in which the dividends are approved.

2.16 Revenue recognition

Revenues derive from the Power Purchase Agreement (PPA) (Note 21). Revenues from energy sales are recognized on a monthly basis at specified rates pursuant the PPA and are based upon output delivered. The following criteria should be met in order to recognize revenue: 1) persuasive evidence of an arrangement exists; 2) services have been rendered; 3) the sales price is fixed or determinable; and 4) collection can be reasonably assured. Revenues are measured at fair value of the consideration received or receivable for the sale of the energy.

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Under the PPA, should a law change occurs which increases or decreases the Branch's net income in relation to its situation before the change of law, the Branch is entitled to make adjustments in the capacity revenues to their invoices or any outstanding payments for the purposes of maintaining its original cash flows, thus not affecting its financial position.

2.17 Operating leases – Branch as lessor

Agreements whereby the Branch conveys to a client the right use of an asset for an agreed period of time in return for a payment, or series of payments, are classified and accounted for a lease. Leases where the Branch retains all the risks and rewards of ownership are classified as operating leases.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income on operating leases, or capacity charge, is recognized over the term of the lease as billed since it is the most representative basis of the time pattern in which use benefit of the asset is diminished.

3. Financial risk management

3.1 Financial risk factors

The Branch's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. Risk management is carried out by the General Manager and the Financial Manager under the supervision of the Board of Directors. They identify and evaluate financial risks in close co-operation with management of departments within the Branch.

(a) Market risk

(i) Foreign exchange risk

The Branch is not substantially exposed to the risk of foreign exchange fluctuation, since its revenues, expenses and borrowings are mainly expressed in United States dollars.

(ii) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or associated cash flows will fluctuate due to changes in market interest rates. As of December 31, 2020, the Branch maintains a debt instrument with a variable component, 3-month LIBOR rate plus a 2.90% spread (Note 14). The Branch performed a sensitivity analysis on the increase in the rate for this loan. An increase of 1% in the rate would not represent a material impact on the Branch's results or cash flows.

(b) Price risk

The Branch is exposed to the risk of fluctuation in the purchase price of the fuel used to generate energy. To mitigate price risk, the PPA includes the fluctuations of the fuel price in the formulas for indexing prices.

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(c) Credit risk

Credit risk arises mainly from cash and trade and other receivables. The Branch maintains most of its bank accounts at independently rated parties with a minimum rating of "AA-". The Branch has no significant risk from trade receivables since it has only one PPA representing the total revenues, which has a guarantee extended by the Dominican State for due payments.

(d) Liquidity risk

Liquidity risk is the risk that the Branch might not be able to comply with all its obligations. The Branch minimizes this risk by maintaining adequate levels of cash on hand, in current bank accounts or investments in certificates to fulfill commitments with recurring suppliers.

The table below analyzes the Branch's financial liabilities grouped according to the relevant maturity based on the remaining period on the balance sheet until the contractual maturity date. The amounts included in the table are undiscounted contractual cash changes. The balances due within 12 months are close to their book values since the impact of the discount is not significant.

At December 31, 2020

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Borrowings	26,257,865	5,444,412	15,484,399	15,283,937	62,470,613
Trade and other payables	9,324,724	-	-	-	9,324,724
Other current liabilities	993,042	-	-	-	993,042
	<u>36,575,631</u>	<u>5,444,412</u>	<u>15,484,399</u>	<u>15,283,937</u>	<u>72,788,379</u>

At December 31, 2019

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Borrowings	670,143	2,340,956	6,513,593	7,036,845	16,561,537
Trade and other payables	10,091,128	-	-	-	10,091,128
Other current liabilities	367,759	-	-	-	367,759
	<u>11,129,030</u>	<u>2,340,956</u>	<u>6,513,593</u>	<u>7,036,845</u>	<u>27,020,424</u>

3.2. Capital risk management

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

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In order to maintain or adjust the capital structure, the Branch 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 Branch monitors capital on the basis of the "financial liabilities to tangible net worth ratio", which is one of the ratios that the Branch should consider at the time of paying dividends or incurring debt. This ratio is calculated as liabilities divided by tangible net worth. Liabilities are calculated as debt. Tangible net worth is calculated as "equity" as shown in the balance sheet.

This ratio basically measures the leverage of the Branch as a percent of the equity invested by the shareholder and provides the percentage of the funding of the Branch versus shareholder's equity. Based on similar companies in the power market sector and the performance of the Branch, management considers a ratio up to 1.75 as healthy.

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.

4.1 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.

(a) Property, plant and equipment depreciation

The Branch makes judgements in assessing its assets' estimated useful lives and in determining estimated residual values, as applicable. Depreciation is calculated on a 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 asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(b) Impairment of property, plant and equipment

The Branch reviews property, plant and equipment for impairment when events or changes in circumstances occur that indicate that the carrying amount may not be recoverable, in accordance with the accounting policy described in Note 2.9.

4.2 Critical judgment in applying the Branch's accounting policies

Lease

The Branch identifies arrangements that do not have the legal form of a lease contract but nonetheless convey the right to control the use of an asset or group of specific assets to the purchaser. Such arrangements are treated as leases and analyzed with reference to IFRS 16 for classification as either finance or operating leases. In the case of a facility in which the Branch classifies its Power Purchase Agreement as an operating lease, revenues from capacity charges are recognized as income from lease when billed, since this is a systematic basis representative of the facility's use and consequently represents a reasonable association of the revenues for capacity charge to the cost related to the operation and maintenance of the facility.

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5. Cash

	2020	2019
Cash in banks	6,131,550	7,496,859
Cash in hand	<u>1,205</u>	<u>1,323</u>
	<u>6,132,755</u>	<u>7,498,182</u>

6. Trade and other receivables

	2020	2019
Trade receivables	29,935,250	8,402,519
Account receivable due to change of law (a)	13,502,731	12,621,062
Related parties (Note 20)	35,733	52,503
Other (b)	<u>250,023</u>	<u>601,057</u>
	<u>43,723,737</u>	<u>21,677,141</u>

(a) In July 2020, the Branch initiated an international arbitration to recover the reimbursement due to the “change of law” situation, plus interest, billed to the CDEEE under the PPA.

(b) During 2019, the Branch had write-offs of \$1,748,677 of other accounts receivable (Note 18).

7. Inventories

	2020	2019
Spare parts	25,914,829	26,303,488
Fuels	7,527,101	15,241,734
In transit (a)	<u>3,974,472</u>	<u>1,052,548</u>
	<u>37,416,402</u>	<u>42,597,770</u>

(a) In 2020 includes both fuel and spare parts (2019: mainly spare parts).

8. Prepaid expenses

	2020	2019
Prepaid taxes	3,605,873	3,616,083
Long-term program contract (Note 21)	13,157,404	17,293,409
Insurance	1,499,821	1,172,722
Other	<u>54,857</u>	<u>1,006,353</u>
	<u>18,317,955</u>	<u>23,088,567</u>
Less: Long-term portion of prepaid expenses (Note 21)	<u>(3,205,118)</u>	<u>(4,192,070)</u>
	<u>15,112,837</u>	<u>18,896,497</u>

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9. Property, plant and equipment, net

	Land (a)	Buildings	Electric Plant (a)	Machinery and Equipment	Transport Equipment	Office Equipment and Furniture	Construction in Progress (b)	Total
Year ended December 31, 2020								
Opening net book amount	1,425,707	153,423	84,047,019	-	88,224	102,206	25,150,454	110,967,033
Additions (c)	-	-	-	-	-	23,765	22,609,933	22,633,698
Disposals	-	-	-	-	-	(16,110)	-	(16,110)
Capitalization	-	-	46,455,690	-	-	-	(46,455,690)	-
Depreciation charge	-	(6,364)	(6,700,407)	-	(34,449)	(37,898)	-	(6,779,118)
Closing net book amount	<u>1,425,707</u>	<u>147,059</u>	<u>123,802,302</u>	<u>-</u>	<u>53,775</u>	<u>71,963</u>	<u>1,304,697</u>	<u>126,805,503</u>
At December 31, 2020								
Cost	1,425,707	254,542	225,442,767	212,815	327,941	612,091	1,304,697	229,580,560
Accumulated depreciation	-	(107,483)	(101,640,465)	(212,815)	(274,166)	(540,128)	-	(102,775,057)
Net book amount	<u>1,425,707</u>	<u>147,059</u>	<u>123,802,302</u>	<u>-</u>	<u>53,775</u>	<u>71,963</u>	<u>1,304,697</u>	<u>126,805,503</u>
Year ended December 31, 2019								
Opening net book amount	1,425,707	159,787	90,056,454	-	129,868	65,359	10,059,535	101,896,710
Additions	-	-	-	-	1,849	79,052	15,090,919	15,171,820
Depreciation charge	-	(6,364)	(6,009,435)	-	(43,493)	(42,205)	-	(6,101,497)
Closing net book amount	<u>1,425,707</u>	<u>153,423</u>	<u>84,047,019</u>	<u>-</u>	<u>88,224</u>	<u>102,206</u>	<u>25,150,454</u>	<u>110,967,033</u>
At December 31, 2019								
Cost	1,425,707	254,542	178,987,077	212,815	327,941	604,436	25,150,454	206,962,972
Accumulated depreciation	-	(101,119)	(94,940,058)	(212,815)	(239,717)	(502,230)	-	(95,995,939)
Net book amount	<u>1,425,707</u>	<u>153,423</u>	<u>84,047,019</u>	<u>-</u>	<u>88,224</u>	<u>102,206</u>	<u>25,150,454</u>	<u>110,967,033</u>

- (a) Comprises an electric plant leased by the Branch under an operating lease (Note 21). The future minimum lease payments receivable, under the non-cancellable operating lease, are as follows:

	2020	2019
No later than 1 year	8,238,542	8,085,899
Later than 1 year and no later than 5 years	<u>1,377,347</u>	<u>9,615,889</u>
	<u>9,615,889</u>	<u>17,701,788</u>

The Branch signed a loan contract that includes a guarantee on the plant and land (Note 14).

As of December 31, 2020, corresponds to the construction of a fuel terminal amounting to \$1,304,687. As of December 31, 2019, corresponds to the "Gas conversion" project, which includes the natural gas conversion of the Facility that amounted \$23,830,758, completed during 2020 and the construction of the fuel terminal.

Property, plant and equipment include interest on financing that is directly attributed to the construction of the assets. During the years ended December 31, 2020 and 2019, capitalized interest amounted to \$757,896 and \$217,537, respectively.

- (b) From the total amount of acquisitions in 2020, \$2,491,814 represent non-cash transactions, excluding capitalized interest.

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10. Financial instruments by IFRS 9 category

The accounting policies for financial instruments have been applied to the line items below:

	At Amortized Cost	
	2020	2019
Assets per balance sheet		
Cash	6,132,755	7,498,182
Trade and other receivables	43,723,737	21,677,141
Total	<u>49,856,492</u>	<u>29,175,323</u>
Liabilities per balance sheet		
Trade and other payables	9,324,724	10,091,128
Other current liabilities	993,042	367,759
Borrowings	57,200,211	13,209,469
Total	<u>67,517,977</u>	<u>23,668,356</u>

11. Credit rating of financial assets

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

	2020	2019
Cash at banks and short-term bank deposits (a)		
International credit rating – Fitch		
AA+	155,589	123,257
AA-	-	31,794
A+	1,760,671	7,341,808
A-	4,215,290	-
	<u>6,131,550</u>	<u>7,496,859</u>

(a) The remaining “Cash and cash equivalents” in the balance sheet corresponds to cash on hand (Note 5).

Trade receivables		
Counterparties without external credit rating		
Existing clients/related parties (more than 6 months) with some defaults in the past.	43,437,981	21,076,084
Other without external credit ratings or defaults in the past.	285,756	601,057
	<u>43,723,737</u>	<u>21,677,141</u>

12. Trade and other payables

	2020	2019
Trade payables	9,134,946	10,071,992
Related party (Note 20)	-	7,041
Other	189,778	12,095
	<u>9,324,724</u>	<u>10,091,128</u>

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13. Other current liabilities

	2020	2019
Bonus accrual	204,552	462,448
Tax withholdings payable	973,289	367,759
Accrued interest payable	19,753	-
	<u>1,197,594</u>	<u>830,207</u>

14. Debt

	2020	2019
Current		
Short-term and current portion of long-term (a)	<u>24,727,273</u>	<u>-</u>
Long-term		
Bank loan (b)	35,000,000	13,561,500
Less: Current portion of long-term	<u>(2,227,273)</u>	<u>-</u>
	32,772,727	13,561,500
Less: Current portion deferred financing cost	<u>(299,789)</u>	<u>(352,031)</u>
Total Long-term debt	<u>32,472,938</u>	<u>13,209,469</u>

(a) As of December 31, 2020, includes \$22.5 million in Letter of Credit disbursements with two financial institutions at 2.36% and 3.04% annual rates, and maturities of less than one year.

(b) Represents the total disbursement of a loan agreement with Popular Bank, Ltd. of Panama, with the purpose of concluding the Gas Conversion Project of the Plant. The loan agreement was signed for \$35 million with a grace period of 18 months from the date of the first disbursement that was amended to add three months to the grace period and a new Letter of Credit classified as short-term debt in the section (a). The loan bears interest at the applicable London Interbank Offered Rate (LIBOR) plus a margin of 2.90% per year that will be reviewed quarterly after the first disbursement. After the grace period, principal payments will be made in 22 equal consecutive quarterly installments plus a balloon payment of 30% of the loan. The contract has three fulfillment guarantees: 1.- pledge without depopulation on the main equipment and machinery of the plant, 2.- PPA amendment signed with the CDEEE until 2032 (Note 21) and 3.- assignment of the EPC contract signed with Siemens for the conversion of the Plant to natural gas, which ended during 2020.

Due dates of the long-term debt and the total exposure of the Branch's borrowings to interest rate changes, contractual re-pricing or new borrowing in the future date at December 31, 2020 and 2019, are as follows:

	2020	2019
Less than 6 months	1,113,637	-
6 – 12 months	1,113,637	-
1 – 5 years	17,818,181	8,630,045
More than 5 years	<u>14,954,545</u>	<u>4,931,455</u>
	<u>35,000,000</u>	<u>13,561,500</u>

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The fair value of long-term debt at December 31, 2020 and 2019, is as follows:

	Carrying value		Fair value	
	2020	2019	2020	2019
Long-term debt	<u>35,000,000</u>	<u>13,561,500</u>	<u>32,325,050</u>	<u>12,806,764</u>
		2020	2019	
Outstanding debt at January 1		13,561,500	-	
Proceedings from short and long-term debt		49,038,500	13,561,500	
Payment of short-term debt		<u>(5,100,000)</u>	<u>-</u>	
Outstanding debt at December 31		<u>57,500,000</u>	<u>13,561,500</u>	

15. Equity

(a) Capital contribution:

The Branch was organized with an assigned contribution of \$50,000. Additionally, shareholders have increased the capital assigned to the Branch for the equivalent of \$76,942,000 as of December 31, 2020 and 2019.

(b) Dividends:

As of December 31, 2020, no dividends were declared. As of December 31, 2019, the Board of Directors approved a payment of dividends in cash amounting to \$1,512,000 that were paid in that year.

16. Income tax

The Dominican Republic Tax Code requires companies to file their corporate income tax returns denominated in Dominican pesos (RD\$). In addition, Article 293 of the tax law establishes the deduction/recognition of foreign exchange fluctuations in the determination of taxable income. This law also establishes that the tax authorities will annually indicate the exchange rate to be used for tax purposes. Consequently, companies that use a functional currency other than the Dominican peso are required by law to keep accounting records and tax filings in Dominican pesos. The Tax Code establishes a 27% income tax applied on taxable income and a 1% tax on assets (Asset Tax) as an alternative minimum tax applicable when the income tax is lower than the latter.

16.a Breakdown of tax expense

	2020	2019
Current corporate income tax	-	1,010,112
Deferred income tax	(3,530,785)	(443,230)
Other	<u>-</u>	<u>(470,832)</u>
Income tax expense	<u>(3,530,785)</u>	<u>96,050</u>

For the year ended December 31, 2020 and 2019 the effective tax rate resulted in 21% and 3%, respectively.

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16.b Reconciliation of the theoretical and effective tax expense (Tax proof)

The tax on the Branch's (loss) profit before income tax differs from the theoretical amount that would arise from the application of the corporate tax rate to profits of the entity. The reconciliation between the pre-tax (loss) profit and the tax loss/taxable income and the current income tax, is as follows:

	2020	2019
(Loss) profit before income tax	(17,684,758)	3,641,516
Difference in functional currency for tax and accounting purposes	6,994,381	5,330,870
Property, plant and equipment depreciation	(2,290,330)	(58,274)
Inflation adjustment of nonmonetary assets	(1,797,430)	(1,204,363)
Non-deductible expenses net of change in law	323,830	(3,968,593)
(Fiscal loss) taxable income (a)	(14,454,307)	3,741,156
Tax calculated at the domestic tax rates applicable	-	1,010,112

(a) The fiscal loss can be used to offset future taxable income in the next five years, with a maximum of 20% annually.

As of December 31, 2020, the tax on assets was computed as follows, and classified as administrative expenses in the statement of comprehensive income (Note 18):

Total property, plant and equipment, net	126,805,503
Other	113,521
Adjustment for exchange effect	(60,294,167)
Taxable assets	66,624,857
Tax rate	1%
Tax on assets	666,249

16.c Breakdown of deferred tax assets and liabilities by nature

The deferred income tax assets/liabilities recognized in the balance sheet are as follows:

	2020	2019
<i>Deferred income tax assets:</i>		
Other reserves	18,535	272,826
Fiscal losses	3,902,663	-
Total deferred income tax assets	3,921,198	272,826
<i>Deferred income tax liabilities:</i>		
Tax depreciation to be recovered after 12 months	(23,684,742)	(23,567,155)
Total deferred income tax liabilities	(23,684,742)	(23,567,155)
Total deferred income tax, net	(19,763,544)	(23,294,329)

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The ultimate realization of the deferred income tax asset depends on the future generation of net taxable income during the periods in which the temporary differences are deductible. Management believes that there is a sufficient basis for assessing that the deferred tax asset is recoverable.

17. Revenue

	2020	2019
Revenue from contract with the customer (Note 21)	46,974,920	128,678,470
Operating lease of power generation facility (Notes 9 and 21)	8,085,800	7,937,414
Other	1,630,049	1,741,616
	<u>56,690,769</u>	<u>138,357,500</u>

18. Costs and expenses by nature

The Branch classifies its expenses by function. The most significant items are as follows:

	2020	2019
Fuel	40,795,951	114,287,201
Repairs and maintenance (a)	14,119,799	8,816,441
Depreciation and amortization	6,805,292	6,101,497
Employee costs and benefits	2,928,664	2,685,375
Insurance	2,435,222	2,166,490
Management fees (Note 20)	1,643,836	165,781
Tax on assets	666,249	-
Professional services	643,424	652,649
Electricity	421,066	608,568
Chemical products	412,217	428,520
O&M reimbursement (Note 20)	28,327	754,797
Accounts receivable write-off	-	1,748,677
Change of law (b)	-	(6,764,919)
Other	3,961,760	4,055,936
	<u>74,861,807</u>	<u>135,707,013</u>

(a) During 2020, the Branch performed a major maintenance of its plant of approximately \$8.6 million in connection with Unit 20 under terms and conditions of the long-term program contract (LTPC). The total expense comprises spare parts of \$6.7 million and service fees for major maintenance of \$1.9 million. In 2019, the Branch performed a major maintenance in Unit 30 steam turbine of approximately \$3.1 million.

(b) Corresponds to the change of law resulting from the tax paid on the cash distribution of dividends of the years 2019 and 2018.

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19. Financial income - net

	2020	2019
Late payment interest	878,547	722,130
Interest income	5,088	98,139
Bank commission fees	(31,314)	(12,720)
Interest expenses	<u>(355,721)</u>	<u>-</u>
	<u>496,600</u>	<u>807,549</u>

20. Balances and transactions with related parties

The Branch is controlled by InterEnergy Group Limited, its ultimate parent. The Branch performed transactions and maintained balances with related companies, as described below:

	2020	2019
<u>Balances:</u>		
Current receivable (Note 6)	35,733	52,503
Current trade payable (Note 12) (b)	-	7,041
<u>Transactions:</u>		
Dividends paid	-	1,512,000
Management fees (a)	1,643,836	952,749
Reimbursement of costs (a)	-	754,797
Trade payable write-off (b)	-	786,968
Internet services	28,327	26,880

(a) Consists mainly of payments made to the related entities Basic Energy, Ltd, Enerla Energía de Las Americas, Inc. and Inalla Holdings, Ltd. corresponding to consultancy services, which are classified as administrative expenses in the statement of comprehensive income. In addition, in 2019 the Branch reimbursed the related entity Basic any reasonable cost incurred in the performance of its duties. For the year ended December 31, 2019, the Branch incurred in expenses of \$706,401 reimbursed to Basic (Note 18).

(b) During 2019, the Branch had write-offs for \$786,968 of trade payable to Basic.

Key management compensation

Key management includes directors (executive and non-executive) and some members of the internal executive committee. The Branch does not have post-employment benefits or other long-term benefits. The compensation paid or payable to key management for employee services is shown below:

	2020	2019
Salaries and other short-term employee benefits	<u>666,133</u>	<u>694,970</u>

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21. Commitments and contingencies

(a) Commitments

(i) Power purchase agreement (The Branch as seller)

The Branch has a PPA with CDEEE that expires in March 2022, which can be extended by mutual consent of the Branch and CDEEE. Under the terms of the PPA, the Branch is required to sell the entire energy output generated by the Facility to CDEEE. CDEEE has the exclusive right to order dispatch from the Facility and is obligated to purchase the energy output generated by the Facility. In addition, CDEEE is required to pay for the entire electric capacity installed by the Branch.

As defined in the PPA, CDEEE is required to pay the Branch each month a capacity charge, energy output and cold start charge. The Branch receives a monthly energy payment based on the electrical output delivered to CDEEE, to the extent that the Facility is ordered to dispatch. Energy prices vary in accordance to the monthly published fuel index price. The State of the Dominican Republic ("SDR") had issued a guarantee for CDEEE due payments under the PPA pursuant to an implementation agreement ratified by the Dominican Congress (the "Implementation Agreement").

On December 19, 2018 an amendment to the PPA was signed and became effective when certain requirements of the amendment were met. The main changes included in this amendment are life extension of the PPA (until February 28, 2032) and recognition of market capacity price and energy price based on the use of Liquefied Natural Gas (LNG) as a fuel.

As of January 30, 2021 all the requirements needed to implement the amendment to the PPA with CDEEE have been met and the Branch initiated its operation on the Spot Market with the use of LNG as a fuel.

(ii) Purchase of services commitment

The Branch maintains a LTSC with Siemens Power Generation Services Company, Ltd. (SPGS) and Siemens Energy, Inc. (SIEMENS) signed in July, 2014 that will expire in July 2022 or when 245,832 Equivalent Operating Hours (EOH) are achieved. The LTSC establishes the terms and conditions under which SPGS and SIEMENS agreed to provide services and spare parts for the Branch's gas turbine units and generators under a programmed outages schedule. SPGS will perform minor inspections of each Branch's unit (each 4,000 EOH), extended hot gas path (each 25,000 EOH) and major inspection outage (each 50,000 EOH), and SIEMENS will provide the spare parts of each programmed outage schedule under the scope of the LTSC.

The contract includes an advanced payment fee of \$8,000,000 to be paid in 24 equal monthly installments of \$333,333, which represents the capital parts that rotate among the three units during the contract life. In addition, it includes a fixed annual fee of \$100,000 per gas turbine per year to be paid in installments on a quarterly basis for monitoring each units' gas turbine, a variable fee paid at the end of each quarter of the year, calculated based on the EOHs that the gas turbine accrued in the previous quarter and fixed fees for scheduled outage services based on EOHs incurred. The advanced payment fee is considered as prepaid expenses and is amortized over the term of the contract. At December 31, 2020 and 2019, the prepaid expenses include \$13,157,404 and \$17,293,409, respectively, for this concept.

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(iii) Service agreement

Basic managed and operated the Facility under an agreement with an original maturity in March 2022. In September 2019 this agreement was terminated by decision of the Board of Directors as part of a share purchase agreement signed with a third party. As part of the contract termination, the employees laboring at the plant facilities were previously transferred to the Branch's payroll.

(iv) Regasified sale LNG and purchase contract

The Branch has a Regasified Sale LNG and Purchase Contract (the "RSLPC") with AES Andres DR, S. A. ("AES Andres") signed in May 2019 that expires in November 2032. The RSLPC establishes the terms and conditions under which AES Andres agrees to sell and deliver LNG to the Branch using gas pipeline. During each Contract Year, AES Andres shall sell and deliver to ENER GAS Power Plant and ENER GAS shall purchase, take and pay for, or pay for if not taken, as established in the RLSPC, a quantity of Regasified LNG on a reasonably ratable basis. The quantity of Regasified LNG will be established taking into account the Parties' operational constraints communicated by the Parties, and will have a total British Thermal Unit ("Btu") content equal to the Designated Annual Contract Quantity ("ACQ") for such Contract Year that shall be set in each December Notice. The quantity may be further adjusted in accordance with this RSLPC. The Designated ACQ for any Contract Year shall not exceed the Maximum ACQ. ENER GAS's right to nominate less than the Maximum ACQ in any Contract Year shall not be based on commercial reasons intended to achieve an economic gain that would derive from buying Regasified LNG, LNG or Natural Gas at prices below the Contract Price or fueling of the Power Plant by alternative fuels. As part of the Power Market Notice, ENER GAS shall provide a documented analysis of the power market for each month of the relevant Contract Year, and for the two following Contract Years. The analysis shall document the aggregate market conditions for why the Buyer cannot consume the Maximum ACQ and consequently generate electricity at the Power Plant for the sale at a profit within the Dominican Republic electric power grid during such Contract Year.

(b) Contingencies

As of December 31, 2020 and 2019, the Branch does not have litigation or lawsuits filed against it.

22. COVID-19 impact and action plans

The World Health Organization declared the coronavirus strain (COVID-19) in the pandemic category on March 11, 2020. From January to mid-March 2020, the Branch was operating normally. When the national emergency was declared and Dominican Republic closed its borders, the Branch presented delays in the conversion of its plant to natural gas, which led to a reduction in demand from the CDEEE. This situation was considered temporary since the plant conversion was completed at 2020 year-end, and in January 2021 the amendment to the PPA came into effect. The Branch has followed up on the impact of the pandemic situation through a special committee created in which we discuss and resolve all aspects regarding the pandemic. The Branch has continued to operate and provide regular service to its client and maintains the expectations of an ongoing business and a gradual recovery for 2021, with the entry into force of the amendment that also includes the sale of energy to the spot market.