

UEP Penonome II, S. A.

Report and Financial Statements December 31, 2021

*"This document has been prepared with the knowledge
that its content will be made available to the investing
public and the general public"*

UEP Penonome II, S. A.

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PricewaterhouseCoopers, S.R.L.

Independent Auditors' Report

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

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UEP Penonome II, S. A. (the "Company") as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the balance sheet as at December 31, 2021;
- 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 opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including the International Standards of Independence) issued by the International Ethics Standards Board for Accountants (IESBA Code of Ethics) and the requirements of the code of professional ethics for certified public accountants that are relevant to our audit of the financial statements in the Republic of Panama. We have fulfilled the other ethical responsibilities in accordance with the IESBA Code of Ethics and the ethics requirements of the Republic of Panama.

Key audit matters

The key audit matters are those that, in our professional judgment, were the most significant in our audit of the financial statements for the current year. These matters were addressed in the context of our audit of the financial statements as a whole and to form our audit opinion thereon, and we did not express a separate opinion on them.



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

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Impairment testing of plant and equipment and goodwill How our audit addressed the matter

As of December 31, 2021, the balances of plant and equipment and of goodwill amounts US\$216,209,163 and US\$20,000,000, respectively, which in the aggregate comprise 86% of the Company's total assets.

The Company is required to, at least annually, test goodwill for impairment. For plant and equipment with useful lives, the Company is required to review these assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable, and at least annually, review whether there is any change in their expected useful lives. For the purpose of performing impairment assessments, plant and equipment and goodwill have been allocated to groups of cash generating units ("CGUs"). The recoverable amount of the underlying CGUs is supported by value-in-use calculations which are based on future discounted cash flows. This area was important to our audit because the impairment testing is complex, judgmental and based on assumptions that are affected by unexpected future market or economic conditions, particularly those relating to the cash forecast and the applied discount rate.

See Notes 8 and 11 to these financial statements.

- We involved our internal valuation experts, analyzed the methodology and model of the value in use of the cash generating units.
- We compared the assumptions used to calculate the discount rates with external information.
- We analyzed the projected future cash flows included in the model taking into consideration the current macroeconomic climate and the expected future performance of the cash generating units.
- We compared projected cash flows, including assumptions related to revenue growth rates and operating margins, with the historical performance of Management's projections.
- We performed a sensitivity analysis around the key assumptions above mentioned to ascertain the extent of change in those assumptions that either individually or collectively would be required for the plant and equipment and for the goodwill to be impaired.

Other information

Management is responsible for the other information. The other information comprises the "Annual Report Update (INA, for its acronym in Spanish)" (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



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In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 International Financial Reporting Standards, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 ISAs 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 ISAs, 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.



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UEP Penonome II, S. A.
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- 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 Company's internal control.
- 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 Company'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 Company 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the corresponding safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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Report on other legal and regulatory requirements

In compliance with Law 280 of December 30, 2021, which regulates the profession of certified public accountants in the Republic of Panama, we declare the following:

- The direction, execution and supervision of this audit work has been carried out physically in Panamanian territory.
- The audit partner in charge who has prepared this report of the independent auditors is Edereth Barrios with certified public accountant license No.0304-2004.
- The engagement team that has participated in the audit referred to this report is constituted by Edereth Barrios, Partner and Renaldo Melendez, Manager.

PricewaterhouseCoopers

March 31, 2022

Panama, Republic of Panama

Edereth Barrios

Edereth Barrios
CPA 0304-2004

UEP Penonome II, S. A.

Balance Sheet

December 31, 2021

(All amounts in US\$ unless otherwise stated)

	Notes	2021	2020
Assets			
Current assets			
Cash and cash equivalents	2, 5 and 6	5,485,501	14,871,800
Trade and other receivables	2, 7 and 16	8,440,721	8,116,241
Current portion of related party debt receivable	16	898,932	886,000
Prepaid expenses		1,954,336	634,172
Inventory		38,791	22,213
Total current assets		<u>16,818,281</u>	<u>24,530,426</u>
Non-current assets			
Long-term portion of related party debt receivable	16	21,480,114	22,379,045
Plant and equipment, net	2, 8 and 9	216,209,163	230,014,948
Intangible assets, net	10	109,685	2,157
Deferred income tax	18	-	1,478,664
Goodwill	2 and 11	20,000,000	20,000,000
Total non-current assets		<u>257,798,962</u>	<u>273,874,814</u>
Total assets		<u>274,617,243</u>	<u>298,405,240</u>
Liabilities and Equity			
Current liabilities			
Current portion of bonds payable	13 and 21	14,299,859	10,619,531
Trade and other payables	2, 12 and 16	2,652,919	4,877,726
Lease liabilities	9	157,731	126,524
Income tax payable	18 and 21	-	946,740
Total current liabilities		<u>17,110,509</u>	<u>16,570,521</u>
Non-current liabilities			
Lease liabilities	9	8,232,437	8,390,168
Deferred income tax	18	1,204,764	-
Long term portion of bonds payable	13	234,949,078	244,636,960
Derivative financial instrument		7,625,074	12,333,997
Total non-current liabilities		<u>252,011,353</u>	<u>265,361,125</u>
Total liabilities		<u>269,121,862</u>	<u>281,931,646</u>
Equity			
Common shares with US\$1 par value each;			
authorized and issued: 1,050 shares	2 and 14	1,050	1,050
Capital contribution	2 and 14	55,974,250	65,974,250
Accumulated deficit		(50,345,915)	(49,482,553)
Prepaid dividend tax		(134,004)	(19,153)
Total equity		<u>5,495,381</u>	<u>16,473,594</u>
Total liabilities and equity		<u>274,617,243</u>	<u>298,405,240</u>

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

UEP Penonome II, S. A.

Statement of Comprehensive Income For the year ended December 31, 2021 (All amounts in US\$ unless otherwise stated)

		2021	2020
	Notes		
Energy revenues		42,036,085	45,247,394
Costs of goods and services	8,10,15 and 16	<u>(22,857,327)</u>	<u>(21,476,402)</u>
Gross profit		19,178,758	23,770,992
Administrative expenses	15 and 16	<u>(3,266,942)</u>	<u>(5,594,953)</u>
Operating profit		15,911,816	18,176,039
Finance cost, net	17	(14,126,147)	(40,238,173)
Other income	16	<u>34,397</u>	<u>15,386,972</u>
Profit (loss) before income tax		1,820,066	(6,675,162)
Income tax	18	<u>(2,683,428)</u>	<u>2,756,126</u>
Total comprehensive loss for the year		<u><u>(863,362)</u></u>	<u><u>(3,919,036)</u></u>

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

UEP Penonome II, S. A.

Statement of Changes in Equity For the year ended December 31, 2021 (All amounts in US\$ unless otherwise stated)

	Common Shares	Capital Contribution	Accumulated Deficit	Prepaid Dividend Tax	Total Equity
Balance at December 31, 2019	1,050	74,998,950	(45,563,517)	-	29,436,483
Comprehensive loss:					
Net loss	-	-	(3,919,036)	-	(3,919,036)
Transactions with shareholders:					
Capital reduction (Note 14)	-	(9,024,700)	-	-	(9,024,700)
Prepaid dividend tax	-	-	-	(19,153)	(19,153)
Balance at December 31, 2020	1,050	65,974,250	(49,482,553)	(19,153)	16,473,594
Comprehensive loss:					
Net loss	-	-	(863,362)	-	(863,362)
Transactions with shareholders:					
Capital reduction (Note 14)	-	(10,000,000)	-	-	(10,000,000)
Prepaid dividend tax	-	-	-	(114,851)	(114,851)
Balance at December 31, 2021	1,050	55,974,250	(50,345,915)	(134,004)	5,495,381

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

UEP Penonome II, S. A.

Statements of Cash Flows For the year ended December 31, 2021 (All amounts in US\$ unless otherwise stated)

	Notes	2021	2020
Cash flows from operating activities			
Profit (loss) before income tax		1,820,066	(6,675,162)
Adjustments to reconcile profit (loss) before income tax to net cash provided by operating activities:			
Depreciation and amortization	15	13,917,163	13,946,341
Finance cost amortization	17	461,118	9,159,290
Interest on bond, swaps and lease liabilities	17	19,633,409	17,596,853
Interest income	17	(1,491,219)	(54,608)
Fair value (gain) loss on derivative financial instrument	17	(4,708,923)	13,536,641
Net changes in assets and liabilities:			
Trade and other receivables		(11,432)	(1,080,380)
Trade and other payables		(2,200,385)	(25,466,815)
Prepaid expenses		(1,320,164)	(60,452)
Inventory		(16,578)	(22,213)
Income tax paid		(946,740)	(132,468)
Net cash provided by operating activities		<u>25,136,315</u>	<u>20,747,027</u>
Cash flows from investing activities			
Additions of plant and equipment	8 and 9	(93,485)	(37,433)
Additions of intangible assets	10	(125,421)	(10,886)
Long term intercompany receivable	16	-	(23,265,045)
Loan receivable Intercompany collection	16	885,999	-
Interest received - Intercompany	16	1,178,171	-
Restricted cash release debt service reserve account		-	17,272,000
Net cash provided by (used in) investing activities		<u>1,845,264</u>	<u>(6,041,364)</u>
Cash flows from financing activities			
Repayment of long-term bonds		-	(241,965,000)
Payment of issued bonds	13	(10,003,000)	-
Interest paid	21	(16,123,503)	(20,639,810)
Issued bonds	13	-	262,664,000
Repayment of shareholder loan		-	(50,000,000)
Payment on derivative financial instrument		-	(18,049,401)
Capital reduction	14	(10,000,000)	(9,024,700)
Derivative financial instrument		-	9,024,701
Deferred financing cost		-	(8,024,040)
Principal lease payments		(126,524)	(91,752)
Prepaid dividend tax		(114,851)	(19,153)
Net cash used in financing activities		<u>(36,367,878)</u>	<u>(76,125,155)</u>
Net decrease in cash and cash equivalents		<u>(9,386,299)</u>	<u>(61,419,492)</u>
Cash and cash equivalents at the beginning of year		<u>14,871,800</u>	<u>76,291,292</u>
Cash and cash equivalents at the end of year		<u>5,485,501</u>	<u>14,871,800</u>
Non-cash financing activities			
Right of use assets		-	(119,045)
Lease liabilities		-	119,045

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

UEP Penonome II, S. A.

Notes to the Financial Statements

December 31, 2021

(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 19).

The Company is located in Plaza 58 Building, 9th floor, 58E Street, Obarrio, Republic of Panama, and the wind turbines are located in Penonome, Province of Cocle, Republic of Panama.

These financial statements have been approved for issue by the Finance Manager on March 31, 2022.

2. Summary of Significant Accounting Policies

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

Basis of Preparation

The 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 financial statements have been prepared on the historical cost convention, except for derivative financial instruments measured at fair value.

In the Company's financial statements, the Statement of Other Comprehensive Income is not presented because there are no items that require a separate presentation of this statement.

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 Company’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.

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

Basis of Preparation (continued)

New Standards, Amendments and Interpretations Adopted by the Company

The Company has applied the following standards and amendments for the first time for its annual reporting period commencing January 1, 2021.

- COVID-19-Related Rent Concessions – amendments to IFRS 16
- Interest Rate Benchmark Reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New Standards, Amendments and Interpretations not yet Adopted

Certain new amendments and interpretations have been published that are not mandatory for December 31, 2021 reporting periods and have not been early adopted by the Company. The Company has assessed the relevance of all such new amendments and has determined that the following may be relevant to its operations:

Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16 (effective for annual periods starting on January 1, 2022): The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is ‘testing whether the asset is functioning properly’ when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity’s ordinary activities.

Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37 (effective for annual periods starting on January 1, 2022): The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

Notes to the Financial Statements

December 31, 2021

(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 (continued)

Annual Improvements to IFRS Standards 2018–2020 (effective for annual periods starting on January 1, 2022): The following improvements were finalized in May 2020:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent’s books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1 (effective for annual periods starting on January 1, 2023): The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the ‘settlement’ of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management’s intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 (effective for annual periods starting on January 1, 2022): The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is ‘material accounting policy information’ and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Notes to the Financial Statements

December 31, 2021

(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 (continued)

Definition of Accounting Estimates – Amendments to IAS 8 (effective for annual periods starting on January 1, 2023): The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 (effective for annual periods starting on January 1, 2023): The amendments to IAS 12 Income Taxes require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognize deferred tax assets (to the extent that it is probable that they can be utilized) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related assets.

The cumulative effect of recognizing these adjustments is recognized in retained earnings, or another component of equity, as appropriate.

IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

These standards are not expected to have a material impact on the Company's financial statements in the current or future reporting periods and on foreseeable future transactions.

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

Monetary Unit and Functional Currency

The 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.

Segment Information

A business segment is an identifiable component of the Company, in charge of supplying a single product or service, or a set of them that are related and characterized by being subject to risks and returns of a different nature than those corresponding to other business segments within the same company.

A geographic segment is an identifiable component of the Company in charge of supplying products or services in a specific economic environment, and which is characterized by being subject to risks and returns of a specific nature, and which correspond to other operating components that carry out their activity in different environments.

The Company's business operations are organized and managed as a single business segment, which is to operate the generating plants within the economic environment of electricity generation. Additionally, the Company's internal and reporting organization is predominantly based on a single business segment.

Financial Assets

The Company classifies its financial assets in the category of loans and receivables 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.

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

Derivative Financial Instruments

Derivative financial instruments are recognized in the balance sheet as assets or liabilities and initially and subsequently measured at fair value. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period. The mark-to-market fair value of the Company outstanding derivative instruments is based on independently provided market rates and determined using standard valuation techniques, including the impact of counterparty credit risk and are within level 2 of the fair value hierarchy.

Cash and Cash Equivalents

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

The statement of cash flows shows the Company's cash flows for the year for operating, investing and financing activities and the change in cash and cash equivalents during the year.

Trade Receivables, Prepaid Expenses and Other Assets

Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment of receivables. They are classified as current assets as collection is expected in one year or less.

A provision for impairment of trade receivables is established by applying the simplified approach of IFRS 9 to measure expected credit losses using a provision of expected losses over the life of the trade receivables.

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).

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

Plant and Equipment (continued)

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

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.

Right-of-use assets are recognized as leasehold and 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%
Leasehold	5%
Generators and plant facilities	5% - 10%
Tools and minor equipment	25%
Equipment of transportation	25%
Furniture and office equipment	25%

Inventory

Consist of consumable spare parts that are expected to be used for replacement or improvement on existing assets. Inventory is stated at the lower of cost or net realizable value. The cost of inventories includes expenditure incurred in purchases and other necessary costs to bring them to their existing location and condition. Cost is determined using the weighted average cost method. An allowance for obsolete inventory of spare parts is established based on management's analysis of such items to be used as intended and the consideration of potential obsolescence due to technological changes and consumption patterns.

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

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.

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

In both cases, the recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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.

Intangible Assets

Easement right of way

Represent the value attributable to the right of way of a high voltage transmission line for a 25 years period, by virtue of a long-term contract with the landowner and the Company. The intangible assets are recognised at cost and subsequently measured at cost less accumulated amortization, which is calculated using the straight-line method to allocate the cost of the intangible assets over its estimated useful life of 25 years.

Software

Acquisition costs of software are recognized as intangible assets. Software is stated at cost less the corresponding accumulated amortization. Amortization is calculated on a straight-line basis over an estimated useful life of one year.

Notes to the Financial Statements

December 31, 2021

(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.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized, but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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. (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

Bonds Payable

Bonds payable are initially recognized at fair value, net of transaction costs incurred. Bonds payable are subsequently carried at amortized cost, using the effective interest method; are classified as current liabilities unless the Company maintains the unconditional right to defer the liability for at least twelve months after the reporting date.

Bonds Costs

General and specific bonds 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 any difference between the net product of transaction costs and the redemption value is recognized in the statement of comprehensive income during the financing period using the effective interest method. All bonds cost are recognized in the statement of comprehensive income in the period in which they are incurred.

Notes to the Financial Statements

December 31, 2021

(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 statement of comprehensive income. The current income tax charge is calculated based on the tax laws enacted at the 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 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.

Employee Benefits

Seniority Premiums and Termination Severance Provision

The Panamanian Labor Law established a service seniority premium. For this purpose, a provision has been established, which is calculated on the basis of one week of each year of work, equal to 1.92% of salaries paid in the year. In addition, employees dismissed under certain circumstances are entitled to receive compensation based on years of services.

Severance Trust Fund

Law N° 44 dated August 12, 1995, established, from the effective date of the law, the employer's obligation to set up a severance fund to pay employees the seniority premium and indemnity for unjustified dismissal established by the Labor Law. This fund is constituted based on seniority premium and the quote of the monthly severance.

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 in Spanish), 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 year amounted to US\$24,842 (2020: US\$125,907).

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

Equity

Equity comprises the following:

- Common shares: representing the nominal value of equity shares issued to the shareholders. Share capital is represented by ordinary nominative non-endorsable shares of US\$1 nominal value each.
- Capital contribution: representing the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issuance.
- Retained earnings: representing accumulated earnings and losses.

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 dollar per megawatt hour (\$/MWh). 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 with 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.
- 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.

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

Energy Revenue Recognition (continued)

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 bonds, unwinding of the discount of provision and deferred consideration.

Reclassification

The financial statements for the year ended December 31, 2020 include reclassifications that were made for the balance sheet and cash flow, to adjust to the current presentation. These reclassifications do not have any effect in the net income or in the retained earnings previously reported. A detail of the most significant reclassifications is presented in Note 20.

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 bonds with fixed interest rates.

Interest Rate Sensitivity

As at December 31, 2021, the Company has issued bonds which have fixed rate (Note 13).

Credit Risk

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

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

3. Financial Risk Management (continued)

Financial Risk Factors (continued)

Credit Risk (continued)

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

	2021	2020
Cash at banks and trustee fund accounts (A and AA-)	<u>5,484,101</u>	<u>14,870,200</u>

The Company has a concentration of its revenues and accounts receivable with the three off takers companies and with affiliated companies operating in the Republic of Panama. Sales of energy made to these customers represent approximately 87% (2020: 85%) of total revenues and 88% (2020: 94%) of total accounts receivable at the end of the 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 power purchase agreement (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 presentation date 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 December 31, 2021 and 2020.

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.

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 bonds facilities at all times so that the Company does not breach bonds limits or covenants on any of its bonds 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.

Notes to the Financial Statements**December 31, 2021***(All amounts in US\$ unless otherwise stated)***3. Financial Risk Management (Continued)****Financial Risk Factors (continued)**

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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
December 31, 2021					
Bonds payable	26,458,475	54,606,478	140,204,523	184,380,335	405,649,811
Lease liabilities	781,645	803,013	1,673,108	11,608,357	14,866,123
Trade and other payable	2,652,919	-	-	-	2,652,919
	<u>29,893,039</u>	<u>55,409,491</u>	<u>141,877,631</u>	<u>195,988,692</u>	<u>423,168,853</u>
December 31, 2020					
Bonds payable	23,968,595	53,343,563	140,009,445	212,296,803	429,618,406
Lease liabilities	760,985	781,645	1,628,131	12,456,347	15,627,108
Trade and other payable	4,877,726	-	-	-	4,877,726
	<u>29,607,306</u>	<u>54,125,208</u>	<u>141,637,576</u>	<u>224,753,150</u>	<u>450,123,240</u>

Cash Flows Information – Net Debt Reconciliation

The combined analysis of net debt and the movements in the net debt for each of the periods presented is detailed below:

	2021	2020
Cash and cash equivalents	5,485,501	14,871,800
Bonds payable	(252,661,000)	(262,664,000)
Lease liabilities	<u>(8,390,168)</u>	<u>(8,516,692)</u>
Net debt	<u>(255,565,667)</u>	<u>(256,308,892)</u>

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

3. Financial Risk Management (Continued)

Cash Flows Information – Net Debt Reconciliation (continued)

	Long-term Debt	Shareholders Loan	Leases Liabilities	Bonds Payable	Sub-total	Cash and Equivalents	Total
Net debt as							
December 31, 2019	(241,965,000)	(50,000,000)	(8,489,399)	-	(300,454,399)	76,291,292	(224,163,107)
Bonds payable	-	-	-	(262,664,000)	(262,664,000)	-	(262,664,000)
Reassessment of lease liabilities	-	-	(119,045)	-	(119,045)	-	(119,045)
Cash flows	241,965,000	50,000,000	91,752	-	292,056,752	(61,419,492)	230,637,260
Net debt as							
December 31, 2020	-	-	(8,516,692)	(262,664,000)	(271,180,692)	14,871,800	(256,308,892)
Bonds payable	-	-	-	10,003,000	10,003,000	-	10,003,000
Cash flows	-	-	126,524	-	126,524	(9,386,299)	(9,259,775)
Net debt as							
December 31, 2021	-	-	(8,390,168)	(252,661,000)	(261,051,168)	5,485,501	(255,565,667)

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.

Capital is monitored by the debt (bonds payable) to EBITDA ratio. This ratio measures the income generated and available to pay down debt from cash flows generated by the operations.

The debt to EBITDA ratio were as follows:

	2021	2020
Corporate bonds, excluding interest payable and deferred finance costs	<u>252,661,000</u>	<u>262,664,000</u>
EBITDA	<u>29,863,376</u>	<u>53,021,604</u>
Total comprehensive loss for the year	(863,362)	(3,919,036)
Depreciation and amortization (Notes 8 and 10)	13,917,163	13,946,341
Finance cost, net	14,126,147	40,238,173
Income tax	<u>2,683,428</u>	<u>2,756,126</u>
Total EBITDA ratio	<u>8.46</u>	<u>4.95</u>

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

3. Financial Risk Management (Continued)

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).

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 bonds 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.

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4. Critical Accounting Estimates and Judgement (Continued)

Critical Accounting Estimates and Assumptions (continued)

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 recognizes 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 (Note 11).

Impairment of Non-financial Long-lived Assets

Non-financial long-lived assets, including identifiable intangible assets and right-of-use assets, are reviewed for impairment at the lowest level for which there are separately identifiable cash flows (CGU). For this purpose, each asset group with independent cash flows has been considered a single CGU, as all of their assets jointly contribute to the generation of cash inflows, which are derived from a single service or product; this cash inflows cannot be attributed to individual assets. In order to evaluate if there is evidence that a CGU could be affected, both external and internal sources of information are analyzed. The value in use of each CGU is estimated based on the present value of future net cash flows expected throughout its remaining useful life. Management uses approved long-term models cash flow projections then discounted at the appropriate rates. The discount rates used to discount future net cash flows is the WACC, for each asset or CGU a specific WACC was determined which considered the country conditions where the operations are performed.

In order to calculate the fair value less the costs of disposal, Management uses the estimated value of the future cash flows that a market participant could generate from the appropriate CGU, less the necessary costs to carry out the sale of the corresponding CGU. Management is required to make judgments at the moment of the future cash flows estimation. The actual cash flows and the values may differ significantly from the expected future cash flows and the related values obtained through discount techniques.

UEP Penonome II, S. A.

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

5. Cash and Cash Equivalents for Statement of Cash Flows

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

Trust funds balances are considered as part of the cash and cash equivalents considering that these funds are used as part of the operational process describes in Note 6.

	2021	2020
Cash in U. S. currency	3,107,059	10,713,726
Trustee fund accounts (Note 6)	2,260,728	15,195
Collection account of trustee fund at 0.35% (2020: 0.25%) (Note 6)	116,314	4,141,279
Petty cash	1,400	1,600
	<u>5,485,501</u>	<u>14,871,800</u>

6. Trust Fund with Specific Use

The trust fund balances with specific use are presented below:

	2021	2020
Debt service accrual account	2,218,317	568
Collection account	116,314	4,141,279
Spot market account	39,411	11,787
Debt reserve account	600	568
Reserve O&M account	600	568
UEP II execution account	600	568
SWAP account	600	568
LC loan account	600	568
	<u>2,377,042</u>	<u>4,156,474</u>

Debt Reserve Account: The debt service reserve account shall be funded from the amounts received from the collection account or letters of credit or a combination of the two in an amount at least equal to the then applicable debt service reserve requirement (other than in respect of amounts of principal or any cash collateralization obligation or reimbursement obligation due under the letter of credit documents); provided that funds held in the debt service reserve account may be withdrawn to make payments of any amounts (including interest expense, principal, fees, premiums or other amounts other than amounts of principal due under the letter of credit documents (except as provided below)) due on the notes and any other secured debt if and to the extent that the amounts held in the account are insufficient to make such payments. amounts on deposit in the debt service reserve account may be used to reimburse or repay draws upon a related letter of credit to the extent such reimbursement or repayment restores dollar for dollar the ability of the collateral trustee to draw upon such letter of credit for such purposes in the future.

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

6. Trust Fund with Specific Use (Continued)

Debt Service Accrual Account: The debt service accrual account shall be funded from the amounts received from the collection account pursuant to the accounts' waterfall established under the Panamanian trust.

O&M Reserve Account: The trust O&M reserve account shall be funded from the amounts received from the collection account or letters of credit, or a combination of the two. Funds from the trust O&M reserve account may be withdrawn as instructed by the issuer or the intercreditor agent, as applicable, to fund the issuer working capital account or any of the guarantor working capital accounts, if and to the extent that (i) the amounts held in the collection accounts and the issuer working capital account or the guarantor working capital account, as applicable, are insufficient to pay operating and maintenance expenses, or (ii) the amount in the relevant issuer distribution account or the guarantor distribution accounts is insufficient to pay unscheduled operating and maintenance expenses. The O&M reserve account shall be funded up to an amount equal to U.S.\$1 million or such greater amount as the issuer at its option may decide.

UEP II Execution Account: The execution accounts shall be funded from any proceeds derived from foreclosing on the collateral in respect of the issuer and the guarantors in accordance with the intercreditor agreement.

SWAP Account: The SWAP account shall be funded from amounts received from in the issuer collection account pursuant to the accounts waterfall up to an amount sufficient to cover any swap settlement payments or swap termination payments, as applicable, due and payable during the transfer period by the issuer under the Citi swap; provided, that amounts will only be transferred to the swap position account upon satisfaction by the issuer of the conditions set out under "limitation on restricted payments."

LC Loan Account: The letter of credit account shall be funded from amounts received in the issuer collection account pursuant to the accounts waterfall to fund amounts payable under the letter of credit documents, other than commitment and letter of credit fees and accrued and unpaid interest.

Issuer Collection Account: The issuer's collection account shall be funded with all income of the issuer, including revenues from the power purchase agreements entered into by the issuer, payments under the intercompany loans, wake effect payments, insurance proceeds, expropriation and termination payments, any other sources of revenue (including any related party payments), construction guaranty payments and liquidated damages payable under the SMA and related agreements, if any, and funds deposited in the issuer spot market account after netting any spot market payments owing to third parties.

Issuer's Spot Market Account: The issuer's spot market account shall be funded, first, prior to each monthly clearing of the spot market payments, from the collection account and, second, after each such monthly clearing, from net proceeds of the monthly clearing of the spot market payments.

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Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

7. Trade and Other Receivables

Trade and other receivables are detailed as follows:

	2021	2020
Clients	7,704,815	7,825,407
Interest receivable related parties (Note 16)	367,656	54,608
Related parties (Note 16)	341,108	209,096
Others	27,142	27,130
	<u>8,440,721</u>	<u>8,116,241</u>

At December 31, 2021 and 2020, there were no past due receivables, therefore, the Company has not recorded any provision for impairment.

Since September 2020 the Distribution companies have been paid the PPAs to UEP II in the same proportion than they have been received their revenues from their final clients for the months of March, April, May and June. Total accounts receivables on hold from March, 2020 through December 2021 is US\$2.420 million (2020:US\$3.687 million). (See Note 20).

Trade and other receivables are parts of the pledged assets, which guarantee the issuance of corporate bonds. (See Note 13).

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 January 1, 2021	394,461	825,607	620,480	318,834,736	8,687,492	329,362,776
Additions	-	-	93,485	-	-	93,485
Disposals	-	-	(1,181)	-	-	(1,181)
Cost at December 31, 2021	<u>394,461</u>	<u>825,607</u>	<u>712,784</u>	<u>318,834,736</u>	<u>8,687,492</u>	<u>329,455,080</u>
Accumulated depreciation at January 1, 2021	(394,450)	(82,526)	(576,236)	(97,365,874)	(928,742)	(99,347,828)
Disposals	-	-	1,181	-	-	1,181
Depreciation charge	(11)	(20,667)	(24,174)	(13,386,826)	(467,592)	(13,899,270)
Accumulated depreciation at December 31, 2021	<u>(394,461)</u>	<u>(103,193)</u>	<u>(599,229)</u>	<u>(110,752,700)</u>	<u>(1,396,334)</u>	<u>(113,245,917)</u>
Net balance at December 31, 2021	<u>-</u>	<u>722,414</u>	<u>113,555</u>	<u>208,082,036</u>	<u>7,291,158</u>	<u>216,209,163</u>

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Notes to the Financial Statements

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(All amounts in US\$ unless otherwise stated)

8. Plant and Equipment, Net (Continued)

	Transportation Equipment	Building	Furniture and Office Equipment	Generators and Plant Facilities	Right of Use Assets	Total
Cost at January 1, 2020	394,461	805,472	603,182	318,834,736	8,568,447	329,206,298
Additions	-	20,135	17,298	-	-	37,433
Reassessment right of use assets	-	-	-	-	119,045	119,045
Cost at December 31, 2020	394,461	825,607	620,480	318,834,736	8,687,492	329,362,776
Accumulated depreciation at January 1, 2020	(383,183)	(62,080)	(541,005)	(83,979,048)	(461,150)	(85,426,466)
Depreciation charge	(11,267)	(20,446)	(35,231)	(13,386,826)	(467,592)	(13,921,362)
Accumulated depreciation at December 31, 2020	(394,450)	(82,526)	(576,236)	(97,365,874)	(928,742)	(99,347,828)
Net balance at December 31, 2020	11	743,081	44,244	221,468,862	7,758,750	230,014,948

Plant and equipment include interest on borrowings that are directly attributed to the construction of the assets. During the years ended December 31, 2021 and 2020, there were no interest capitalized.

Plant and equipment are included into the onshore Security Agreements which includes the mortgage on movable and immovable assets, including the Company's generation licenses. (Note 13).

9. Lease

As of December 31, 2021, 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:

	2021	2020
<i>Right-of-use assets</i>		
Cost	8,687,492	8,687,492
Accumulated depreciation	(1,396,334)	(928,742)
Net balance	7,291,158	7,758,750
<i>Lease liabilities</i>		
Current	157,731	126,524
Non-current	8,232,437	8,390,168
	8,390,168	8,516,692

UEP Penonome II, S. A.

Notes to the Financial Statements

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9. Lease (Continued)

The movement of lease liabilities is as follows:

	2021	2020
At the beginning of the year	8,516,692	8,489,399
Lease payments	(760,985)	(741,006)
Lease liability remeasurement related to lease modifications	-	119,045
Interest	634,461	649,254
	<u>8,390,168</u>	<u>8,516,692</u>
At the end of the year		

10. Intangible Assets

The movement of intangible assets is as follows:

	2021	2020
Cost		
At January 1	47,475	36,589
Additions	<u>125,421</u>	<u>10,886</u>
Balance at the end of the year	<u>172,896</u>	<u>47,475</u>
Accumulated amortization		
At January 1	(45,318)	(20,339)
Depreciation charge	<u>(17,893)</u>	<u>(24,979)</u>
Balance at the end of the year	<u>(63,211)</u>	<u>(45,318)</u>
Net balance at the end of the year	<u>109,685</u>	<u>2,157</u>

Intangible assets - *easement right of way*: correspond to contracts with landowners with a single payment, these contracts were obtained for the constitution of an easement for the high voltage transmission line for a period of 25 years.

UEP Penonome II, S. A.

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11. 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 2021 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.

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12. Trade and Other Payables

Trade and other payables are detailed as follows:

	2021	2020
Related parties (Note 16)	968,256	1,326,897
Suppliers	994,129	2,302,602
Interest payable of derivative financial instrument	410,563	434,985
Others	279,971	813,242
	<u>2,652,919</u>	<u>4,877,726</u>

13. Bonds Payable

Through resolution No. SMV 515-20, dated December 2, 2020, the Company issued on December 18, 2020, together with Grupo Tecnisol as joint guarantor, corporate bonds guaranteed for a total of US\$262,664,000, issued under Regulation 144A and Regulation S of the United States of America, with semi-annual amortizations and final maturity on October 1, 2038 with an interest rate of 6.5%, registered in the stock exchanges of Panama and Singapore. The resources obtained from the bond issuance were used to prepay the syndicated loan acquired on December 29, 2014 with the IFC and other financial entities for US\$228,436,514, payment of the financial instrument derived from interest rate for US\$18,049,401, financing costs for US\$5,208,636, and loan performed to Grupo Tecnisol for US\$10,969,449.

The most relevant commitments and restrictions on this debt are detailed below (all financial ratios expressed below are calculated based on the results of the Company and the Tecnisol Group combined).

- Limitation of indebtedness: for the Company to enter into a permitted indebtedness, it needs to maintain a debt coverage service ratio, both historical and prospective, of at least 1.31.
- Mortgages and / or liens are prohibited, except for certain permitted liens.
- Sale of assets and mergers: prohibited, except under certain conditions.
- Modifications to the main contracts are prohibited.
- Limitations on new investments.
- Restricted payments: you cannot make restricted payments if you do not meet both historical and prospective debt coverage service relationship of at least 1.20.

Guarantee Agreement: Includes the pledge on the Company's shares; transfer in guarantee of the energy purchase agreements and lease titles of ANATI; mortgage of movable and immovable property (including, among the latter, the Company's generation licenses). The Bank of Nova Scotia (Panama) acts as trustee (FID-135). The debt contract establishes that the Company must maintain a "Debt Service Reserve" and an "O&M Reserve" through a deposit or a letter of credit to ensure, in the first case, the next payment of interest. more capital and, in the second case, a certain level of operation and maintenance. (See Note 6).

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13. Bonds Payable (Continued)

As of December 31, 2021, the Company is in compliance with all its commitments. Bonds payable are presented below:

	2021	2020
Corporate bonds	252,661,000	262,664,000
Interest payable	4,150,859	616,531
Less: unamortized finance costs	(7,562,922)	(8,024,040)
Bonds and interest payable, net	249,248,937	255,256,491
Less: current portion and interest payable	(14,299,859)	(10,619,531)
Long - term of bonds payable	<u>234,949,078</u>	<u>244,636,960</u>

The movement of bonds payable is as follows:

	2021	2020
Outstanding at January 1	255,256,491	-
Proceeds from issuance of bonds	-	262,664,000
Payment of bonds	(10,003,000)	-
Interests expense	16,835,967	616,531
Interests payment	(13,301,639)	-
Amortization of debt issuance costs	461,118	-
Finance cost incurred	-	(8,024,040)
Outstanding bonds at December 31	<u>249,248,937</u>	<u>255,256,491</u>

The movement of the unamortized finance costs is as follows:

	2021	2020
Beginning balance	8,024,040	-
Additions	-	8,024,040
Amortization of the year	(461,118)	-
Balance at December 31, 2021	<u>7,562,922</u>	<u>8,024,040</u>

The fair value of the bonds payable is US\$265,182,965 as of December 2021 (2020: US\$261,434,940), based on discounted cash flows using a rate based on the loan rate of 6.5% and is within Level 3 of the fair value hierarchy.

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13. Bonds Payable (Continued)

On December 18, 2020, 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\$9,024,700. This contract was issued for refinancing purpose.

Effect of IBOR Reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. There remains some uncertainty around the timing and precise nature of these changes. The Company currently has a contract which reference LIBOR and extend beyond 2022. This contract is disclosed within the table below.

It is currently expected that SOFR (Secured Overnight Financing) will replace LIBOR. The main difference between SOFR and LIBOR is how the rates are produced. While LIBOR is based on panel bank input, SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities in the repurchase agreement (repo) market.

During 2019 the Board established a LIBOR transition project plan. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing any related tax and accounting implications. As at 31 December 2021, there have not been identified changes required to systems, processes and models. There have been general communications with swap counterparty.

The following table contains details of all of the financial instruments that the Company holds at 31 December 2021 which reference LIBOR and have not yet transitioned to SOFR:

	Carrying Value at December 31, 2021: Liabilities	Have yet to Transition to SOFR at December 31, 2021: Liabilities
Derivative liabilities exposed to LIBOR		
Measured at fair value		
Derivative financial instrument	7,625,074	6,824,954

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14. Shareholders' Equity

The shareholders' equity is as follows:

	Common Shares	Capital Contribution	Total
Balance as of December 31, 2019	1,050	74,998,950	75,000,000
Capital reduction	-	(9,024,700)	(9,024,700)
Balance as of December 31, 2020	1,050	65,974,250	65,975,300
Capital reduction	-	(10,000,000)	(10,000,000)
Balance as of December 31, 2021	1,050	55,974,250	55,975,300

In December 2020 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\$62.8 million.
- IEH Penonome Holdings: US\$47.6 million in bearing interest shareholder loan, fixed rate at 8%, paid in full in December 2020, the shareholders waived the unpaid interest (Note 16).
- Green Field Panama, S. A.: 4.76% economic interest in common shares US\$3.1 million.
- Green Field Panama, S. A.: US\$2.4 million in bearing interest shareholder loan, fixed rate at 8%, paid in full in December 2020, the shareholders waived the unpaid interest (Note 16).

On December 21, 2020, by means of the minutes of the board of directors, a capital reduction was approved, without reducing the authorized capital stock of the Company, for US\$9,024,700, leaving US\$65,974,250 as final capital.

On November 30, 2021, by means of the minutes of the board of directors, a capital reduction was approved, without reducing the authorized capital stock of the Company, for US\$10,000,000, leaving US\$55,974,250 as final capital.

UEP Penonome II, S. A.

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14. Shareholders' Equity (Continued)

The shareholders composition of the Company is the following:

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

The shareholder's equity is part of the guarantees given in the issuance of corporate bonds issued by UEP Penonome II, S. A. (See Note 13).

15. Costs and Expenses

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

	2021	2020
Cost of goods and services		
Depreciation and amortization (Notes 8 and 10)	13,917,163	13,946,341
Repairs and maintenance	7,292,070	5,665,693
Fees transmission cost	860,729	870,949
Internal consumption	348,505	240,285
Salaries and other benefits to employees	223,218	459,748
Security	215,642	293,386
	<u>22,857,327</u>	<u>21,476,402</u>
Administrative expenses		
Insurance costs	842,589	749,021
Substation Connection Fee	569,159	477,958
Wake effect compensation (Note 19)	512,088	404,719
Regulator fees	453,465	468,161
Professional fees	355,636	456,639
Management services (Note 16)	322,500	1,290,000
Other expenses	151,648	391,793
Maintenance office	23,706	17,302
Fuel	17,380	10,997
Communication expenses	14,133	34,535
Office expenses	4,638	4,299
Other expenses intercompany (Note 16)	-	456,267
Salaries and other benefits to employees	-	833,262
	<u>3,266,942</u>	<u>5,594,953</u>
	<u>26,124,269</u>	<u>27,071,355</u>

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15. Costs and Expenses (Continued)

Salaries and other benefits to employees are summarized as follows:

	2021	2020
Salaries and wages	155,837	1,109,961
Other	39,495	33,574
Statutory contributions	24,842	125,907
Seniority premium and indemnity	3,044	23,568
	<u>223,218</u>	<u>1,293,010</u>

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

	2021	2020
Cost of goods and services	223,218	459,748
Administrative expenses	<u>-</u>	<u>833,262</u>
	<u>223,218</u>	<u>1,293,010</u>

UEP Penonome II, S. A.

Notes to the Financial Statements

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16. 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:

	2021	2020
Transactions		
<i>Energy revenues</i>		
Other related parties -		
Energy sold in the spot market (b)	<u>16,803</u>	<u>16,002</u>
Other Related Parties -		
Energy sold under reserve contracts (c)	<u>1,819,919</u>	<u>1,862,737</u>
<i>Costs of goods and services</i>		
Other related parties -		
Energy purchases in the spot market (b)	<u>6,915</u>	<u>1,114</u>
<i>Administrative expenses</i>		
Shareholders: InterEnergy Holding UK Ltd. -		
Professional fees expenses (a)	<u>322,500</u>	<u>1,290,000</u>
Other related parties -		
Professional fees expenses (a)	<u>-</u>	<u>234,195</u>
Shareholders: InterEnergy Group Limited Guernsey -		
Other expenses rendered to the related (d)	<u>-</u>	<u>456,267</u>
<i>Finance cost, net</i>		
Other related parties		
Earned interests (e)	<u>1,491,219</u>	<u>54,608</u>
<i>Other income</i>		
Shareholders:		
IEH Penonome Holdings and Green Field Panama		
Other income (Note 14)	<u>-</u>	<u>15,386,972</u>

UEP Penonome II, S. A.

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16. Balances and Transactions with Related Parties (Continued)

	2021	2020
Balances		
<i>Trade and other receivables</i>		
Other related parties		
Accounts receivable energy spot market (b)	1,964	2,626
Accounts receivable energy reserve contracts (c)	339,144	206,470
	<u>341,108</u>	<u>209,096</u>
Other related parties -		
Loan Interest receivable- intercompany (e)	<u>367,656</u>	<u>54,608</u>
<i>Related party debt receivable</i>		
Other related parties -		
Loan receivable - intercompany (e)	<u>22,379,046</u>	<u>23,265,045</u>
<i>Trade and other payables</i>		
Shareholders: InterEnergy Holding UK Ltd. -		
Accounts payable professional fees (a)	967,500	1,290,000
Other related parties -		
Accounts payable professional fees (a)	-	36,763
Other related parties		
Accounts payable energy spot market (b)	<u>756</u>	<u>134</u>
	<u>968,256</u>	<u>1,326,897</u>

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16. Balances and Transactions with Related Parties (Continued)

The movements in the loan and interest intercompany during the year is a follows:

	2021	2020
Loan receivable - intercompany		
At January 1	23,265,045	-
Additions	-	23,265,045
Collections received	(885,999)	-
Loan receivable - intercompany (e)	<u>22,379,046</u>	<u>23,265,045</u>
Interest receivable - intercompany		
At January 1	54,608	-
Interest collected	(1,178,171)	-
Earned interest	<u>1,491,219</u>	<u>54,608</u>
Loan Interest receivable- intercompany (e)	<u>367,656</u>	<u>54,608</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 19.
- (d) Accounts receivable for services rendered to a related party.
- (e) Loan receivable with related companies Tecnisol I, S. A., Tecnisol II, S. A., Tecnisol III, S. A. and Tecnisol IV, S. A. These loans are backed by promissory notes issued by the companies mentioned above in favor of UEP Penonome II, S. A. and assigned to FID 135. (See Note 6).

As of January 2021, management performed an internal restructuring that consisted of transferring the administrative staff of UEP Penonome II, S.A. to the related party IEH Shared Services, S.A.

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16. 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:

	2021	2020
Salaries and other short-term employee benefits	-	280,266

During 2021, the services were received from IEH Shared Services, S, A.

17. Finance Cost, Net

Finance cost are detailed as follows:

	2021	2020
Interest on bonds (Note 13)	16,835,967	616,531
Interest on Swaps (Note 13)	2,162,981	2,026,253
Interest on lease liabilities (Note 9)	634,461	649,254
Amortization of deferred financing costs	461,118	9,159,290
Interest on borrowings, net	-	14,118,912
Interest income (Note 16)	(1,491,219)	(54,608)
Fair value (gain) loss on derivative financial instrument	(4,708,923)	13,536,641
Other finance cost	231,762	185,900
	<u>14,126,147</u>	<u>40,238,173</u>

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18. Income Tax

The income tax is presented as follows:

	2021	2020
Current tax	-	(946,740)
Deferred tax	<u>(2,683,428)</u>	<u>3,702,866</u>
	<u>(2,683,428)</u>	<u>2,756,126</u>

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

	2021	2020
<i>Deferred income tax assets</i>		
At January 1	2,022,079	-
Charged to statement of comprehensive income	<u>(1,967,895)</u>	<u>2,022,079</u>
At December 31	<u>54,184</u>	<u>2,022,079</u>
<i>Deferred income tax liabilities</i>		
At January 1	543,415	2,224,202
Charged to statement of comprehensive income	<u>715,533</u>	<u>(1,680,787)</u>
At December 31	<u>1,258,948</u>	<u>543,415</u>
At December 31, net	<u>(1,204,764)</u>	<u>1,478,664</u>

The deferred income tax asset results from the temporary difference from the recognition of the compensation received for the damage given to the blades of the wind turbines in 2020 as taxable income, while for the purposes of the financial statements it is recognized as a decrease in the depreciation expense in a straight line.

Deferred income tax liability is the result of temporary differences from accelerated tax depreciation and tax bases of and other depreciation tax treatment of the cash compensation received.

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:

- The rate of 25% on taxable income.
- 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).

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18. Income Tax (Continued)

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:

	2021	2020
Profit (loss) profit before income tax	1,820,066	(6,675,162)
Fiscal adjustment to recognize accelerated depreciation	(5,035,791)	(7,000,188)
Less: Non-taxable income	(4,708,923)	(20,784,599)
Plus: Non-deductible expenses	344,236	42,033,866
Taxable (loss) income	(7,580,412)	7,573,917
Loss carried forward	-	(3,786,958)
Net taxable gain	-	3,786,959
Income tax (traditional method)	-	946,740
Tax effects of temporary differences	2,683,428	(3,702,866)
Income tax	2,683,428	(2,756,126)

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, 2021.

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.

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18. Income Tax (Continued)

- 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.

19. 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 June 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 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.

- In January 2016, the Company signed the Amendment No.4 of the PPA's with the offtakers 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.

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19. Commitments (Continued)

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). 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 December 31, 2021 were US\$25,067,310 (2020 US\$17,884,164).
 - 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.
 - 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. and
 - Maranon 17.5 MW.
 - 20 turbines partially contracted and merchant energy totaling 50 MW.

UEP Penonome II, S. A.

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(All amounts in US\$ unless otherwise stated)

19. Commitments (Continued)

- Under the TSA, Goldwind Company provided a five years warranty on the equipment for defects, power curve, availability and noise. In addition, the Company entered into a 5-years 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. Under the First Amendment to the Service and Maintenance Agreement, dated October 1, 2020, Goldwind guarantees a time-based turbine availability rate of 97% for the high wind season and 96% for the low wind season. This SMA amendment Warranty Period commences on November 1, 2020, following the expiration of the Warranty Period of the TSA and can be extended by UEP II until year ten.
- 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 June 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 June 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\$27,129.85 and the reimbursement of maintenance costs.

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

20. 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.

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).

As of December 31, 2021, the situation due to COVID-19 remains the same as last year for the company. The distribution companies and spot market agent continue to make their payments in accordance with the ASEP resolution and have been complying with them, so there are no major effects in relation to COVID-19.

The Company had continued to operate continuously in the Panamanian electricity market.

21. Reclassifications

For comparison purposes, certain figures from 2020 were reclassified. These reclassifications have no effect on the net income of the period, or on the accumulated deficit previously reported or in the statement of cash flows. A detail of the most significant reclassifications is presented as follows:

Reclassification of the interest payable of bonds (US\$616,531) as part of the current portion of bonds payable, reclassification of lease liabilities (US\$126,524), and reclassification of income tax payable (US\$946,740), originally presented in trade and other payables, as part of a policy choice applied by Company's management in the presentation of the financial statements.

UEP Penonome II, S. A.

Notes to the Financial Statements

December 31, 2021

(All amounts in US\$ unless otherwise stated)

21. Reclassification (Continued)

	<u>Originally Presented in 2020</u>	<u>Reclassification</u>	<u>Reclassified</u>
Balance Sheet			
Trade and other payables	<u>6,567,521</u>	<u>(1,689,795)</u>	<u>4,877,726</u>
Current portion of bonds payable	<u>10,003,000</u>	<u>616,531</u>	<u>10,619,531</u>
Lease liabilities	<u>-</u>	<u>126,524</u>	<u>126,524</u>
Income tax payable	<u>-</u>	<u>946,740</u>	<u>946,740</u>

Reclassification of the finance cost amortization to be joined to the line finance cost, net:

	<u>Originally Presented in 2020</u>	<u>Reclassification</u>	<u>Reclassified</u>
Statement of Comprehensive Income			
Finance cost amortization	<u>9,159,290</u>	<u>(9,159,290)</u>	<u>-</u>
Finance cost, net	<u>31,078,883</u>	<u>9,159,290</u>	<u>40,238,173</u>

Reclassification of the interest paid from operating activities to financing activities in the cash flows statement, as part of a policy choice applied by Company's management:

	<u>Originally Presented in 2020</u>	<u>Reclassification</u>	<u>Reclassified</u>
Statement of Cash Flows			
Cash flows from operating activities			
Interest paid	<u>(20,639,810)</u>	<u>20,639,810</u>	<u>-</u>
Cash flows from financing activities			
Interest paid	<u>-</u>	<u>(20,639,810)</u>	<u>(20,639,810)</u>