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(Free translation from the original in Spanish)

**ENERGIA EOLICA S.A.**

FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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S/ = Peruvian sol  
US\$ = United States dollar  
MW = Megawatt  
KW = Kilowatt



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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders  
**Energía Eólica S.A.**

March 31, 2020

We have audited the accompanying financial statements of **Energía Eólica S.A.**, a subsidiary of ContourGlobal LP, ultimate Parent Company, which comprise the statements of financial position at December 31, 2019 and 2018, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other accompanying explanatory notes from 1 to 23.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing approved for application in Peru by the Board of Deans of Institutes of Peruvian Certified Public Accountants ("Junta de Decanos de Colegios de Contadores Públicos de Perú"). Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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March 31, 2020  
Energía Eólica S.A.

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

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of **Energía Eólica S.A.** at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

GAVEGLIO APARICIO y ASOCIADOS

Countersigned by

A handwritten signature in black ink, appearing to be 'Rafael Ferrer Tafur', written over a horizontal line.

-----(partner)

Rafael Ferrer Tafur  
Peruvian Certified Public Accountant  
Registration No.01-23720

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**ENERGIA EOLICA S.A.**

**STATEMENT OF FINANCIAL POSITION  
(IN U.S. DOLLARS)**

**ASSETS**

	Note	At December 31,	
		2019 US\$	2018 US\$
<b>Current assets</b>			
Cash and cash equivalents	5	2,391,976	2,124,464
Trade and unbilled accounts receivable	6	6,202,017	3,842,326
Other accounts receivable	7	4,295,105	3,646,769
Prepaid expenses		181,752	450,590
<b>Total current assets</b>		<u>13,070,850</u>	<u>10,064,149</u>
<b>Non-current assets</b>			
Other accounts receivable from related parties	8	44,061,464	32,564,390
Property, plant and equipment	9	172,726,563	182,825,037
Intangible assets		56,822	66,604
<b>Total non-current assets</b>		<u>216,844,849</u>	<u>215,456,031</u>
<b>TOTAL ASSETS</b>		<u>229,915,699</u>	<u>225,520,180</u>

**LIABILITIES AND EQUITY**

	Note	At December 31,	
		2019 US\$	2018 US\$
<b>Current liabilities</b>			
Borrowings and interest payable	10	6,034,699	4,797,973
Trade accounts payable and accruals	11	2,372,723	1,147,345
Other accounts payable to related parties	8	85,906	5,192
Other current liabilities		3,547,119	1,819,007
Current Portion of lease liability	12	469,375	333,495
<b>Total current liabilities</b>		<u>12,509,822</u>	<u>8,103,012</u>
<b>Non-current liabilities</b>			
Borrowings and interest payable	10	167,835,848	173,481,569
Lease liability	12	3,192,739	2,683,394
Decommissioning provision	13	4,137,606	3,864,038
Deferred income tax liability	14	7,020,074	8,766,012
<b>Total non-current liabilities</b>		<u>182,186,267</u>	<u>188,795,013</u>
<b>Equity</b>			
Share capital	15	46,277,512	46,277,512
Accumulated losses	15	(11,057,902)	(17,655,357)
<b>Total equity</b>		<u>35,219,610</u>	<u>28,622,155</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>229,915,699</u>	<u>225,520,180</u>

The accompanying notes from pages 7 to 33 are part of the financial statements

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**ENERGIA EOLICA S.A.**

**STATEMENT OF COMPREHENSIVE INCOME  
(IN U.S. DOLLARS)**

	<u>Note</u>	<u>For the year ended December 31,</u>	
		<u>2019</u>	<u>2018</u>
		<u>US\$</u>	<u>US\$</u>
<b>Operating income:</b>			
Revenues from energy sales	17	39,749,253	37,108,807
Operating costs	18	<u>(19,107,239)</u>	<u>(18,296,047)</u>
<b>Gross profit</b>		<u>20,642,014</u>	<u>18,812,760</u>
<b>Operative expenses:</b>			
Administrative expenses	19	<u>(2,276,635)</u>	<u>(2,319,684)</u>
<b>Operative profit</b>		<u>18,365,379</u>	<u>16,493,076</u>
<b>Other income (expenses), net</b>			
Financial expenses	20	(12,739,822)	(12,582,611)
Financial income	21	2,098,783	1,291,091
Exchange differences, net	4.1-a)	<u>(615,457)</u>	<u>(1,018,775)</u>
<b>Profit (loss) before income tax</b>		<u>7,108,883</u>	<u>4,182,781</u>
Income tax	16	<u>(511,428)</u>	<u>(773,814)</u>
<b>Profit (loss) and other comprehensive income</b>		<u>6,597,455</u>	<u>3,408,967</u>

The accompanying notes from pages 7 to 33 are part of the financial statements.

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**ENERGIA EOLICA S.A.**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(IN U.S. DOLLARS)**

	<u>Share capital</u> US\$	<u>Accumulated losses</u> US\$	<u>Total equity</u> US\$
Balances at January 1, 2018	53,677,512	(21,064,324)	32,613,188
Profit for the year and other comprehensive income	-	3,408,967	3,408,967
Capital reduction	<u>(7,400,000)</u>	<u>-</u>	<u>(7,400,000)</u>
Balances at December 31, 2018	<u>46,277,512</u>	<u>(17,655,357)</u>	<u>28,622,155</u>
Balances at January 1, 2019	46,277,512	(17,655,357)	28,622,155
Profit for the year and other comprehensive income	-	6,597,455	6,597,455
Balances at December 31, 2019	<u>46,277,512</u>	<u>(11,057,902)</u>	<u>35,219,610</u>

The accompanying notes from pages 7 to 33 are part of the financial statements.

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**ENERGIA EOLICA S.A.**

**STATEMENT OF CASH FLOWS  
(IN U.S. DOLLARS)**

	Note	For the year ended	
		December 31,	
		2019	2018
		US\$	US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit (loss) for the year		6,597,455	3,408,967
<b>Reconciliation of profit for the year with net cash by operating activities:</b>			
Depreciation	9	11,789,517	11,721,193
Amortization	19	9,782	9,782
Deferred income tax	14	(1,745,938)	762,293
Unwinding of the discounts	20	556,775	467,072
Amortization of transaction costs	20	703,239	720,464
Interest expense of financial obligations	20	10,968,061	11,236,697
<b>Net changes in assets and liabilities:</b>			
Trade receivables		(2,359,691)	2,681,645
Other receivables		(648,336)	3,246,037
Other accounts receivable from related parties		(1,997,074)	(1,357,301)
Prepaid expenses		268,838	206,410
Trade accounts payable and accruals		1,225,378	(281,104)
Other accounts payable to related parties		80,714	(88,887)
Other current liabilities		1,728,112	(722,429)
Net cash generated from operating activities		<u>27,176,832</u>	<u>32,010,839</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	9	(875,737)	(23,117)
Purchase of Intangible assets		-	(37,676)
Loans granted to related parties	8	(9,500,000)	(7,200,000)
Net cash applied to investing activities		<u>(10,375,737)</u>	<u>(7,260,793)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of the principal of bonds	10	(5,101,182)	(4,347,256)
Interest payments on borrowings		(10,979,113)	(11,246,116)
Capital reduction	8/15	-	(7,400,000)
Payments of financial leases		(453,288)	(333,495)
Net cash applied to financing activities		<u>(16,533,583)</u>	<u>(23,326,867)</u>
Net increase in cash and cash equivalents		267,512	1,423,179
Cash and cash equivalents at beginning of the year		2,124,464	701,285
Cash and cash equivalents at end of the year		<u>2,391,976</u>	<u>2,124,464</u>
Transactions that do not represent cash flows:			
Right-of-use asset	9	815,306	-
Other information			
Taxes paid		6,066,824	949,889

The accompanying notes from pages 7 to 33 are part of the financial statements.



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## **ENERGIA EOLICA S.A.**

### **NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018**

#### **1 GENERAL INFORMATION**

##### **a) General Information -**

Energía Eólica S.A. (hereinafter, the Company) was established on September 10, 2007 in Lima, Peru. Its legal address, where its administrative office is located, is Av. Ricardo Palma 341 - 3rd. floor, Miraflores, Lima. The Company is a direct subsidiary of ContourGlobal Latam S.A. (domiciled in Colombia), which holds 99.99% interest as of December 31, 2019 (74.69% as of December 31, 2018) and is an indirect subsidiary of ContourGlobal LP (Cayman Islands exempted entity).

##### **b) Business activity -**

The Company's business consists in developing, building and operating power generating wind farms for the Peruvian national grid. The Company was awarded with two 20-years Supply Concession Agreements secured at the Peruvian Government's bid called on February 12, 2010.

On August 30, 2014 the Company started commercial operation upon conclusion of the construction of 114 MW wind farms located in the northern shore of Peru; Talara site with 30.9MW located nearby the city of Piura, and Cupisnique site located nearby the city of Trujillo with 83.1MW.

##### **c) Legal stability agreement -**

On September 22, 2014 the Company entered into a legal stability agreement with the Peruvian Government for a period of ten years. Under this agreement the Company agreed to issue shares to ContourGlobal Latam S.A. for US\$28,594,403 within a two years period from the date the legal stability agreement with ContourGlobal Latam S.A. was signed on August 18, 2015, amount that should be used by the Company in increase installed capacity; and the Peruvian Government is obliged to guarantee the legal stability of the Company for the entire term of this agreement, under the following terms: (a) Tax stability related to the income tax (30%) and (b) regimes to contract workers (regarding the types of employment contract).

##### **d) Bond Issuing -**

On December 15, 2014 the Company issued US\$204 million at 6% senior secured green notes due 2034 (the "Inka Notes"). The proceeds of the Inka Notes were used to (i) refinancing existing financial indebtedness under a senior secured credit facility, (ii) payments of US\$33.7 million of outstanding affiliate loans and management services payable, (iii) provide a subordinated intercompany loan, (iv) make certain payments under certain contracts of the issuer and (v) provide for the initial funding of certain project accounts. The Inka Notes rank equally in right of payment with all of the Company's existing and future senior debt and senior in right of payment to all of the Company's future subordinated debt. The obligations under the Inka Notes are secured by a pledge of the capital stock of the Company and a first-priority security interest on in all of the Company's existing and future tangible and intangible assets. The notes will be fully amortized in 19 years, commencing on September 18, 2015.

The indenture and related financing documents governing the Inka Notes contain customary covenants, including with respect to additional indebtedness, liens and restricted payments, and customary terms with respect to redemption and events of default. Customary provisions govern project accounts, provide priority of payments for operations and maintenance, fees and expenses, principal and interest payments, and restricted payments, among other things, as for comparable project debt securities. At December 31, 2019 US\$179.5 million of the Inka Notes was outstanding (US\$184.6 million at December 31, 2018) (Note 10).

e) Long-term agreements -

At December 31, 2019 and 2018 the Company maintains the following long-term agreements:

- Land lease agreement with "Fuerza Armada" in Talara region for a period of 22 years which started on November 16, 2010. The annual rent payment amounts to US\$30,800.
- Land lease agreement with "Comunidad de Paijan" in Cupisnique region, for a period of 10 years which started on August 27, 2010. The annual rent payment amounts to US\$54,000.
- On September 28, 2012 the Company entered into an Operations and Maintenance Agreement (O&M) with Vestas Perú. The Cupisnique and Talara O&M Agreement started September 2015 which is the date on which the Cupisnique and Talara Projects delivered the wind farms by the contractor which expires ten years after the Commercial Operation Date (COD) whereby Vestas Perú is required to provide maintenance and services for each of the Projects. Under the agreements the Company will pay an annual base quota of US\$55,825 per wind turbine per year and variable quota factor of US\$8.1/MWh, readjusted to the increase according to a formula outlined in the agreement.
- Power transmission agreement - On January 6, 2014 the Company and Red de Energía Perú S.A. (REP) signed the "power transmission agreement" which established the following terms: REP agrees to construct and operate the facilities for the provision of power transmission service to be provided to the Talara wind farm. The Contract term is 18 years starting in September 2014. The annual fee to be paid by the Company to REP is US\$14,406 (before VAT). The annual fee will be adjusted annually as per changes occur in the index of Finished goods less Foods and Energy (WPSSOP3500) and the Company will be paid each monthly one twelfth of the indexed annual fee. An addendum was signed on March 2, 2015, which increased the annual fee to US\$333,495 and extended the start-up deadline to April 13, 2015.

f) Approval of the financial statements -

The accompanying financial statements for the year ended December 31, 2019 have been issued with the authorization of Management on March 31, 2020 and will be presented for the approval of the Board of Directors and the Shareholders. In Management's opinion, the financial statements for the 2019 will be approved by the Shareholders without modifications. The financial statements for the year ended December 31, 2018 were approved for issue by the Board of Directors and General Shareholders' Meeting on November 28, 2019.

## 2 SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation -

i) Compliance with IFRS -

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and the IFRS Interpretations Committee (IFRS IC) applicable.

ii) Basis of measurement -

The financial statements derive from the accounting books of the Company and are prepared based on the cost convention. The financial statements are expressed in United States dollars, unless otherwise stated.

The information contained and disclosed in these financial statements is responsibility of the Company's management, which expressly states that in preparing them it has applied the principles and criteria contained in the IFRS issued by the International Accounting Standard Board (IASB) effective at December 31, 2019.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas in which assumptions and estimates are significant to the financial statements are disclosed in Note 3.

## **2.2 Standards, amendments and interpretations -**

### **2.2.1 New standards, amendments to standards and interpretations adopted by the Company -**

The Company has applied for the first time the following standards and amendments to standards for its annual financial statements beginning on January 1, 2019:

- IFRS 16, "Leases"

The Company has adopted IFRS 16 "Leases" from January 1, 2019 and has not restated the comparative information for 2018 as permitted by the specific transition provisions contained in the standard. Reclassifications and adjustments arising from adoption are recognized in the statement of financial position at January 1, 2019. The new accounting provisions are disclosed in Note 2.9.

The main change to IFRS 16 is that leases currently classified as operating leases by the lessee are recorded in the statement of financial position under criteria that is similar to those under IAS 17 effective until December 31, 2018, that is, the lessee will recognize a liability for lease payments and an asset that represents the right to use the "underlying asset" during the term of the lease. Also, lessees must separately recognize the expense for the financial update of the lease liability and the amortization expense of the "right-of-use asset".

These lease liabilities were measured at the present value of the remaining lease payments, discounted using the groups incremental borrowing rate at January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 7% in U.S. dollars.

*i) Practical expedients used:*

In adopting IFRS 16 for the first time, the Company has used the following practical expedient contained in that standard:

- Using a single discount rate on a portfolio of leases with comparable characteristics;
- For operating leases with a remaining term of less than 12 months at January 1, 2019, the lessee may choose to apply the short-term lease exemption;
- Excluding initial direct costs in the measurement of the right-of-use asset at the date of initial application, and
- Use of hindsight for lease term to determine which lease renewal and termination options to include or exclude.

*ii) Measurement of right-of-use assets and lease liabilities:*

At January 1, 2019 the effect of the adoption of IFRS 16 in the Company's financial statements was the recognition of a "right-of-use asset" and a "Lease liability" for S/815,306, which were determined as the discounted amount of the contractual future cash flows.

- Other amendments -
  - IFRIC 23, "Uncertainty over Income Tax Treatments".
  - Prepayment features with negative compensation - Amendments to IFRS 9 "Financial Instruments".
  - Annual improvements to IFRS, 2015 - 2017 cycle.

The other above-listed standards and interpretations have had no impact on the Company's financial statements for the previous or current year; no material impact is expected on its financial statements for the future years.

**2.2.2 New standards, amendments and interpretations effective for the financial statements for annual periods beginning on or after January 1, 2019, which have not been early adopted -**

A number of amendments to standards and interpretations have been released which are of mandatory adoption at January 1, 2020 and which have not been early adopted by the Company.

- Revised Conceptual Framework.
- Definition of Materiality (Amendments to IAS 1, "Presentation of Financial Statements" and IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors").
- Reform of Interbank Offered Rates - IBOR (Amendments to IFRS 9, "Financial Instruments", and IFRS 7, "Financial Instruments: Disclosures").

The Company considers that these standards and amendments described above will not have a significant impact on its financial statements.

**2.3 Functional currency and foreign currency transactions -**

The financial statements are stated in U.S. dollars, the Company's functional currency. Transactions in other currencies are recorded in U.S. dollars based on exchange rates prevailing at the time of such transactions. Monetary assets and liabilities denominated in other currencies are translated into U.S. dollars at exchange rates prevailing at the balance sheet dates, and any resulting gains or losses are reflected in current earnings.

**2.4 Cash and cash equivalents -**

Cash and cash equivalents consist of all cash balances and highly liquid investments with original maturities of three months or less. Because of the short maturity of these balances, the carrying amounts approximate their fair value. Restricted cash is excluded from cash and cash equivalents and is included in other current assets or long-term assets depending on restrictions.

**2.5 Financial assets -**

*(i) Classification*

The Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- Those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

*(ii) Recognition and derecognition -*

Purchases or sales of financial assets are recorded on the trading date of the transaction; i.e. the date on which the Company undertakes to buy or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

*(iii) Measurement -*

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*Debt instruments -*

Subsequent measurement of debt instruments depends on the Company's business model established for management of those assets as well as the cash flow characteristics of the assets. The Company classifies its debt instruments in the following three measurement categories: (i) Amortized cost, (ii) Fair value through other comprehensive income (FVOCI); and (iii) Fair value through profit or loss (FVPL). At December 31, 2019 and 2018 the Company only has financial assets measured at amortized cost.

Amortized cost: Applicable for financial assets held within a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). Interest arising from these assets are recognized as financial income using the effective interest method. Any gains or losses arising from the disposal of these assets are recognized through profit or loss shown within "Other income (expenses)" along with associated exchange gains or losses (or the associated exchange gains or losses can be shown within "Exchange difference, net"). Impairment losses are shown in a separate item in the statement of income.

*(iv) Impairment*

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and other receivables, the Company applies the simplified approach established under IFRS 9, which requires the expected credit loss to be estimated for the instrument lifetime and recognize it from initial recognition

**2.6 Offsetting financial instruments -**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

## 2.7 Property, plant and equipment -

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition and dismantling of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Disbursements incurred to replace a component of an item or element of property, plant and equipment are capitalized separately, writing-off the carrying amount of the component being replaced. In the event the component replaced has not been considered as a separate component of the asset item, the replacement value of the new component is used to estimate the carrying amount of the assets being replaced.

Assets in the construction stage are carried at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset and borrowings costs related to acquisition of qualifying assets. At their completion, the cost is transferred to the appropriate category of property, plant and equipment. Depreciation of these assets commences when the assets are ready for their intended use.

Property, plant and equipment items are written-off at the date they are sold or when no economic benefits are expected from their further use or sale. Gains and losses on disposals of assets are determined by comparing the proceeds with their carrying amounts. These gains or losses are included in the statement of comprehensive income.

### Depreciation -

Land is not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Buildings	20
Operating wind turbines	20
Transmission lines	18
Computer equipment	4
Furniture and fixtures	10
Other equipment	4 and 10
Decommissioning obligation	20

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date. Any changes in these estimates are prospectively adjusted.

## 2.8 Intangible assets -

The Company's identifiable intangible assets are stated at cost less accumulated amortization and include acquired computer software with finite useful lives of 10 years. Costs associated with maintaining computer software programs are recognized as an expense as incurred. These assets are capitalized and amortized on a straight-line basis.

## 2.9 Leases -

Lease contracts are usually made for fixed periods of 1 year, but they can be extended for longer.

Effective January 1, 2019 the Company adopted IFRS 16 "Leases", date on which application of this standard was mandatory, using the retrospective approach.

Company's lease contracts comprise land leases in which the wind farms are located (Note 1-e) and the lease of administrative offices. Rent contracts are entered into for fixed periods of time, however, there are renewal options as described below.

Leases are recognized as a right-of-use assets and a lease liability at the date the leased asset is ready for use by the Company.

Assets and liabilities arising from a lease contract are initially measured at present value.

The measurement of such assets includes the following:

- The amount of the initial measurement of the lease liability and
- Any lease payments made at or before the commencement date, less any lease incentives received.

Rights-of-use assets are usually depreciated under the straight-line basis over the shorter of the asset's useful life and lease term. If the Company has reasonable certainty that a purchase option will be exercised, the right-of-use asset is depreciated over the useful life of the underlying leased asset.

IFRS 16 provides practical expedients; and therefore, short-term lease payments and low-value leases are recognized under the straight-line method as expenses in profit or loss. Short-term leases are leases of 12 months or less. Low-value assets consists of IT equipment and small office furniture fixtures.

Lease liabilities are stated at the present value of the following payments:

- Fixed payments and
- Variable lease payments that depend on an index or a rate

Lease payments to be made under renewal options with reasonable certainty to be exercised are also included in the measurement of the liability.

Lease payments are discounted using an interest rate implicit in the lease contract, if determinable, or otherwise the Company's incremental borrowing rate, the rate a lessee would have to pay on borrowings to obtain the required cash to obtain a similar right-of-use asset in an similar economic environment under similar terms and conditions.

In determining the incremental borrowing rate, the Company considers the following criteria:

- To the extent possible, the company uses the rate used on recent financing obtained from third parties as a starting point and adjusts it to reflect changes in circumstances from the date those borrowings were obtained.
- Uses other approaches under which it begins with a risk-free interest rate adjusted for credit risk for leases held by the Company; and
- Applying specific adjustments to the lease, for example, term, country, currency and kind of guarantees.

The Company is exposed to future possible lease variable payments linked to an index or rate, which are not included in the lease liability until they become effective. When index-linked payments come in effect, the lease liability is re-assessed and adjusted to the right-of-use asset.

Each lease payment is allocated between the liability and the finance charges. The finance cost is recognized in profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

In determining the lease term, Management considers all facts and circumstances that lead the Company to exercise the option to renew or early terminate the lease contract. Renewals options (post-termination extensions) are only included in the terms of the contracts if it is reasonably certain that the lease contract will be extended (or not terminated).

#### *Accounting policy until December 31, 2018 -*

Until December 31, 2018 leases of plant and equipment where the Company is the lessee, it used to assume substantially all risks and rewards inherent to ownership of the assets classified as finance leases. At December 31, 2018 the Company had a finance lease comprised of transmission lines. At December 31, 2019 assets and liabilities for finance leases are presented in the right-of-use asset, within the item property, plant and equipment and lease liabilities, respectively.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Company as a lessee were classified as operating leases. Operating lease payments (net of any incentive received from lessor) were recognized in profit or loss on a straight-line basis over the lease term.

#### **2.10 Impairment of non-financial assets -**

The carrying amounts of non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. If there are indicators of impairment, a review is undertaken to determine whether the carrying values are in excess of their recoverable amounts. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and its value in use. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independently from other assets, in which case the review is undertaken at the cash generating unit level.

If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recorded in the statement of comprehensive income to reflect the asset at the lower amount. In assessing recoverable amount for assets, the relevant future cash flows expected to arise from the fair value less cost of disposal have been discounted to their present value using a market-determined post-tax discount rate.

An impairment loss is reversed in the statement of comprehensive income if there is a change in estimates used to determine recoverable amount since the prior impairment loss was recognized. The carrying amount is increased to the recoverable amount but not beyond the carrying amount net of depreciation or amortization which would have arisen if the prior impairment loss had not been recognized. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

At December 31, 2019 and 2018 the Company did not identify evidences that an impairment loss on non-financial assets has been incurred.

#### **2.11 Financial liabilities -**

In accordance with IFRS 9, "Financial Instruments" financial liabilities are classified, at its initial recognition, as follows: financial liabilities at fair value through profit or loss, (ii) financial liabilities at amortized cost. The Company determines the classification of financial liabilities on the date of its initial recognition.



The Company classifies its financial liabilities in the category of financial liabilities at amortized cost and are included in the following items if the statement of financial position: "Trade account payable and accruals", "Other account payable to related parties"; "Other current liabilities" and "Borrowings and interest payable"

All financial liabilities are initially recognized at fair value net of the costs directly attributable to the transaction; and subsequently, when the time value of money is important, they are measured at amortized cost by the effective interest rate method.

Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are shown as non-current liabilities.

#### **2.12 Borrowings -**

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently recognized at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer payment of the obligation for at least 12 months after the date of the statement of financial position, when is classified as non-current.

#### **2.13 Borrowing costs -**

General and specific borrowing costs directly attributable 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 such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### **2.14 Provisions -**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. If the time value of money is significant, provisions are discounted using pre-tax rates, which reflect, when appropriate, the liabilities' specific risks. The reversal of the discount due to the passage of time originates the increase of the obligation which is recognized with a charge to the statement of comprehensive income as a finance cost.

Provisions are reviewed periodically and are adjusted to reflect the best estimate available as of the date of the statement of financial position. The expense related to other provisions is presented in the statement of comprehensive income.

#### **2.15 Income tax -**

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

The current income tax charge is calculated on the basis of the income tax laws enacted in Peru. Management periodically evaluates positions taken in income tax returns with respect to situations in which applicable income tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using income tax rate (and laws) that has been enacted or substantively enacted by the statement of financial position date and is expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled, considering the legal stability agreement (Note 1-c).

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### **2.16 Employee benefits -**

##### a) Termination benefits -

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

##### b) Employees' severance indemnities -

Employees' severance indemnities are comprised of indemnities determined under labor laws and regulations, and it is shown net of the deposits, which are made in May and November of each year, in institutions of the financial system at the election of the employees. The employee's severance indemnities are equivalent to half compensation, effective on the date of each deposit, and is recognized on an accrual basis. The Company does not have any obligation to make additional payments once these annual deposits, to which each worker is entitled, are made.

##### c) Statutory bonuses -

In accordance with labor laws, employees are entitled to two additional monthly salaries per year as annual statutory bonuses. The Company recognizes the expense in statutory bonuses and the related liabilities on an accrual basis. Statutory bonuses are paid in July and December every year.

##### d) Employees' vacation leave -

Personnel's annual vacations and other remunerated absences are recognized on the accrual basis. The provision for the estimated obligation for annual vacations and other remunerated employee absences is recognized at the date of the statement of financial position.

#### **2.17 Share capital -**

Equity instruments are contracts that give the holder a residual interest in the Company's net assets. Ordinary shares are classified as equity. Equity instruments are recognized at the amount of proceeds received net of costs directly attributable to the transaction.

## **2.18 Dividend distribution -**

Dividends are recognized as liabilities when they are declared (i.e. the dividends are appropriately authorized and no longer at the discretion of the entity). Typically, dividends are recognized as liabilities in the period in which their distribution is approved at the General Shareholders' Meeting.

## **2.19 Revenue recognition -**

The Company recognizes revenues based on compliance with performance obligations agreed with the client in order to determine the opportunity and amount in which revenues must be recognized, giving greater importance to the transfer of control than to the transfer of risks and benefits.

### **Sale of energy -**

Sales of energy are recognized when control is transferred, this condition is met when the generated energy is injected into the Peruvian National Grid. Income from the sale of energy is recognized over time as energy injections occur.

Revenue from the sale of energy delivered but not invoiced is recognized in the statement of comprehensive income in the period in which the energy has been delivered.

### **Interest -**

Interest Premium is recognized based on an accrual basis and corresponds to 12% of the unbilled accounts receivable (Note 6) in accordance with the Law Decree No.28544. As it does not correspond to an interest because of a deferred payment, it is considered as part of revenue.

## **2.20 Other costs and expenses -**

The other costs and expenses are recognized on an accrual basis regardless of when they are paid and, if applicable, in the same period in which the related revenue is recognized.

## **3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing its financial statements, the Company has made significant judgments, estimates and assumptions that impact on the carrying value of certain assets and liabilities, income and expenses as well as other information reported in the notes. The Company periodically monitors such estimates and assumptions and makes sure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates. 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, and the judgments made in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognized in the financial statements are addressed below.

### **3.1 Critical accounting estimates and assumption -**

#### **Useful lives of property, plant and equipment -**

Both wind farms started commercial operations on August 30, 2014 and therefore triggered the commencement of depreciation. The Company is reasonably applying 20-years useful life for the wind farms, based on the term of Supply Concession Agreement.

#### Revenue recognition -

Under the terms of the Supply Concession Agreement the Company has committed to provide a minimum volume of energy per year at a price per MW/h, which includes a premium over the spot tariff. The premium is awarded only if the minimum volume of energy is injected to Sistema Eléctrico Interconectado Nacional (SEIN) which is validated annually by Comité de Operación Económica del Sistema Interconectado Nacional (COES SINAC). If the minimum volume of energy is not provided, the Company will only have the right to receive the spot price per MW/h. Additional discounts may apply to the price per MW/h which are related to the volume level of energy injected.

The Company recognized revenue from sales of energy per month of operation at a price which includes the premium over the spot price as it estimates that the annual minimum volume of energy required to be injected to the SEIN will be reached. When the Company estimates that the volume of energy is not going to be achieved, it recognizes a decrease in the provision of revenues in statement of comprehensive income.

The Company uses the same method consistently throughout the duration of the Supply Concession Agreement through a range of 'reasonable number of possible consideration amounts', using all the information that is reasonable available to it, current and forecasted data. The Company updates its estimation on a quarterly basis considering the available data as of the reporting date and any difference is recorded prospectively as follows:

- If the projected volume of energy is expected to fulfill the minimum volume required, the Company continues recording revenues at a price which includes the premium at a monthly basis.
- If the Company does not expect to achieve the minimum volume of energy committed, the Company revises its estimates and adjusts the price of the energy sold.

#### Decommissioning provision -

Within the conclusion of construction and consequently the commencement of commercial operation, the Company recognized a decommissioning provision and subsequently updated at December 31, 2019, which amounted to US\$4,137,606 (US\$3,864,038 at December 31, 2018) related to the future obligation for dismantling costs of 62 wind turbines and associated civil works. The estimated costs include removal of cables, dismantling costs of substation, transmission lines and wind turbines. The Company estimates the present value of this obligation using a discount rate of 6.86%. If the change in the used discount rate increase/decrease +/- 1%, the impact of the decommission obligation would be lower/higher in US\$665,086 and US\$510,529, respectively (US\$557,171 and US\$651,632 in 2018, respectively).

#### Lease of transmission lines -

The Company entered into an agreement with Red de Energía Perú S.A. (REP), in which REP will construct, operate and provide a power transmission services to the Company for 18 years from the commencement of operations. The installations will be transferred to the Company by the end of the contract term.

The financial lease over transmission lines at December 31, 2019 amounted to US\$2,886,235 (US\$3,016,889 at December 31, 2018). The Company estimated the fair value of the future discounted cash flow with a discount rate of 6.86%.

### 3.2 Critical judgments in applying the entity's accounting policies -

#### *Determination of functional currency -*

Management concluded the functional currency as the U.S. dollar based on the following: The Supply concession agreement signed by the Company and the Peruvian Government set an energy sale price in U.S. dollars which is adjusted periodically by a factor that includes the Finished Goods, less Food and Energy Index (WPSSOP 3500) published by Labor Department of the U.S. Government; most operating cost and investments are incurred in Peru but are mainly billed in U.S. dollars, borrowings are held in U.S. dollars; and capital contributions are made in U.S. dollars. Management has used its professional judgment to determine the functional currency and concluded that the currency that most faithfully represents the economic environment and conditions of the entity is the United States dollar.

## 4 FINANCIAL RISK MANAGEMENT

### 4.1 Financial risk factors -

The Company's operations expose it to a variety of financial risks: market risks (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The most important aspects in risk management are the following:

#### a) Market risk -

##### i) Foreign exchange risk -

Foreign exchange risk exposure arises from exchange rate fluctuations denominated in currencies other than the U.S. dollar, the Company's functional currency.

The Company maintains assets and liabilities expressed in Peruvian soles (S/) detailed as follows:

	<u>At December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>S/</u>	<u>S/</u>
<b>Assets</b>		
Cash and cash equivalents	2,884,088	5,688,365
Trade accounts receivable	20,536,480	12,991,809
Other accounts receivable (a)	<u>5,354,273</u>	<u>5,341,444</u>
	<u>29,114,980</u>	<u>24,021,618</u>
<b>Liabilities</b>		
Trade accounts payable	( 852,001)	( 925,718)
Other current liabilities (b)	<u>( 11,752,618)</u>	<u>( 6,185,459)</u>
	<u>( 12,604,619)</u>	<u>( 7,111,177)</u>
<b>Net assets</b>	<u>16,510,361</u>	<u>16,910,441</u>

(a) At December 31, 2019 other accounts receivable mainly includes income tax credit and taxes and net assets.

(b) At December 31, 2019 other current liabilities mainly includes income tax payable.

Balances in foreign currency are converted to functional currency using the exchange rates published by the Peruvian banking regulator “Superintendencia de Banca, Seguros y AFP” (SBS). At December 31, 2019 the exchange rates used by the Company for recording its balances in foreign currency are US\$0.302 and US\$0.301 per S/1 for assets and liabilities, respectively (US\$0.297 and US\$0.296 per S/1 for assets and liabilities, respectively, at December 31, 2018).

At December 31, 2019 the Company recognized exchange gains for US\$2,072,573 (US\$75,659 at December 31, 2018) and exchange losses for US\$2,688,030 (US\$1,094,434 at December 31, 2018), stated in Exchange differences, net in the statement of comprehensive income.

ii) Price risk -

The Company is not exposed to the trade risks arising from changes in the prices used by competitors, because revenues and prices are assured by a 20-years term Supply Concession Agreement with Peruvian Government to provide power to the National Electric Power Grid. Prices are adjusted periodically by a factor that includes the Finished Goods less Food and Energy Index (WPSFD4131) published by Labor Department of the U.S. Government. No major changes are expected to have a negative effect in the foreseeable future.

iii) Interest rate risk -

The Company is not exposed to interest risk since all its financial assets and liabilities bear interest at fixed rates. The risk of fair value of financial assets and liabilities is disclosed in Note 4.3.

b) Credit risk -

The financial assets potentially exposed to credit risk concentrations primarily consist of bank deposits and trade accounts receivable. The assessment of the credit quality of financial assets can be performed on the basis of historical data on default rates of their counterparts:

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>US\$</b>	<b>US\$</b>
Cash in banks and short-term bank deposits:		
- Rate A+	868,276	1,682,180
- Rate A1	<u>1,522,272</u>	<u>440,721</u>
	<u><u>2,390,548</u></u>	<u><u>2,122,901</u></u>

The rating “A” in the table above represents a high-quality credit rating. The rating was obtained from local and foreign risk rating agencies such as Apoyo & Asociados Internacionales, local rating agencies are authorized by Superintendencia de Banca, Seguros y AFP.

Also, Management considers that the Company does not have significant credit risk on the accounts receivable because they have not had any non-compliance on payments from clients or large overdue accounts receivable historically.

The credit risk is limited to the carrying amount of financial assets at the date of the statement of financial position.

c) Liquidity risk -

Liquidity risk arises from the possibility that the Company may not be able to obtain the funds it requires to comply with its commitments under financial liabilities, including the inability to sell a financial asset at a price close to its fair value when cash is required. Management believes that the Company is capable of generating sufficient cash from operations in order to attend its obligations as they become due. In addition, the Company has accessed to adequate credit on reasonable terms from financial institutions.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Less than 1 year US\$</u>	<u>Between 1 and 2 years US\$</u>	<u>Between 2 and 5 years US\$</u>	<u>Over 5 years US\$</u>	<u>Total US\$</u>
<b>At December 31, 2019</b>					
Borrowings and interest payable	16,972,522	17,593,476	54,174,718	185,410,601	274,151,317
Trade accounts payable and accruals	2,372,723	-	-	-	2,372,723
Accounts payable to related parties	85,906	-	-	-	85,906
Other current liabilities	212,507	-	-	-	212,507
	<u>19,643,658</u>	<u>17,593,476</u>	<u>54,174,718</u>	<u>185,410,601</u>	<u>276,822,453</u>
<b>At December 31, 2018</b>					
Borrowings and interest payable	16,080,296	16,972,522	53,569,429	203,609,366	290,231,613
Trade accounts payable and accruals	1,147,345	-	-	-	1,147,345
Accounts payable to related parties	5,192	-	-	-	5,192
Other current liabilities	259,102	-	-	-	259,102
	<u>17,491,935</u>	<u>16,972,522</u>	<u>53,569,429</u>	<u>203,609,366</u>	<u>291,643,252</u>

#### 4.2 Capital risk management -

The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders 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 shareholders, return capital to shareholders or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings plus finance lease obligation, less cash and cash equivalents. Total capital is calculated as equity as shown in the statement of financial position plus net debt.

The gearing ratio was as follows:

	<u>At December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>US\$</u>	<u>US\$</u>
Borrowings (Note 10)	173,870,547	178,279,542
Lease liability (Note 12)	3,662,114	3,016,889
Less cash and cash equivalents (Note 5)	( 2,391,976)	( 2,124,464)
Net debt	175,140,685	179,171,967
Equity	35,219,610	28,622,155
Total capital	<u>210,360,295</u>	<u>207,794,122</u>
Gearing ratio	<u>0.83</u>	<u>0.86</u>

#### 4.3 Fair value estimation -

IFRS 13, "Fair value measurement" requires the entity to disclose the measurement of fair values according to the following hierarchical levels to measure fair value:

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

The Company does not have financial instruments valued at a fair value shown in the statement of financial position. However, for Company exposure purposes, the following criteria should be taken into consideration to determine the fair value of its financial instruments:

a) Financial instruments of which the fair value is similar to the carrying amount -

For financial assets and liabilities that are liquid or have short-term maturities (less than three months), such as cash and cash equivalents, receivables, payables and others current liabilities, is considered that the carrying amount is similar to the fair value.

b) Financial instruments at fixed rate -

The fair value of the financial liabilities that accrue fixed rates at amortized cost is determined comparing the market interest rates at the time of their initial recognition with the current markets rates related to similar financial instruments.

The fair value of long-term debt at December 31, 2019 and 2018 is disclosed in Note 10.

## 5 CASH AND CASH EQUIVALENTS

This item comprises:

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>US\$</b>	<b>US\$</b>
Cash in hand	1,428	1,563
Cash at bank accounts	<u>2,390,548</u>	<u>2,122,901</u>
	<u><u>2,391,976</u></u>	<u><u>2,124,464</u></u>

Cash at bank accounts is held in local and foreign banks amounting to US\$1,520,981 and S/2,880,025 at December 31, 2019 (US\$440,721 and S/5,684,003 at December 31, 2018).

## 6 TRADE ACCOUNTS RECEIVABLE

This item comprises:

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>US\$</b>	<b>US\$</b>
Unbilled accounts receivable	6,082,136	3,561,996
Interest receivable (a)	17,964	148,314
Invoices issued	<u>101,917</u>	<u>132,016</u>
	<u><u>6,202,017</u></u>	<u><u>3,842,326</u></u>

(a) Interest receivable comprises the interest generated by the unbilled account receivable in accordance with the COES Decree No.28544 which annual interest rate is 12%.



## 7 OTHER ACCOUNTS RECEIVABLE

This item comprises:

	<u>At December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>US\$</u>	<u>US\$</u>
Restricted funds (a)	2,657,742	2,009,406
Payment on account of income tax (b)	<u>1,637,363</u>	<u>1,637,363</u>
	<u>4,295,105</u>	<u>3,646,769</u>

- (a) The restricted funds comprises (i) Debt Service Reserve Account (DSRA) of US\$733,836 at December 31, 2019 (US\$112,767 at December 31, 2018); and (ii) Operation and Maintenance (O&M) Reserve Account of US\$1,923,906 at December 31, 2019 (US\$1,896,639 at December 31, 2018), established and maintained pursuant to the Collateral and Accounts Agreement.
- (b) The balance at December 31, 2019 and 2018 comprises payments on account of income tax of year 2017 for US\$659,542, payments on account of 2018 for US\$52,311 and the temporary tax on net assets of year 2018 for US\$925,510. The Company expects to offset these credits with the income tax payable of the subsequent years.

## 8 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

- a) The balances with related parties are summarized as follows:

	<u>At December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>US\$</u>	<u>US\$</u>
<b>Balances receivable from related parties –</b>		
<i>Loan receivable:</i>		
ContourGlobal Latam - Principal (a.1)	21,517,851	21,517,851
ContourGlobal Latam - Interest	5,071,053	3,778,745
ContourGlobal Terra Holding S.á.r.l - Principal (a.2)	16,700,000	7,200,000
ContourGlobal Terra Holding S.á.r.l - Interest	704,766	67,794
ContourGlobal Peru SAC	<u>67,794</u>	<u>-</u>
	<u>44,061,464</u>	<u>32,564,390</u>
<b>Balances payable to related parties -</b>		
ContourGlobal Do Brasil Holding Ltda	85,906	-
ContourGlobal Peru	<u>-</u>	<u>5,192</u>
	<u>85,906</u>	<u>5,192</u>

- (a.1) At December 31, 2019 and 2018 the Company maintains loans with its affiliate ContourGlobal Latam amounting to US\$21.5 million; the loans bear an annual interest rate of 6% and are due to as follows: US\$9,049,647 in December 2021, US\$10,000,000 in November 2021 and US\$2,468,204 in July 2022.
- (a.2) At December 31, 2019 the Company maintains loans with its related party ContourGlobal Terra Holding S.á.r.l., which amounted to US\$16.7 million which was comprised as follows: A loan granted December 27, 2019 for US\$9.5 million bearing an annual interest rate of 7% and a loan granted December 28, 2018 for US\$7.2 million bearing an annual interest rate of 7.5%.

b) Major transactions with related parties comprise:

	<b>At December 31,</b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>
	<b>US\$</b>	<b>US\$</b>
Transactions of statement of financial position:		
Capital decrease (Note 15-a)	-	( 7,400,000)
Loans granted to related parties	( 9,500,000)	( 7,200,000)
Income (expenses) with related parties:		
Financial income (Note 21)	1,995,837	1,291,091
Management services (Note 19)	( 71,016)	( 60,000)
Personnel services	( 26,451)	-

The key management remuneration for the years ended December 31, 2019 and 2018 amounted to US\$167,614 and US\$108,976, respectively.

## 9 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment and the corresponding accumulated depreciation for the years ended December 31, 2019 and 2018 are as follows:

	<u>Land</u> US\$	<u>Buildings</u> US\$	<u>Work in progress</u> US\$	<u>Right-of-use asset (IFRS 16)</u> US\$	<u>Operating wind turbines</u> US\$	<u>Transmission lines (Note 12)</u> US\$	<u>Computer equipment</u> US\$	<u>Furniture and fixtures</u> US\$	<u>Other Equipment</u> US\$	<u>Decommi- ssioning obligation</u> US\$	<u>Total</u> US\$
Opening net carrying amount at January 1, 2018	13,747	132,334	-	-	188,761,016	2,721,107	2,227	35,006	463,664	2,394,012	194,523,113
Additions	-	-	-	-	-	-	19,906	3,211	-	-	23,117
Disposal	-	-	-	-	-	-	-	-	-	-	-
Depreciation expense (a)	-	(11,525)	-	-	(11,127,002)	(184,809)	(3,360)	(5,671)	(245,185)	(143,641)	(11,721,193)
Closing net carrying amount at December 31, 2018	<u>13,747</u>	<u>120,809</u>	<u>-</u>	<u>-</u>	<u>177,634,014</u>	<u>2,536,298</u>	<u>18,773</u>	<u>32,546</u>	<u>218,479</u>	<u>2,250,371</u>	<u>182,825,037</u>
<b>Year 2019:</b>											
Opening net carrying amount at January 1, 2018	13,747	120,809	10,295	-	177,634,014	2,536,298	18,773	32,546	208,184	2,250,371	182,825,037
Additions	-	11,244	748,140	815,306	-	-	12,942	5,323	98,088	-	1,691,043
Transfers	-	-	-	2,536,298	-	(2,536,298)	-	-	-	-	-
Disposal	-	-	-	-	-	-	-	-	-	-	-
Depreciation expense (a)	-	(11,591)	-	(250,139)	(11,127,002)	-	(5,397)	(5,722)	(246,025)	(143,641)	(11,789,517)
Closing net carrying amount at December 31, 2019	<u>13,747</u>	<u>120,462</u>	<u>758,435</u>	<u>3,101,465</u>	<u>166,507,012</u>	<u>-</u>	<u>26,318</u>	<u>32,147</u>	<u>60,247</u>	<u>2,106,731</u>	<u>172,726,563</u>

(a) Depreciation expense for the year ended December 31, 2019 amounting to US\$11,789,517 (US\$11,721,193 at December 31, 2018) is allocated in Operating costs (Note 18) in the statement of comprehensive income.

## 10 BORROWINGS AND INTEREST PAYABLE

At December 31, this item comprises:

	<u>Maturity date</u>	<u>At December 31,</u>	
		<u>2019</u>	<u>2018</u>
		<u>US\$</u>	<u>US\$</u>
Corporate bond issuance	30/08/2034	179,528,281	184,629,463
Interest		388,979	400,031
Transaction costs		( 6,046,713)	( 6,749,952)
		<u>173,870,547</u>	<u>178,279,542</u>

The current and non-current portion are as follows:

Current portion	6,034,699	4,797,973
Non-current portion	<u>167,835,848</u>	<u>173,481,569</u>
	<u>173,870,547</u>	<u>178,279,542</u>

The long-term debt is scheduled to be paid as follows:

<u>Year</u>	<u>At December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>US\$</u>	<u>US\$</u>
2020	-	5,645,721
2021	6,704,056	6,704,056
2022 to 2034	<u>161,131,792</u>	<u>161,131,792</u>
	<u>167,835,847</u>	<u>173,481,569</u>

On December 15, 2014 the Company issued US\$204 million at 6% senior secured green notes due ("the Inka Notes") (Note 1-d).

Transaction costs includes the offering discount amounting to US\$3,378,240; the underwriting fee amounting to US\$3,060,000 and other costs related to bonds issue amounting to US\$3,335,603; less US\$3,727,130 corresponding to the unwinding of the discount at December 31, 2019 (US\$3,023,891 at December 31, 2018).

Interest payment dates: March 18, June 18, September 18 and December 18 in each year, starting on March 18, 2015, provided that, the final interest payment date shall be August 30, 2034. During 2019, the Company accrued interests amounting to US\$10,968,061 (US\$11,236,697 at December 31, 2018) (Note 20).

Principal payments: The Company will repay the principal of the Notes on each interest payment date, starting on September 18, 2015 and the remaining principal balance on August 30, 2034. During 2019, the Company repaid the principal in the amount of US\$5,101,182 (US\$4,347,256 during 2018).

The carrying amounts and fair values of the non-current borrowings are as follows:

	<u>Carrying amount</u>		<u>Fair value</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
Corporate bonds issuance	<u>167,835,848</u>	<u>173,481,569</u>	<u>168,392,551</u>	<u>177,263,484</u>
	<u>167,835,848</u>	<u>173,481,569</u>	<u>168,392,551</u>	<u>177,263,484</u>

The fair values are based on cash flows discounted using a rate based on the Corporate bond rate of 5.7% at December 31, 2019 (5.51% at December 31, 2018).

The reconciliation of the net debt and the cash flows from financing activities is as follows:

	<u>Borrowings</u> US\$	<u>Interest payable</u> US\$	<u>Transaction cost</u> US\$	<u>Total</u> US\$
<b>At December 31, 2017</b>	188,976,719	409,450	( 7,470,416)	181,915,753
Cash flows	( 4,347,256)	( 11,246,116)	-	( 15,593,372)
Non-cash movements	-	11,236,697	720,464	11,957,161
<b>At December 31, 2018</b>	184,629,463	400,031	( 6,749,952)	178,279,542
Cash flows	( 5,101,182)	( 10,979,114)	-	( 16,080,296)
Non-cash movements	-	10,968,062	703,239	11,671,301
<b>At December 31, 2019</b>	<u>179,528,281</u>	<u>388,979</u>	<u>( 6,046,713)</u>	<u>173,870,547</u>

## 11 TRADE ACCOUNTS PAYABLE AND ACCRUALS

This item comprises:

	<u>At December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>US\$</u>	<u>US\$</u>
Accounts payable to Vestas Peru	1,102,757	595,959
Other suppliers	1,269,966	551,386
	<u>2,372,723</u>	<u>1,147,345</u>

At December 31, 2019 and 2018 accounts payable to Vestas Peru mainly comprise the invoices for Operation and Maintenance (O&M) services of the Cupisnique and Talara wind farms.

## 12 LEASE LIABILITY

This item comprises:

	<u>At December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>US\$</u>	<u>US\$</u>
Lease of transmission lines (a)	2,886,245	3,016,889
Lease of lands and offices	775,879	-
	<u>3,662,114</u>	<u>3,016,889</u>
Current portion	469,375	333,495
Non-current portion	3,192,739	2,683,394
	<u>3,662,114</u>	<u>3,016,889</u>

- a) The Company recognized the finance lease obligation under the agreement with Red de Energía Perú S.A. (REP), in which REP builds, operates and provides power transmission line services for 18 years starting on the commencement of operations date (August 30, 2014). An addendum was signed on March 2, 2015, which increased the annual fee to US\$333,495 and extended the start-up deadline to April 13, 2015. The installations will be transferred to the Company by end of the contract term (Note 1-e).

Monthly minimum lease payment	US\$	<u>27,791</u>
Incremental borrowing rate	%	<u>6.86</u>
Present value of minimum lease payment at December 31, 2019	US\$	<u>2,886,245</u>
Current Portion of the finance lease	US\$	<u>333,495</u>
Non-Current Portion	US\$	<u>2,552,740</u>

The determination of the present value of the lease at December 31 is as follows:

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>US\$</b>	<b>US\$</b>
Finance lease obligations:		
Within one year	469,375	333,495
Between two and five years	1,650,430	1,333,980
After five years	4,036,880	3,057,038
Future interest	( 2,494,571)	( 1,707,624)
Present value of finance lease obligation	<u>3,661,114</u>	<u>3,016,889</u>

The future interest is calculated on the basis of the identified costs and is discounted at risk-free rate equivalent to 6.86% for transmission lines and 7% for lands and offices.

### 13 DECOMMISSIONING PROVISIONS

At December 31, 2019 the Company recognized a provision amounting US\$4,137,606 for dismantling costs related to 62 wind turbines (17 located in Talara and 45 located in Cupisnique wind farm) (US\$3,864,038 at December 31, 2018). The cost is expected to be disbursed at the end of the 20-years Supply Concession Agreement. The provision includes removal of cables, substation, transmission lines and wind turbines. These dismantling costs are calculated on the basis of the identified costs and are discounted at a risk-free rate equivalent to 6.86%.

The movement of the decommissioning obligation as of December 31, is as follows:

	<b>2019</b>	<b>2018</b>
	<b>US\$</b>	<b>US\$</b>
Balance at the beginning of the year	3,864,038	3,608,557
Unwinding of the discount (Note 20)	<u>273,568</u>	<u>255,481</u>
Balance at the end of the year	<u>4,137,606</u>	<u>3,864,038</u>

### 14 DEFERRED INCOME TAX

The movement in deferred income tax is as follows:

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>US\$</b>	<b>US\$</b>
Balance at the beginning of the year - liability	( 8,766,012)	( 8,003,719)
Profit or loss for the year (Note 16-b)	<u>1,745,938</u>	<u>762,293</u>
Balance at the end of the year - liability	<u>( 7,020,074)</u>	<u>( 8,766,012)</u>

Deferred tax liability relates to the following items:

	<u>Opening balance</u> US\$	<u>Profit or loss for the year</u> US\$	<u>Final balance</u> US\$
<b>Year 2019</b>			
Deferred income tax assets -			
Vacation leave	24,811	3,622	28,433
Pre-operating expenses	3,358,618	( 228,590)	3,130,028
Pre-operating expenses related to borrowing cost	1,457,516	( 291,503)	1,166,013
Exchange difference	268,901	-	268,901
Decommissioning provision	1,159,211	33,516	1,192,727
Decommissioning amortization	186,733	43,092	229,825
Amortization of transaction costs	593,613	138,051	731,664
Other provisions	184,993	10,011	195,004
Tax carry-forward losses	<u>2,225,002</u>	<u>512,063</u>	<u>2,737,065</u>
	<u>9,459,398</u>	<u>220,262</u>	<u>9,679,660</u>
Deferred income tax liabilities -			
Borrowing costs capitalized	( 2,283,441)	145,751	( 2,137,690)
Exchange difference	( 11,396,220)	1,585,909	( 9,810,311)
Amortization of pre-operating expenses	( 1,706,961)	( 192,539)	( 1,899,500)
Transaction costs	( 1,918,681)	-	( 1,918,681)
Depreciation exchange difference	( 58,262)	( 13,445)	( 71,707)
Decommissioning provision	( 861,845)	-	( 861,845)
	<u>(18,225,410)</u>	<u>1,525,676</u>	<u>(16,699,734)</u>
Deferred income tax liability, net	<u>(8,766,012)</u>	<u>1,745,938</u>	<u>(7,020,074)</u>
<b>Year 2018</b>			
Deferred income tax assets -			
Vacation leave	13,936	10,875	24,811
Pre-operating expenses	3,497,310	( 138,692)	3,358,618
Pre-operating expenses related to borrowing cost	1,749,019	( 291,503)	1,457,516
Exchange difference	268,901	-	268,901
Decommissioning provision	1,082,567	76,644	1,159,211
Decommissioning amortization	143,641	43,092	186,733
Amortization of transaction costs	452,180	141,433	593,613
Other provisions	80,269	104,724	184,993
Tax carry-forward losses	<u>2,364,258</u>	<u>(139,256)</u>	<u>2,225,002</u>
	<u>9,652,081</u>	<u>(192,683)</u>	<u>9,459,398</u>
Deferred income tax liabilities -			
Borrowing costs capitalized	( 2,429,193)	145,752	( 2,283,441)
Exchange difference	( 11,030,165)	( 366,055)	( 11,396,220)
Amortization of pre-operating expenses	( 1,371,099)	( 335,862)	( 1,706,961)
Transaction costs	( 1,918,681)	-	( 1,918,681)
Depreciation exchange difference	( 44,817)	( 13,445)	( 58,262)
Decommissioning provision	( 861,845)	-	( 861,845)
	<u>(17,655,800)</u>	<u>(569,610)</u>	<u>(18,225,410)</u>
Deferred income tax liability, net	<u>(8,003,719)</u>	<u>(762,293)</u>	<u>(8,766,012)</u>

## 15 EQUITY

### a) Share capital -

At December 31, 2019 and 2018 share capital comprises 110,096,557 fully subscribed and paid-in common shares at S/1.00 par value each.

At December 31, 2019 the Company's capital structure is as follows:

<u>Percentage of individual interest in capital</u>	<u>Number of shareholders</u>	<u>Total percentage 2019</u>
From 1.00 to 90.00	1	99.99
From 0.01 to 1.00	<u>1</u>	<u>0.01</u>
Total	<u><u>2</u></u>	<u><u>100.00</u></u>

Up to December 31, 2018 ContourGlobal Latam S.A., an indirect subsidiary of ContourGlobal LP, owned 100% of Company's class A shares, representing 74.69% of Company's share capital, and a third party, Eoltec Energy S.L., owned 100% of Company's class B shares (not entitled to vote), representing 25.31% of Company's share capital. In 2019, Eoltec's total shares were transferred to ContourGlobal Latam S.A., and the latest transferred a class B share to ContourGlobal Perú, so ContourGlobal Latam S.A. owns now 99.9%.

At the General Shareholders' Meeting held on February 22, 2018 and May 9, 2018, share capital reductions were agreed for US\$1,100,000 and US\$6,300,000, respectively.

### b) Accumulated losses -

At December 31, 2019 and 2018 the Company has incurred in accumulated losses amounting to US\$11,057,902 and US\$17,655,357, respectively.

## 16 TAX SITUATION

### a) Tax stabilization agreement -

The Company signed the legal Stability Agreement with the Peruvian Government on September 22, 2014 by a term of 10 years expiring on September 22, 2024 which guarantees stability income tax treatment and stability in the regulations of the recruitment of workers.

The Company is entitled to comply, among others, with the following obligations: (i) to issue shares in benefit of ContourGlobal Latam for the amount of its contributions which amounted US\$28,594,403; (ii) to register in Proinversión the contributions received; and (iii) to use these contributions to expand the its productive capacity. Also, the Company assumes the obligation to certify that it has received the contribution due to the presentation of the legal documents in which the capital increase is recorded.

The Legal Stability Agreement will be automatically terminated if the Company default on its obligations mentioned in the paragraph above or if the Company transfers its contractual position. In case of termination, the Company shall reimburse to the Peruvian Government the actual tax amounts that would have accrued if this Legal Stability Agreement has not been signed plus any surcharges established by the Peruvian tax code.

The Company can only assign its rights and obligations under this Legal Stability Agreement with the prior consent of the Peruvian government.



The Legal Stability Agreement may be modified through mutual consent. However, the term of the agreement and the amount of capital contributions which shall be received (below to the minimum established by Peruvian law) are not subject to modification.

b) Income tax -

In accordance with tax regulation, income tax is calculated and paid in Peruvian soles. The enacted income tax rate was 30% for 2019 and 2018, since the Company has a Legal Stability Agreement.

The Company computed its taxable base for the year ended December 31, 2019, and determined that its income tax expense amounts to US\$511,428 (gains of US\$773,814 for the year ended December 31, 2018), which is broken down as follows:

	<u>2019</u> <u>US\$</u>	<u>2018</u> <u>US\$</u>
Current	( 2,257,366)	( 11,521)
Deferred (Note 14)	<u>1,745,938</u>	<u>(762,293)</u>
	<u>(511,428)</u>	<u>(773,814)</u>

The Company's Management considers that the income tax return has been determined according to the tax law in force during the year of signing the tax stability agreement.

Reconciliation of effective rates of income tax to the tax rate is as follows:

	<u>2019</u> <u>US\$</u>	<u>%</u>	<u>2018</u> <u>US\$</u>	<u>%</u>
Income (losses) before income tax	<u>7,108,883</u>	<u>100.00</u>	<u>4,182,781</u>	<u>100.00</u>
Income tax recorded at theoretical rate	( 2,132,665)	( 30.00)	( 1,254,834)	( 30.00)
Permanent differences	( 1,822,449)	( 25.64)	( 620,709)	( 14.84)
Exchange difference on fixed assets	3,501,118	49.25	1,220,185	29.17
Adjustment in tax loss	-	-	( 38,402)	( 0.92)
Adjustment in pre-operating expenses	( 57,432)	( 0.81)	( 138,692)	( 3.32)
Other	-	-	58,638	1.40
Income tax rate	<u>(511,428)</u>	<u>(7.19)</u>	<u>(773,814)</u>	<u>(18.50)</u>

Income tax returns from 2015 to 2019 are pending examination by the Peruvian tax authorities, which are authorized to perform reviews within four years following the year income tax returns are filed. Management considers that no significant liabilities will arise from the pending examinations.

Due to possible interpretations that tax authorities may make on legal regulations in force, it is not possible to determine at present whether liabilities for the Company will result from future reviews, so that any eventual higher tax or charge that might result from fiscal reviews will be charged to the net income (loss) for the year in which they are determined. However, Management considers that no potential additional settlement of taxes would be significant for the financial statements at December 31, 2019 and 2018.

**17 REVENUE**

Revenue for the year ended December 31 comprise:

	<u>2019</u> <u>US\$</u>	<u>2018</u> <u>US\$</u>
Revenue from energy sales premium	35,639,472	33,031,333
Revenue from energy sales spot	4,069,776	4,036,771
Interest revenue premium	40,005	40,703
	<u>39,749,253</u>	<u>37,108,807</u>

**18 OPERATING COST**

Operating costs for the year ended December 31 comprise:

	<u>2019</u> <u>US\$</u>	<u>2018</u> <u>US\$</u>
Depreciation (Note 9)	11,789,517	11,721,193
Operating and maintenance	4,540,885	4,490,466
Personnel expenses	1,084,086	966,130
Concession fees	356,629	353,671
Services received from third parties	364,864	324,077
Purchased power	489,580	274,999
Transmitting charges	136,954	102,411
Interconnexion charges	344,694	63,100
	<u>19,107,209</u>	<u>18,296,047</u>

**19 ADMINISTRATIVE EXPENSES**

Administrative expenses for the year ended December 31 comprise:

	<u>2019</u> <u>US\$</u>	<u>2018</u> <u>US\$</u>
Insurances	548,306	655,442
Taxes related to bond interest expense	547,051	566,565
Letter of credit fees	388,175	282,622
Services received from third parties	255,502	219,207
Security services	167,064	166,699
Internet services	134,860	154,674
Fines	17,987	128,168
Other tax expense	33,946	76,525
Management services (Note 8-b)	71,016	60,000
Amortization	9,782	9,782
Others	102,946	-
	<u>2,276,635</u>	<u>2,319,684</u>

## 20 FINANCIAL EXPENSES

Financial expenses for the year ended December 31 comprise:

	<u>2019</u> <u>US\$</u>	<u>2018</u> <u>US\$</u>
Interest on borrowings (Note 10)	10,968,061	11,236,697
Amortization of transaction costs	703,239	720,464
Unwinding of discount (a)	556,775	467,072
Penalties and interests	511,747	-
Others	-	158,378
	<u>12,739,822</u>	<u>12,582,611</u>

(a) It includes the unwinding of discount of the decommissioning obligation amounting to US\$273,568 (US\$255,481 in 2018) and the unwinding of discount of the finance lease obligation amounting to US\$283,207 (US\$211,591 in 2018).

## 21 FINANCIAL INCOME

Financial income for the year ended December 31 comprise:

	<u>2019</u> <u>US\$</u>	<u>2018</u> <u>US\$</u>
Interest on loans granted to related parties (Note 8-b)	1,995,837	1,291,091
Other financial income	102,946	-
	<u>2,098,783</u>	<u>1,291,091</u>

## 22 CONTINGENCIES

At December 31, 2019 the Company does not have material contingencies that require disclosure.

## 23 SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Given the severe outbreak of COVID-19 worldwide, the Peruvian Government enacted Supreme Decree No.044-2020-PCM dated March 15, 2020 to declare a State of National Emergency in Peru for a period of fifteen (15) days, including an order of mandatory social isolation (quarantine) because the lives of the nation's population were at risk. The aforementioned Supreme Decree set forth restrictions to a large number of economic, trade, cultural, recreational, activities as well as those of hotels and restaurants. Subsequently, on March 26 the Peruvian Government announced an extension of the National Emergency up until April 12, 2020. The Company's economic activity is exempt from the measures established by the Peruvian Government; consequently, the Company considers that this event has no impact on the 2019 financial statements.

In addition to the above, between December 31, 2019 and the date of approval of the financial statements, no significant subsequent events have occurred that are required to be disclosed in the notes to the financial statements.