



ENERGIA EOLICA S.A.

FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013



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ENERGIA EOLICA S.A.

**FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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



INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Energía Eólica S.A.

April 16, 2015

We have audited the accompanying financial statements of **Energía Eólica S.A.**, a subsidiary of ContourGlobal LP, ultimate Parent Company (an exempted entity from Cayman Islands) which comprise the statements of financial position as of December 31, 2014 and 2013, and the statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes included in the accompanying Notes 1 to 21.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs), 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.

Auditors' 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 endorsed for application in Peru by the Board of Deans of Institutes of Peruvian Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 risk of material misstatement of the financial statements, whether due to fraud or error. In making this risk assessment, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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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April 16, 2015
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 accompanying financial statements give a true and fair view of the financial position of **Energía Eólica S.A.** as of December 31, 2014 and 2013 and of their financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRSs).

Gonzalo Aparicio y Asociados

Countersigned by

Pablo Saravia Magne

(partner)

Pablo Saravia Magne
Peruvian Certified Public Accountant
Registration No.01-24367

ENERGIA EOLICA S.A.

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

	Note	As of December 31,			As of December 31,	
		2014	2013		2014	2013
		US\$	US\$		US\$	US\$
ASSETS						
Current assets						
Cash and cash equivalents	5	1,665,479	259,437		4,355,125	95,179,482
Unbilled accounts receivable	6	8,263,389	-		7,606,437	12,964,198
Other accounts receivable	7	24,647,356	16,189,634		29,440,153	57,078,990
Other accounts receivable from related parties	8	9,271,412	-		1,202,305	884,328
Prepaid expenses		546,520	10,279		42,604,020	166,106,998
Total current assets		44,394,156	16,459,350			
Non-current assets						
Unbilled accounts receivable non-current	6	3,747,133	-		190,611,948	-
Property, plant and equipment	9	228,289,753	189,628,836		3,208,480	-
Intangible assets		57,867	64,294		2,939,072	-
Deferred income tax asset	14	-	4,853,488		1,593,997	-
Total non-current assets		232,094,753	194,546,618		198,353,497	-
TOTAL ASSETS		276,488,909	211,005,968		276,488,909	211,005,968
LIABILITIES AND EQUITY						
Current liabilities						
Borrowings and interest payable	10				4,355,125	95,179,482
Trade accounts payable and accruals	11				7,606,437	12,964,198
Other accounts payable to related parties	8				29,440,153	57,078,990
Other current liabilities					1,202,305	884,328
Total current liabilities					42,604,020	166,106,998
Non-current liabilities						
Borrowings non-current	10				190,611,948	-
Financial leases obligation	12				3,208,480	-
Decommissioning provision	13				2,939,072	-
Deferred income tax liability	14				1,593,997	-
Total non-current liabilities					198,353,497	-
Equity						
Share capital	15				54,043,385	54,043,385
Accumulated losses					(18,511,993)	(9,144,415)
Total equity					35,531,392	44,898,970
TOTAL LIABILITIES AND EQUITY		276,488,909	211,005,968		276,488,909	211,005,968

The accompanying notes from pages 7 to 29 are part of the financial statements.

ENERGIA EOLICA S.A.

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

	Note	For the year ended	
		December 31,	
		2014	2013
		US\$	US\$
Operating income:			
Revenues from energy sales		14,670,439	-
Operating costs	17	(6,429,844)	-
Gross profit		<u>8,240,595</u>	<u>-</u>
Operative expenses:			
Administrative expenses	18	(2,809,564)	(3,249,271)
Operative profit (loss)		<u>5,431,031</u>	<u>(3,249,271)</u>
Other income (expenses)			
Financial expenses	19	(8,169,032)	(995,827)
Exchange differences, net	4.1.-a)	(182,092)	(1,245,637)
Loss before income tax		<u>(2,920,093)</u>	<u>(5,490,735)</u>
Income tax	14	(6,447,485)	3,110,279
Loss for the year		<u>(9,367,578)</u>	<u>(2,380,456)</u>
Other comprehensive income		-	-
Total comprehensive loss for the year		<u>(9,367,578)</u>	<u>(2,380,456)</u>

The accompanying notes from pages 7 to 29 are part of the financial statements.

ENERGIA EOLICA S.A.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(IN U.S. DOLLARS)

	<u>Share capital</u> US\$	<u>Additional contributions</u> US\$	<u>Accumulated losses</u> US\$	<u>Total Equity</u> US\$
Balances as of January 1, 2013	46,060,264	5,283,121	(6,763,959)	44,579,426
Total comprehensive loss for the year	-	-	(2,380,456)	(2,380,456)
Capital contributions	2,700,000	-	-	2,700,000
Capitalization of additional contributions	5,283,121	(5,283,121)	-	-
Balances as of December 31, 2013	<u>54,043,385</u>	<u>-</u>	<u>(9,144,415)</u>	<u>44,898,970</u>
Balances as of January 1, 2014	54,043,385	-	(9,144,415)	44,898,970
Total comprehensive loss for the year	-	-	(9,367,578)	(9,367,578)
Balances as of December 31, 2014	<u>54,043,385</u>	<u>-</u>	<u>(18,511,993)</u>	<u>35,531,392</u>

The accompanying notes from pages 7 to 29 are part of the financial statements.

ENERGIA EOLICA S.A.

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

	For the years ended	
	December 31,	
	2014	2013
	US\$	US\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	(9,367,578)	(2,380,456)
Reconciliation of loss with net cash applied to activities/pre-operating activities:		
Depreciation	3,893,857	11,219
amortizacion	6,430	-
Deferred income tax	6,447,485	(3,110,279)
Unwinding of the discounts	138,588	-
Net changes in assets and liabilities:		
Unbilled accounts receivable	(12,010,522)	-
Other receivables	(8,457,722)	(11,993,199)
Other accounts receivable from related parties	(221,765)	-
Prepaid expenses	(536,241)	106,264
Trade accounts payable and accruals	(12,251,164)	1,060,594
Other accounts payable to related parties	39,962	358,311
Other current liabilities	(798,305)	697,804
Net cash applied to operating/pre-operating activities	<u>(33,116,975)</u>	<u>(15,249,742)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(29,825,043)	(137,302,480)
Proceeds from sale of property, plant and equipment	172,635	-
Purchases of intangible assets	-	(64,294)
Loans granted to related parties	(9,049,647)	-
Net cash applied to investing activities	<u>(38,702,055)</u>	<u>(137,366,774)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings	20,000,000	95,000,000
Repayments of bank borrowings	(115,000,000)	-
Proceeds from bonds issuance, net of transaction costs	194,525,072	-
Capital contribution	-	2,700,000
Loans received from related parties	3,000,000	54,793,094
Repayments of loans received from related parties	(29,300,000)	-
Net cash generated from financing activities	<u>73,225,072</u>	<u>152,493,094</u>
Net (decrease) increase in cash and cash equivalents	1,406,042	(123,422)
Cash and cash equivalents at beginning of the year	259,437	382,859
Cash and cash equivalents at end of the year	<u>1,665,479</u>	<u>259,437</u>
Other information:		
Interest paid	10,707,752	3,548,367
Non-monetary transactions:		
Financed acquisitions of property, plant and equipment	12,902,367	12,025,527
Capitalization of additional contributions	-	5,283,121

The accompanying notes from pages 7 to 29 are part of the financial statements

ENERGIA EOLICA S.A.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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 80.5% interest, 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, 2014, 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 and (b) regimes to contract workers.

d) Bond Issuing -

On December 15, 2014, the Company issued US\$204 million at 6.0% 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 governs 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. As of December 31, 2014, US\$204 million of the Inka Notes was outstanding.

e) Approval of the financial statements -

The accompanying financial statements for the year ended December 31, 2014 were approved for issue by the Board of Directors on March 27, 2015 and will be submitted for final approval in a General Meeting of Shareholders. In the opinion of the Management of the Company, these financial statements will be approved by the General Meeting of Shareholders without amendments.

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation -

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretation Committee (IFRS IC) interpretations applicable to companies reporting under IFRS.

The information contained and disclosed in these financial statements is the responsibility of the management of the Company, 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 as of December 31, 2014.

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 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 Functional currency and foreign currency transactions -

The financial statements are stated in U.S. dollars, the Company's functional currency, as most of its transactions are traded and paid in said 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.

2.3 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.

2.4 Financial assets -

2.4.1 Classification -

The Company classifies its financial assets in the following categories: (i) at fair value through profit or loss, (ii) loans and receivables, (iii) held-to-maturity and (iv) available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

As of December 31, 2014, and 2013 the Company only maintains financial assets in the category of loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise cash and cash equivalents, unbilled account receivable and other accounts receivable in the statement of financial position (Notes 5, 6, 7 and 8).

2.4.2 Recognition and measurement -

Loans and receivables are initially recognized at fair value plus transaction costs. Loans and receivables are subsequently carried at amortized cost by using the effective interest method. Financial assets are derecognized when the rights to receive cash flows from the loans and receivables have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

2.4.3 Impairment of financial assets -

The Company assesses at the date of each statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2.5 Off-setting 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.

2.6 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 comprehensive income statement.

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>
Vehicles	5
Computer equipment	4
Furniture and fixtures	10
Other equipment	4 and 10
Operating wind turbines	20
Transmission lines	18
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.

2.7 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.

2.8 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.

As of December 31, 2014 and 2013 the Company did not identify evidences that an impairment loss on non-financial assets has been incurred.

2.9 Trade payables -

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers, recognized initially at fair value. The amount of credit purchases that deviate from usual credit conditions is not significant, and therefore, the financial component has been identified in purchase of goods and services. Payables are classified as current liabilities if payment is due within one year or less. If not, they are shown as non-current liabilities.

2.10 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.

2.11 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.

2.12 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.

2.13 Income tax -

The Company has not generated any taxable income, therefore no current income tax has been accrued.

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 have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

2.14 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. The amount of the annual indemnity payable to employees is credited in May and November to bank accounts selected by the employees. The annual amount of employees' severance indemnities is equal to one month's salary. 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 balance sheet date.

2.15 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.

2.16 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 Shareholders' Annual General Meeting.

2.17 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.

2.18 Change in accounting policies and disclosures -

The accounting policies used for the preparation of the financial statements are consistent with those of the previous financial year; except as follows:

- a) New accounting principles adopted due to initiation of commercial operations and accounting of transactions for the first time -
 - Revenue recognition: Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the energy delivered to the National Interconnected System (Sistema Eléctrico Interconectado Nacional, SEIN), stated net of discounts and value added taxes.

The Company recognizes revenue from the sales of energy when all the following conditions have been satisfied: (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the energy; (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the energy sold, (c) the amount of revenue can be reliably measured; (d) when it is probable that future economic benefits will flow to the entity; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the sale of energy is recognized in the period during which the sales occurs. The calculation of revenue earned but not yet billed is based on the MW/h transferred to the SEIN on a monthly basis and the spot tariff and, if the annual projected energy exceeds the total guaranteed energy established in the Supply Concession Agreement, the premium tariff.

- Leases: Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

b) Adoption of new issued interpretations -

The Company adopted IFRIC 21, 'Levies'. IFRIC 21 addresses the accounting for a liability to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. The Company is not currently subject to significant levies. The adoption of the interpretation has had no significant effect on the financial statements of earlier periods or on the financial statements for the period ended December 31, 2014. The Company does not expect IFRIC 21 to have a significant effect on the results for the financial year ending December 31, 2014.

Other amendments to IFRSs effective for the financial year ending December 31, 2014 are not expected to have a material impact on the Company.

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 currently assessing the appropriated useful lives to be applied for the component assets; however, for the first month of operation and depreciation, the Company is reasonably applying 20-years useful life for the wind farms, based on the term of Supply Concession Agreement. This estimation will be confirmed or modified once the Company complete the useful lives assessment.

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 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 has 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 has recognized revenue from sales of energy for the first months 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.

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 as of December 31, 2014 amounted to US\$2,939,072 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 higher/lower in US\$517,000 approximately.

Financial lease -

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 as of December 31, 2014 amounted to US\$3,208,480. 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 -

Impact of the initiation of commercial operations in the determination of functional currency -

On August 30, 2014 the Company started commercial operations. This event implied a change on the nature of the transactions and conditions from prior periods; therefore, the Company assessed this event in the determination of its functional currency and as result no changes have been performed. As of December 31, 2014, the Company maintains the U.S. dollar as 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 new Peruvian soles (S/.) detailed as follows:

	As of December 31,	
	2014	2013
	S/.	S/.
Assets		
Cash and cash equivalents	84,606	218,150
Unbilled accounts receivable	35,261,075	-
Other accounts receivable (a)	<u>20,662,205</u>	<u>40,365,009</u>
	<u>56,007,886</u>	<u>40,583,159</u>
Liabilities		
Trade accounts payable	(89,297)	(300,122)
Other current liabilities	<u>(2,559,663)</u>	<u>(956,098)</u>
	<u>(2,648,960)</u>	<u>(1,256,220)</u>
Net assets	<u>53,358,926</u>	<u>39,326,939</u>

- (a) As of December 31, 2014 other accounts receivable mainly includes tax credit of Value Added Tax (VAT) and withholding tax amounting to S/20,623,424 (S/40,316,927 as of December 31, 2013) and guarantee funds amounting to S/89,189 (S/38,780 as of December 31, 2013).

At December 31, 2014, the Company recognized exchange gains for US\$248,201 (US\$843,345 as of December 31, 2013) and exchange losses for US\$430,293 (US\$2,088,982 as of December 31, 2013), stated in exchange differences, net in the statement of comprehensive income.

If, at December 31, 2014, the U.S. dollar had weakened/strengthened by 5% against the new Peruvian sol with all others variables held constant, the pre-tax loss for 2014 would have been US\$892,588 higher/lower (US\$703,271 higher/lower at December 31, 2013) mainly as result of accounts receivable in new Peruvian sol.

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 (WPSSOP3500) published by Labor Department of the U.S. Government. No major changes are expected to have a negative effect in the foreseeable future.

b) Credit risk -

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

	<u>As of December 31,</u>	
	<u>2014</u>	<u>2013</u>
	<u>US\$</u>	<u>US\$</u>
Cash in banks and short-term bank deposits:		
Rate A	<u>1,663,697</u>	<u>257,649</u>
	<u>1,663,697</u>	<u>257,649</u>

The rating "A" in the table above represents a high quality credit rating. For banks located in Peru, the ratings were derived from risk rating agencies authorized by the Banking and Insurance Superintendency of Peru (Superintendencia de Banca, Seguros y AFP). Therefore, the Company does not foresee any significant losses that may arise from this risk.

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 generate 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</u> US\$	<u>Between 1 and 2 years</u> US\$	<u>Between 2 and 5 years</u> US\$	<u>Over 5 years</u> US\$	<u>Total</u> US\$
As of December 31, 2014					
Borrowings and interest payable	16,880,754	18,066,714	47,231,993	274,151,316	356,330,777
Trade accounts payable and accruals	7,606,437	-	-	-	7,606,437
Accounts payable to related parties	29,440,153	-	-	-	29,440,153
Other current liabilities	1,202,305	-	-	-	1,202,305
	<u>55,129,649</u>	<u>18,066,714</u>	<u>47,231,993</u>	<u>274,151,316</u>	<u>394,579,672</u>
As of December 31, 2013					
Borrowings and interest payable	99,858,960	-	-	-	99,858,960
Trade accounts payable and accruals	12,964,198	-	-	-	12,964,198
Accounts payable to related parties	57,078,990	-	-	-	57,078,990
Other current liabilities	884,328	-	-	-	884,328
	<u>170,786,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>170,786,476</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 trade and others payables, less cash and cash equivalents. Total capital is calculated as equity as shown in the statement of financial position.

The gearing ratio were as follows:

	As of December 31,	
	<u>2014</u>	<u>2013</u>
	US\$	US\$
Borrowings	194,967,073	95,179,482
Financial leases obligation	3,208,480	-
Less cash and cash equivalents	(1,665,479)	(259,437)
Net debt	196,510,074	94,920,045
Equity attributable to shareholders	35,531,392	44,898,970
Total capital	<u>232,041,466</u>	<u>139,819,015</u>
Gearing ratio	<u>0.85</u>	<u>0.68</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.

In the case of the unbilled account receivable non-current which includes the premium to be collected since June 2015 until May 2016, the carrying amount is considered 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, 2014 is disclosed in Note 10.

5 CASH AND CASH EQUIVALENTS

This account comprises:

	At December 31	
	2014	2013
	US\$	US\$
Cash in hand	1,782	1,788
Cash at bank accounts	<u>1,663,697</u>	<u>257,649</u>
	<u>1,665,479</u>	<u>259,437</u>

Cash at bank accounts is held in local banks amounting to US\$8,026,827 and S/.84,606 as of December 31, 2014 (US\$181,360 and S/.213,150 as of December 31, 2013).

6 UNBILLED ACCOUNTS RECEIVABLE

As of December 31, 2014 this account comprises the unbilled accounts receivables for energy sales of four month of operations (since September 2014) amounting US\$12,010,522, including US\$3,747,133 which is expected to be collected in a period over the next twelve months and its presented as non-current in the statement of financial position.

7 OTHER ACCOUNTS RECEIVABLE

This item comprises:

	At December 31,	
	2014	2013
	US\$	US\$
Restricted funds (a)	17,339,366	433,996
Credit of Value Added Tax (VAT) (b)	7,253,929	14,419,503
Guarantees funds	28,521	47,194
Advances to suppliers	-	1,285,616
Other receivables	<u>25,540</u>	<u>3,325</u>
	<u>24,647,356</u>	<u>16,189,634</u>

(a) The restricted funds comprises (i) Debt Service Reserve Account (DSRA) of US\$6,202,997, (ii) additional Debt Service Reserve Account (DSRA) of US\$2,850,000; (iii) Operation and Maintenance (O&M) Reserve Account of US\$1,896,639, established and maintained pursuant to

the Collateral and Accounts Agreement; and (iv) an escrow account amounting to US\$6,389,730 which is intended to make payments to Vestas Peru for the construction of the wind farms.

- (b) The tax credit of the VAT is mainly related to the acquisition of goods and services required for the constructions of wind farms of the Talara and Cupisnique. Under the Peruvian VAT regime the Company is entitled to the anticipated reimbursement of the amounts paid. The decrease of the balance during the period ended December 31, 2014 corresponds to the net effect of VAT reimbursements amounting to US\$12,989,314 and the VAT registered for the twelve months amounted to US\$5,824,623.

8 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

	At December 31,	
	2014	2013
	US\$	US\$
Balances receivable from related parties -		
ContourGlobal Latam	9,068,986	-
ContourGlobal Peru	202,426	-
	<u>9,271,412</u>	<u>-</u>
Balances payable to related parties -		
ContourGlobal Latam	29,041,880	37,208,678
ContourGlobal Terra	-	16,109,041
ContourGlobal Togo	-	1,900,000
ContourGlobal Brasil Participações Ltda	-	1,502,960
ContourGlobal Management Inc.	398,273	358,311
	<u>29,440,153</u>	<u>57,078,990</u>

At December 31, 2014 the Company maintains loans with its affiliate ContourGlobal Latam which includes balances receivable and payable amounting US\$9.1 million (the loan is for a one-year term and bears an annual interest rate of 6%) and US\$28.9 million, respectively. Balances payable includes US\$61 thousand as accrued interest (total aggregate principal amount of US\$55.6 million and US\$1.4 million as accrued interest as of December 31, 2013). These loans are with current maturity, which have no specific guarantees and bear an interest rate of 6%, except for the non-interest-bearing payable of ContourGlobal Togo's loan.

The major loans and interest from 2013 were paid on December 2014 with funds from the issued bonds. The Company paid US\$33.7 million of outstanding affiliate loans (Note 1-d).

- b) Major transactions with related parties comprise:

	At December 31,	
	2014	2013
	US\$	US\$
Balance sheet transactions:		
Proceeds from borrowings	3,000,000	54,820,678
Payments of borrowings	(33,706,389)	-
Loans granted to related parties	9,049,647	-
Income (expenses) with related parties:		
Financial expenses (Note 19)	(3,027,592)	(1,440,728)
Management services received	(39,962)	(358,311)
Management fees	(261,648)	-

The key management remuneration for the years ended December 31, 2014 and 2013 amounted to US\$472,073 and US\$107,709, respectively.

9 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment and the corresponding accumulated depreciation for the years ended December 31, 2014 and 2013 are as follows:

The movements are as follows:

	Land US\$	Computer equipment US\$	Furniture and fixtures US\$	Other equipment US\$	Construction and operating wind farms US\$	Transmission lines (Note 12) US\$	Decommi- ssioning obligation US\$	Work in progress US\$	Total US\$
Year 2013:									
Opening net book amount as of January 1, 2013	13,747	-	3,934	23,539	-	-	-	41,614,683	41,655,903
Additions	-	15,428	10,224	121,685	-	-	-	147,836,814	147,984,151
Depreciation charge	-	(1,820)	(1,150)	(8,249)	-	-	-	-	(11,219)
Closing net book amount as of December 31, 2013	<u>13,747</u>	<u>13,608</u>	<u>13,008</u>	<u>136,975</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,451,497</u>	<u>189,628,836</u>
Year 2014:									
Opening net book amount as of January 1, 2014	13,747	13,608	13,008	136,975	-	-	-	189,451,497	189,628,835
Additions	-	9,321	64,975	7,769	40,327	3,136,150	2,872,815	36,596,053	42,727,410
Transfers	-	1,019	69,887	(1,795)	225,978,439	-	-	(226,047,550)	-
Disposal	-	(7,677)	(96,069)	(68,889)	-	-	-	-	(172,635)
Depreciation charge	-	(4,520)	(5,587)	(11,317)	(3,766,475)	(58,078)	(47,880)	-	(3,893,857)
Closing net book amount as of December 31, 2014	<u>13,747</u>	<u>11,751</u>	<u>46,214</u>	<u>62,743</u>	<u>222,252,291</u>	<u>3,078,072</u>	<u>2,824,935</u>	<u>-</u>	<u>228,289,753</u>

On August 30, 2014, the Company finished the construction stage of wind farms and is currently under operation stage since September, 2014 with two wind farms (Cupisnique and Talara) with a total aggregate gross capacity of 114 MW. Additions to work in progress in 2014 also include capitalized interest on borrowings totalized to US\$4,088,051 (US\$4,172,849 in 31, 2013).

Depreciation expense for the year ending December 31, 2014 amounting to US\$3,893,857 (US\$11,219 as of December 31, 2013) is distributed in the statement of comprehensive income as follows:

	<u>At December 31,</u>	
	<u>2014</u>	<u>2013</u>
	<u>US\$</u>	<u>US\$</u>
Operating costs (Note 17)	3,879,987	-
Administrative expenses (Note 18)	13,870	11,219
	<u>3,893,857</u>	<u>11,219</u>

10 BORROWINGS

At December 31, this item includes:

	<u>Maturity date</u>	<u>At December 31,</u>	
		<u>2014</u>	<u>2013</u>
		<u>US\$</u>	<u>US\$</u>
Corporate bond issuance (a)	08/30/2034	204,000,000	-
Bank borrowings (b)		-	95,000,000
Interest		442,000	179,482
Transaction costs (a)		(9,474,927)	-
		<u>194,967,073</u>	<u>95,179,482</u>

The current and non-current portion as follows:

Current portion:			
Corporate bonds issuance (a)		4,355,125	-
Bank borrowings (b)		-	95,179,482
Non-current portion:			
Corporate bonds issuance (a)		<u>190,611,948</u>	-
		<u>194,967,073</u>	<u>95,179,482</u>

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

<u>Year</u>	<u>At December 31,</u>	
	<u>2014</u>	<u>2013</u>
	<u>US\$</u>	<u>US\$</u>
2016	(5,557,140)	-
2017	(3,341,095)	-
2018	(3,646,795)	-
2019	(4,417,467)	-
2020	(5,664,697)	-
2021 to 2034	(167,984,754)	-
	<u>(190,611,948)</u>	<u>-</u>

a) Corporate bond issuance -

On December 15, 2014, the Company issued US\$204 million at 6% senior secured green notes due ("the Inka Bonds") (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\$3,064,241; less US\$27,554 corresponding to the unwinding of the discount.

Interest payment dates: March 18, June 18, September 18 and December 18 in each year, start on March 18, 2015, provided that, the final interest payment date shall be August 30, 2034.

Principal payments: The Company will repay the principal of the Notes on each interest payment date, start on September 18, 2015 and the remaining principal balance on August 30, 2034.

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

	Carrying amount		Fair Value	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$
As of December 31, 2014				
Corporate bonds issuance	190,611,948	-	99,336,841	-
	<u>190,611,948</u>	<u>-</u>	<u>99,336,841</u>	<u>-</u>

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the Corporate bond rate of 6% annual.

b) Bank borrowings -

On March 12, 2013, the Company and Deutsche Bank AG London Branch (Lender), as intermediate bank for Corporación Financiera de Desarrollo (COFIDE), entered into a US\$95,000,000 secured credit facility. Under the Credit Agreement, the borrowing should be used exclusively in (i) payment of project costs, (ii) payments of interest and fees to the Lender, and (iii) repayment of any Shareholder loans. The borrowing had an original term of one year and bear interest at an annual rate of Libor + 4.98%.

On March 12, 2014, the Company and Deutsche Bank AG London Branch amended the Credit Agreement to increase the aggregated principal amount to US\$115,000,000, to extend its maturity to September 12, 2014, and to modify the annual interest rate of Libor + 5.5%.

On September 12, 2014, the Company and Deutsche Bank AG London Branch amended the Credit Agreement US\$115,000,000, to extend its maturity to April 12, 2015, and to maintain the annual interest rate of Libor + 5.5%.

The Company repaid the fully balance on December 18, 2014 with the funds received from the Corporate bond issued (Note 1-d).

Interests cost arising on these obligations amounted to US\$6,084,381 in period 2014 (US\$3,727,848 in period 2013), from which US\$4,088,051 were capitalized (US\$3,727,848 in period 2013) as work in progress until the date of beginning of commercial operations.

11 TRADE ACCOUNTS PAYABLE AND ACCRUALS

This item comprises:

	At December 31,	
	2014 US\$	2013 US\$
Accounts payable to Vestas Peru	6,893,403	11,846,045
Other suppliers	<u>713,034</u>	<u>1,118,153</u>
	<u>7,606,437</u>	<u>12,964,198</u>

Accounts payable to Vestas Peru correspond to the invoices and accruals related to the construction services of the Cupisnique and Talara wind farms.

12 FINANCIAL LEASES OBLIGATION

The Company recognized the financial lease obligation under the agreement with Red de Energía Perú S.A. (REP), in which REP build, operates and provide power transmission line services for 18 years starting on the commencement of operations date (August 30, 2014). The installations will be transferred to the Company by the end of the contract term.

Monthly minimum lease payment	US\$	<u>26,201</u>
Incremental borrowing rate	%	<u>6.86</u>
Present value of minimum lease payment	US\$	<u>3,208,480</u>

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

	<u>2014</u>
	<u>US\$</u>
Gross lease liabilities:	
Within one year	262,005
Between two and five years	1,257,624
After five years	4,139,680
Future interest	(2,450,829)
Present value of finance lease obligation	<u>3,208,480</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 18 years of the service.

13 DECOMMISSIONING PROVISIONS

The Company recognized a provision amounting US\$2,939,072 for dismantling costs related to 62 wind turbines (17 located in Talara and 45 located in Cupisnique wind farm). 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:

	<u>US\$</u>
Opening amount as of January 1, 2014	-
Additions of the period	2,872,815
Unwinding of the discount	<u>66,257</u>
Closing amount as of December 31, 2014	<u>2,939,072</u>

14 DEFERRED INCOME TAX

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

	<u>At December 31,</u>	
	<u>2014</u>	<u>2013</u>
	<u>US\$</u>	<u>US\$</u>
Opening at the beginning of the year - asset	4,853,488	1,743,209
Result for the year	(6,447,485)	<u>3,110,279</u>
Balance at the end of the year (liability) asset	<u>(1,593,997)</u>	<u>4,853,488</u>

Deferred tax relates to the following items:

	<u>Opening balance</u> US\$	<u>Result for the year</u> US\$	<u>Closing balance</u> US\$
Year 2014			
Deferred income tax assets -			
Vacations	4,331	(428)	3,903
Pre-operating expenses	3,879,158	(368,657)	3,510,501
Pre-operating expenses related to borrowing cost	-	2,915,031	2,915,031
Depreciation related to borrowing cost capitalized	-	48,584	48,584
Exchange difference	2,869,343	(2,600,442)	268,901
Decommissioning provision	-	866,771	866,771
Decommissioning amortization	-	14,364	14,364
Bonds amortization	-	5,327	5,327
Tax carry-forward losses	-	4,212,160	4,212,160
	<u>6,752,812</u>	<u>5,092,710</u>	<u>11,845,542</u>
Deferred income tax liabilities -			
Borrowing costs capitalized	(1,492,456)	(1,422,576)	(2,915,032)
Exchange difference	(406,868)	(6,766,559)	(7,173,427)
Depreciation pre-operating expenses related to borrowing cost	-	(291,503)	(291,503)
Amortization pre-operating expenses	-	(351,050)	(351,050)
Bonds expenses	-	(1,837,272)	(1,837,272)
Depreciation exchange difference	-	(4,482)	(4,482)
Decommissioning provision	-	(861,845)	(861,845)
Decommissioning amortization	-	(4,927)	(4,927)
	<u>(1,899,324)</u>	<u>(11,540,214)</u>	<u>(13,439,538)</u>
Deferred income tax asset (liability), net	<u>4,853,488</u>	<u>(6,447,504)</u>	<u>(1,593,997)</u>
Year 2013			
Deferred income tax assets -			
Vacations	-	4,311	4,311
Pre-operating expenses	1,455,650	2,423,508	3,879,158
Exchange difference	287,559	2,174,916	2,462,475
	<u>1,743,209</u>	<u>4,602,735</u>	<u>6,345,944</u>
Deferred income tax liabilities -			
Borrowing costs	-	(1,492,456)	(1,492,456)
Deferred income tax asset, net	<u>1,743,209</u>	<u>3,110,279</u>	<u>4,853,488</u>

15 EQUITY

a) Share capital -

As of December 31, 2014, share capital comprises 143,128,540 fully subscribed and paid-in common shares at S/.1.00 par value each.

As of December 31, 2014 and 2013, the Company's capital structure is as follows:

<u>Percentage of individual interest in capital</u>	<u>Number of shareholders</u>	<u>Total percentage 2014</u>	<u>Total percentage 2013</u>
From 10.10 to 30.00	1	19.50	22.76
From 70.01 to 90.00	1	80.50	77.24
Total	<u>2</u>	<u>100.00</u>	<u>100.00</u>

ContourGlobal Latam S.A., an indirect subsidiary of ContourGlobal LP, owns 100% of Company's class A shares, representing 80.5% of Company's share capital, and a third party, Eoltec Energy S.L., owns 100% of Company's class B shares, representing 19.5% of Company's share capital.

b) Accumulated losses -

Since the Company were in pre-operating stage has incurred in accumulated losses.

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) register in Proinversión the contributions received; and (iii) 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 New Peruvian soles. The enacted income tax rate was 30% for 2013 and 2012.

The Company started operations in September 2014; as of December 31, 2014 the Company has four months of commercial operations; consequently has not generated taxable income or any current income tax. The income tax recognized in 2014 and 2013 basically relates to the temporary differences between the recognition of the pre-operating expenses (until August 2014) that are deferred for tax purposes and the exchange difference of liabilities incurred for the acquisition of property, plant and equipment assets which are capitalize for tax purposes. 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.

Income tax returns from 2010 to 2014 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 as at December 31, 2014 and 2013.

17 OPERATING COST

Operating costs for the year ended December 31, 2014 comprise:

	<u>US\$</u>
Depreciation (Note 9)	3,879,987
Operating and maintenance	1,156,934
Services received from third parties	985,905
Personnel expenses	377,222
Concession fees	29,796
	<u>6,429,844</u>

The services rendered by third parties comprise:

	<u>US\$</u>
Legal fees	423,854
Corporate events	146,034
Consultants fees	88,662
Other professional services	327,355
	<u>985,905</u>

18 ADMINISTRATIVE EXPENSES

This item comprises:

	<u>2014</u> <u>US\$</u>	<u>2013</u> <u>US\$</u>
Services received from third parties (a)	823,911	1,857,947
Letter of credit fees (b)	591,172	-
Personnel expenses	329,319	239,484
Management services	261,648	-
Other tax expense	177,333	828,097
Depreciation and amortization	20,300	11,219
Others	605,881	312,524
	<u>2,809,564</u>	<u>3,249,271</u>

(a) The services rendered by third parties comprise:

	<u>2014</u> US\$	<u>2013</u> US\$
Travel expenses	313,713	439,856
Professional fees	197,654	736,906
Rental expenses	69,390	412,909
Others	<u>243,154</u>	<u>268,276</u>
	<u>823,911</u>	<u>1,857,947</u>

(b) Letter of credit fees corresponding to the renewal of the performance bonds during the construction stage of the two wind farms.

19 FINANCIAL EXPENSES

This item comprises:

	<u>2014</u> US\$	<u>2013</u> US\$
Interest on borrowings	7,399,333	3,727,848
Interest on related parties loans	3,027,592	1,440,728
Financial commission (a)	1,369,030	-
Others	<u>461,128</u>	<u>99</u>
	12,257,083	5,168,675
Interest on borrowings capitalized (Note 9)	(4,088,051)	(3,727,848)
Interest on related parties loans capitalized	<u>-</u>	<u>(445,000)</u>
	<u>8,169,032</u>	<u>995,827</u>

(a) Financial commission mainly includes US\$1,341,476 refers to: i) expenditure of Overseas Private Investment Corporation (OPIC), ii) US\$27,554 amortization of transaction costs.

20 COMMITMENTS AND CONTINGENCIES

In addition to the bond issuing (Note 1-d), 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 2014 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 agreement the Company will pay an annual base quota of US\$55,825 per wind turbine per year and a variable quota factor of US\$8.1/MWh, readjusted to the increase according to a formula outlined in the agreement.

As of December 31, 2014, in addition to the commitments mentioned above, the Company does not maintain other commitments and contingencies that require disclosure.

21 EVENTS AFTER THE REPORTING PERIOD

At the General Shareholders' Meeting held on March 20, 2015 a share capital increase was approved. This increase will be executed through capitalization of credits of ContourGlobal Latam amounting to S/.81,396,742 (equivalent to US\$28,980,000 approximately).