Financial Statements

AES Panamá, S.R.L.

For the year ended December 31, 2020
with Independent Auditor's Report

CONTENT

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Independent Auditor's Report

To the Shareholders of
AES Panamá, S.R.L.

Opinion

We have audited the financial statements of AES Panamá, S.R.L., (the Company), which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income, statement of changes in stockholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Panama (Decree No. 26 of May 17, 1984), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Ernst & Young.

Panama, Republic of Panama
March 31, 2021

AES Panamá, S.R.L.
Statements of Financial Position
As of December 31, 2020 and 2019
(Expressed in thousands of dollars of the United States of America)

Notes		**2020**	**2019**
	ASSETS		
	Current Assets		
4	Cash and cash equivalents	$ 34,781	$ 29,608
	Accounts receivable:		
6	Trade	1,791	5,859
5	Related parties	60,398	64,393
5	Affiliates	5,917	3,374
	Others	316	213
7	Inventories, net	2,352	5,720
	Prepaid income tax, net	—	13,016
	Prepaid expenses	1,160	1,798
13	Held for sale assets	16,476	—
	Total current assets	123,191	123,981
	Non-current assets		
8	Property, plant and equipment, net	510,133	482,155
5 & 22	Accounts receivable - related parties	10,448	—
9	Intangible assets, net	9,039	4,514
	Advances to suppliers	2,895	1,880
10	Investment in affiliate	49,699	48,634
	Prepaid assets	613	—
	Restricted cash	2,873	2,540
12	Right-of-use asset, net	116,803	124,735
	Contract asset	263	—
	Other assets	122	28
	Total non-current assets	702,888	664,486
	TOTAL ASSETS	**$ 826,079**	**$ 788,467**

AES Panamá, S.R.L.
Statements of Financial Position (Continued)
As of December 31, 2020 and 2019
(Expressed in thousands of dollars of the United States of America)

Notes		**2020**	**2019**
	LIABILITIES AND STOCKHOLDERS' EQUITY		
	Current liabilities		
	Accounts payable:		
	Suppliers	$ 6,458	$ 16,332
5	Related parties	1,649	9,264
5	Affiliates	22,892	8,860
	Interest payable	—	466
8	Asset retirement obligation	1,062	—
21	Income tax payable	3,668	—
11 & 12	Accrued expenses and other liabilities	18,408	16,292
5	Loan payable - affiliate	4,721	—
	Total current liabilities	58,858	51,214
	Non-current liabilities		
	Seniority premium	786	646
5	Loan payable - affiliate, net	509,492	—
8	Accounts payable	9,915	741
14 & 22	Bonds payable, net	—	373,274
21	Deferred income tax, net	68,495	81,360
8	Asset retirement obligation	—	1,500
12	Other liabilities	143,929	142,430
	Total non-current liabilities	732,617	599,951
	STOCKHOLDERS' EQUITY		
1 & 16	Authorized capital	50,405	115,365
	Additional paid-in-capital	14,604	14,535
	(Accumulated deficit) retained earnings	(3,364)	9,646
	Deemed tax	(260)	(161)
5	Other comprehensive loss	(26,781)	(2,083)
	Total stockholders' equity	34,604	137,302
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 826,079**	**$ 788,467**

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

AES Panamá, S.R.L.
Statements of Comprehensive Income
For the years ended December 31, 2020 and 2019
(Expressed in thousands of dollars of the United States of America)

Notes			**2020**		**2019**
	Revenue				
5	Electricity sales	$	291,609	$	338,193
	Operating costs and expenses				
5	Electricity purchases		102,349		152,007
	Other costs of electricity sales		6,383		24,675
5	Transmission costs		5,029		6,237
5, 12 & 18	Operating, general and maintenance expense		58,764		55,492
8, 9 &13	Depreciation, amortization and impairment		62,272		38,002
	Total operating costs and expenses		234,797		276,413
	Operating income		56,812		61,780
	Other (expenses) income				
5, 12 & 19	Interest expense, net		(37,548)		(32,370)
8	Accretion expense		—		(62)
5 & 20	Other expense, net		(3,236)		(466)
10	Equity (earning) loss in investment in affiliate		988		(1,888)
	Total other expenses, net		(39,796)		(34,786)
	Income before income tax expense		17,016		26,994
21	Income tax expense		5,026		8,604
	Net income	$	11,990	$	18,390
	Net other comprehensive loss that will be reclassified to profit or loss in subsequent periods:				
3 & 5	Realized derivative instrument		(35,480)		—
21	Deferred tax		10,704		—
	Amortization of other comprehensive income		78		78
	Other comprehensive (loss) income, net		(24,698)		78
	Total other comprehensive (loss) income for the year	**$**	**(12,708)**	**$**	**18,468**

The accompanying notes are an integral part of these financial statements

AES Panamá, S.R.L.
Statements of Changes in Stockholders' Equity
For the years ended December 31, 2020 and 2019
(Expressed in thousands of dollars of the United States of America)

	Notes	Authorized capital	Additional paid-in-capital	(Accumulated deficit) Retained earnings	Deemed tax	Other comprehensive loss	Total shareholders' equity
Balance as of January 1, 2019		$ 141,139	$ 14,464	$ 4,314	$ (161)	$ (2,161)	$ 157,595
Net income		—	—	18,390	—	—	18,390
Other comprehensive income of affiliate		—	—	—	—	78	78
Total other comprehensive income		—	—	18,390	—	78	18,468
Dividends paid	5	—	—	(13,058)	—	—	(13,058)
Share based compensation	3	—	71	—	—	—	71
Capital reduction	5	(25,774)	—	—	—	—	(25,774)
Balance as of December 31, 2019		115,365	14,535	9,646	(161)	(2,083)	137,302
Net Income		—	—	11,990	—	—	11,990
Realized derivative instrument	3 & 5	—	—	—	—	(35,480)	(35,480)
Deferred tax, net	21	—	—	—	—	10,704	10,704
Amortization of other comprehensive income		—	—	—	—	78	78
Total other comprehensive loss		—	—	11,990	—	(24,698)	(12,708)
Deemed tax, net		—	—	—	(99)	—	(99)
Dividends paid	5	—	—	(25,000)	—	—	(25,000)
Share based compensation	3	—	69	—	—	—	69
Capital reduction	5	(64,960)	—	—	—	—	(64,960)
Balance as of December 31, 2020		**$ 50,405**	**$ 14,604**	**$ (3,364)**	**$ (260)**	**$ (26,781)**	**$ 34,604**

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

AES Panamá, S.R.L.
Statements of Cash Flow
For the years ended December 31, 2020 and 2019
(Expressed in thousands of dollars of the United States of America)

Notes		2020	2019
	Cash flows from operating activities		
	Net income	$ 11,990	$ 18,390
	Adjustments to reconcile net income to net cash provided by operating activities:		
8	Depreciation	26,623	33,290
12 & 18	Right-of-use asset amortization	12,505	12,995
9	Amortization	4,660	4,700
	Amortization of other comprehensive income	12	12
13	Loss on assets impairment	30,977	—
20	Gain on sale of property, plant and equipment	—	(15)
20	Loss on retirement of property, plant and equipment	233	1,964
18	Obsolescence provision	73	107
8	Accretion expenses	—	62
	Interests income	(422)	(927)
	Interests expense	34,473	26,360
14	Loss on early extinguishment of debt	5,625	—
19	Amortization of deferred financing costs	1,132	1,067
19	Amortization of bond premium	(283)	(463)
5	Amortization of account receivable discount	—	(246)
14 & 19	Write-off of deferred financing costs	1,750	—
10	Equity (loss) earning in investment in affiliate	(988)	1,888
21	Income tax	5,026	8,604
3	Share-based compensation	69	71
	Cash flows before working capital movements	133,455	107,859
	Changes in operating assets and liabilities:		
	(Increase) decrease in accounts receivable	(522)	10,947
	Decrease in inventories	798	1,572
	(Increase) decrease in prepaid expenses	(160)	2,769
5 & 12	Decrease (increase) in other long-term assets	7,575	(14)
	Decrease in accounts payable	(1,810)	(1,669)
	Decrease in income tax receivable	230	—
	Decrease in accrued expenses and other liabilities	(28,523)	(4,722)
	Increase in seniority premium	140	23
	(Decrease) increase in other long-term liabilities	(34,139)	8,166
	Interest received	426	926
21	Income tax paid	—	(25,471)
	Net cash provided by operating activities	77,470	100,386
	Carried forward….	$ 77,470	$ 100,386

(Expressed in thousands of dollars of the United States of America)

Note		2020	2019
	Brought forward…	$ 77,470	$ 100,386
	Cash flows from investing activities		
8	Advance payments for the acquisition of property, plant and equipment	(2,895)	(1,880)
8	Acquisition of property, plant and equipment	(17,382)	(7,858)
9	Acquisition of intangible assets	(305)	(958)
	Proceeds from the sale of property, plant and equipment	—	15
	Asset acquisition, net of cash acquired	(74,578)	—
	Restricted cash	(333)	(401)
	Net cash used in investing activities	(95,493)	(11,082)
	Cash flows from financing activities		
	Payment of interest	(18,205)	(22,500)
	Proceeds from line of credit	22,900	25,000
	Payment of line of credit	(22,900)	(37,000)
	Proceeds from new loans	72,000	—
	Payment of loan	(72,000)	—
12	Payments of lease liabilities	(1,157)	(1,518)
14	Payment of bonds	(375,000)	—
8	Payment of financing for property, plant and equipment	(356)	(502)
	Payment of financing costs	(9,515)	(185)
5	Proceeds from new loan - affiliate	525,309	—
	Payment of loan - affiliate	(2,296)	—
14	Premium payment of early extinguishment debt	(5,625)	—
5	Dividends paid	(25,000)	(13,058)
5	Capital reduction	(64,960)	(25,774)
	Net cash provided by (used in) financing activities	23,195	(75,537)
	Net increase in cash and cash equivalents	5,172	13,767
	Cash at the beginning of the year	29,608	15,841
	Cash at the end of the year	**$ 34,780**	**$ 29,608**
	Supplementary disclosure		
	Property, plant and equipment purchases not paid at the end of the year	$ 2,470	$ 1,641
	Interest paid, capitalized in property, plant and equipment	$ 493	$ 261

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

1. Organization and Nature of Operations

AES Panamá, S.R.L. (the Company) was incorporated on October 26, 1999 as a result of the merger of Empresa de Generación Eléctrica Chiriquí, S. A. (Chiriquí) and Empresa de Generación Eléctrica Bayano, S. A. (Bayano). Chiriquí and Bayano were incorporated as companies on January 19, 1998 in connection with the privatization and restructuring of the Panamanian energy industry.The Company operates a hydroelectric plant with an installed capacity of 260 (¨MW¨) in Bayano and three hydroelectric plants located in the Province of Chiriquí; La Estrella, Los Valles and Estí with an installed capacity of 47, 55 and 120 MW respectively.

On May 4, 2020, the Company acquires the shares of the company UEP Penonomé I, S de .R.L. which maintains a definitive license for the construction, exploitation, maintenance, generation and sale of energy for the wind project called "Nuevo Chagres Phase I", located in El Coco, district of Penonomé, Coclé province, with an installed capacity of 55 MW.

Subsequently, on June 19, 2020, the Merger Agreement by Absorption was formalized between the companies AES Panama, S.R.L. and UEP Penonomé I, S. de R.L., surviving the company AES Panama, S.R.L. Through the aforementioned Merger Agreement by Absorption, the companies AES Panama, S.R.L. and UEP Penonomé I, S. de R.L. agreed that all movable or immovable and mixed property, and all obligations of UEP Penonomé I S. de RL, any account and each and all other interests or property of UEP Penonomé I, S. de RL, will be taken and considered transferred and assigned to AES Panama S.R.L. The Merger Agreement by absorption between the companies AES Panamá, S.R.L. and UEP Penonomé, S. de R.L. effective as of June 23, 2020.

Through Resolution AN N ° 16183-Elec dated July 14, 2020, ASEP authorized the Company, the withdrawal and cancellation of the definitive generation license of the Barge Thermoelectric Power Plant Estrella del Mar I with installed capacity of 72 MW, from 00:00 hours on August 1, 2020.

On September 25, 2013, the Company converted into equity ownership the accounts receivables with its affiliate AES Changuinola, S.R.L. for $63,277 generated by the energy supply contract that both companies maintain. Through this transaction, AES Panamá, S.R.L. became the owner of 20% of AES Changuinola, S.R.L. On November 25, 2013, the transaction was completed upon the transfer and issuance of the corresponding shares.

On October 16, 2014, the transformation of AES Panamá, S.A. into AES Panamá, S.R.L. (limited liability company), was registered in the Public Registry of Panama. The change was approved by the Company's Board of Directors and Stockholders. As a result of this change, the Company canceled its outstanding common stock and issued participating stock to its members representing the same percentage of ownership. In addition, treasury stock was canceled.

1. Organization and Nature of Operations (continued)

On June 25, 2015, as result of a corporate restructuring, the stockholders approved the transfer of participating stock owned by AES Panamá Energy, S.A. in favor of AES Elsta, B.V., 100% indirect subsidiary of The AES Corporation (the Corporation), a global energy company, based in Arlington, Virginia, (United States of America). The transfer was duly registered in the Public Registry of Panama effective on September 30, 2015.

As a consequence of a corporate restructuring on December 4, 2018, through a partners meeting, the Company approved the assignment of 100% of the shares owned by AES Elsta, B.V. in favor to AES Global Power Holdings, B.V., a company registered under the laws of the Netherlands, indirectly owned 100% by the Corporation.

In December 2020, in extraordinary partners meetings, it was decided to reduce the authorized capital of the Company by $64,960, with the purpose of returning capital to the shareholders. As a result of this reduction, the authorized capital of the Company decreased from $115,365 to $50,405, reducing the value of each shares to $0.23475 and maintaining the same amount of shares of 214,717,428. Similarly, in June and December 2019, the reduction of the authorized capital of the Company was approved by $19,000 and $6,774, respectively, reducing the authorized capital of the Company from $141,139 to $115,365.

As of December 31, 2020, AES Global Power Holdings, B.V., owns 105,353,687 (49.07%) of the Company’s authorized capital and the Republic of Panama owns 108,347,536 (50.46%) of the Company´s authorized capital, and other partners own 1,016,205 (0.47%) of the Company's authorized capital.

The Company generates and sells electricity in the Panamanian market and the Regional Electric Market (MER), where the Panamanian electric market is regulated by the Autoridad Nacional de los Servicios Públicos (ASEP by its initials in Spanish), formerly Regulator of Public Services.

As of December 31, 2020, the 82.3% energy capacity of the plants in operation of the Company are contracted under several energy purchases agreements to purchase-sell electrical power and energy with large customers, distribution companies and AES Changuinola, S.R.L. These agreements have terms of six, ten and thirty years. Excess energy is sold in the spot market at the prevailing rates (spot price).

The main offices of the Company are located in Business Park II, Tower V, 11th floor, Paseo Roberto Motta, Costa del Este, Panama, Republic of Panama.

2. Basis of Preparation

The financial statements of AES Panama, S.R.L. have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The financial statements were authorized by the Controller for issuance on March 31, 2021.

Basis for measurement

The financial statements have been prepared based on historical cost, except for certain items that have been valued as indicated in the accounting policies detailed in Note 3.

Presentation currency

The functional currency of the Company is the dollar of the United States of America, which is the currency used in the Company's activities and significant contracts.The monetary unit of the Republic of Panama is the balboa. The balboa is on par and is free exchange with the dollar of the United States of America and is freely convertible.

Estimates and significant accounting assumptions

The preparation of the financial statements in accordance with IFRS requires the administration to make judgments, estimates and assumptions that affect the reported amounts in assets, liabilities, revenues and expenses. Actual results might differ from these estimates.

Estimates and assumptions are reviewed periodically. The results of the revisions of accounting estimates are recognized in the period in which they have been reviewed and any other future periods that they affect.

The relevant estimates that are particularly susceptible to significant changes are related to the estimation of the useful lives of the assets, the determination of contingent liabilities, the fair value of financial instruments, the valuation of deferred income taxes and the provision for inventory obsolescence.

3. Summary of Accounting Policies

The accounting policies described below have been consistently applied in the years presented in these financial statements by the Company.

Financial instruments

Initial recognition and measurement

Financial instruments are initially recognized when the Company becomes a contractual party of the instrument, with the exception of accounts receivable that are initially recognized when they originate.

A financial instrument, with the exception of accounts receivable that do not contain a significant financing component, is initially measured at its fair value plus transaction costs that are directly attributable to its acquisition or issue. Account receivables that do not contain a significant financing component are initially measured at the transaction price.

Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss. The Company does not choose to irrevocably designate the measurement of financial assets at fair value through profit or loss or other comprehensive income.

Classification and measurement

Financial assets (including loans and accounts receivable) are not reclassified after initial recognition unless the Company changes the business model to manage financial assets, in which case all affected financial assets are reclassified on the first day of the first presentation period after the change in the business model, which is revised annually.

The Company measures financial assets at amortized cost if both of the following conditions are met:

- It is held within a business model with the objective to hold financial 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 on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, exchange gains or losses and impairment are recognized in profit or loss. Any gain or loss at the time of derecognizing assets is recognized in profit or loss.

3. Summary of Accounting Policies (continued)

Financial instruments (continued)

Classification and measurement (continued)

A financial asset is measured at fair value through Other Comprehensive Income ("OCI") if the following conditions are met:

- It is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets that are not measured at amortized cost or fair through OCI, as described above, are measured at fair value through profit or loss.

Evaluation of the business model

The Company performs an annual evaluation of its operations to determine how it manages its financial assets, designates its business model and the groups of financial assets to achieve a specific business objective, which will not depend on the intentions of management for an individual instrument.

The levels of aggregations considered by the administration to perform the evaluation of the business model are five: cash and cash equivalents, accounts receivable trade, other accounts receivable and accounts receivable affiliates.

The Company´s business model is to recover the contractual cash flows at maturity in order to comply with the administration's objectives. In situations of credit or liquidity risks, the Company may consider the sale of financial assets; however, the frequency, value and timing of sales of financial assets in prior periods are evaluated to determine whether they represent a change in the way financial assets are managed.

Impairment of financial assets

The Company recognizes an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. The expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

3. Summary of Accounting Policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

For the determination and valuation of the expected credit losses, the Company adopted the simplified approach and the presumption of "default" after 90 days, for all customers with the exception of accounts receivable from government customers for which the default was defined as of 365 days.

In the estimation of impairment, the Company uses historical information on the behavior of the portfolio and of the recoveries during the last three years, excluding balances with guarantees. This matrix is reviewed every three years, unless there are new conditions or changes that materially affect the behavior of the recovery of financial assets.

The Company uses historical information and analyzed variables that affect and help to predict the behavior of the recoverability of financial assets, none of which showed an adequate correlation. However, the Company periodically performs qualitative risk analyzes to identify changes in the estimated losses. As of December 31, 2020 and 2019, the Company determined that there were no indications of doubtful accounts.

Financial asset derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired; or when the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flow in full without material delay to a third party under a pass-through arrangement and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Cash and cash equivalents

The Company considers as cash and cash equivalents its petty cash, bank deposits and time deposits with initial maturity dates that are less than 3 months.

3. Summary of Accounting Policies (continued)

Inventories

The inventories, which mainly consist of fuels, materials and spare parts are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories includes all costs of purchase, conversion and other costs incurred to give them its present location and condition. The cost of inventories is assigned using the weighted average cost method.

The Company performs physical inventories and any difference is adjusted in the statements of comprehensive income. During the years ended December 31, 2020 and 2019, the Company recognized a provision for obsolescence of $475 and $505, respectively (Note 7).

Held for sale assets

Non-current assets that are the subject of a sale plan are presented separately in the statement of financial position as held for sale. To classify as held for sale, the following six criteria must be met:

- Management commits to a plan to sell the asset.
- The asset is available for immediate sale in its current state.
- An active program has been initiated to locate a buyer and other actions that are required to complete the asset sale plan.
- The sale of the asset is probable (in 75% or more likely to occur), and the Company expects to record the transfer of the asset as a complete sale within one year.
- The asset is actively traded for sale at a reasonable price in relation to its current fair value.
- The actions required to complete the plan indicate that it is unlikely that major changes will be made to the plan or that it will be withdrawn.

Property, plant and equipment

Property, plant, and equipment is initially stated at acquisition cost, net of accumulated depreciation and accumulated impairment losses, if any. When assets are sold or written off, the corresponding cost and accumulated depreciation are eliminated from the accounts, and the resulting gain or loss is reflected in the statements of comprehensive income. When the property, plant and equipment have different useful lives, they are accounted for separately.

3. Summary of Accounting Policies (continued)

Depreciation

Depreciation is calculated according to the useful lives of the respective assets using the straight-line method. The depreciation rates used are based on the estimated useful lives of the assets and are detailed below:

	Useful lives
Buildings	30 to 60 years
Electricity generation facilities (generation equipment)	10 to 80 years
Electricity generation facilities (electricity equipment)	15 to 40 years
Electricity generation facilities (transmission equipment)	15 to 35 years
Electricity generation facilities (generating units)	5 to 8 years
Transportation equipment	3 to 5 years
Office furniture and equipment	3 to 8 years

An item of property, plant and equipment is derecognized upon disposal or when the Company does not expect sufficient future economic benefits from its use. Any loss or gain resulting from the disposal of an asset, calculated as the difference between its net carrying amount and the proceeds of the sale, is recognized in the statements of comprehensive income of the period in which the transaction occurs.

Asset retirement obligation

The Company records the fair value of a liability from a contractual obligation to retire an asset in the period in which the obligation is incurred. When a new liability is recognized, the Company capitalizes the costs of the liability by increasing the carrying amount of the related long-lived asset.

The liability is accreted to its present value each period and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the obligation, the Company eliminates the liability and, based on the actual cost to retire, may incur a gain or loss.

Major and minor maintenance

Disbursements for major maintenance represent the reconditioning of the plant or other assets. These expenses are capitalized and amortized based on the useful life of each asset. Minor maintenance expenses are charged directly to operating, general and maintenance expense in the statements of comprehensive income.

3. Summary of Accounting Policies (continued)

Construction in progress

Construction in progress payments, engineering costs, insurance, salaries, interest and other costs directly relating to construction in progress are capitalized during the construction period. Construction in progress balances are stated at cost and transferred to electricity generation assets when an asset group is ready for its intended use.

Intangible Assets

Intangible assets acquired separately are initially recorded at cost. Subsequent to their initial recognition, intangible assets are accounted for at cost less accumulated amortization and the accumulated amount of any impairment loss as applicable.

The estimated useful lives for intangible assets are detailed below:

	Useful lives
Licenses and software	3 to10 years
Contracts	5 years

Computer Applications Contracts hosted in the cloud

Computer application contracts hosted in the cloud are agreements in which the Company does not have ownership, but accesses and uses them as needed through the internet or a dedicated line.

The company assesses in the first instance whether a contract of this type contains a lease in accordance with the scope of IFRS 16 - Leases. If it is determined not, it goes on to analyze whether the contracts will provide resources over which the Company can exercise control (for example , an intangible asset).

When it is determined that control of the resources implicit in the contracts will not be obtained, the company records the contracts for computer applications hosted in the cloud as a "Service Contract" and evaluates whether the implementation costs can be capitalized under other accounting standards.

The company records the periodic fee agreed with the provider as operating, general and maintenance expenses, capitalizes a portion of the implementation costs associated with the contracts for computer applications hosted in the cloud (considered as service contracts), which are incurred to integrate its systems existing internal use or to make improvements to them; which are not eligible for capitalization as an intangible asset, any cost not associated with the

3. Summary of Accounting Policies (continued)

Computer Applications Contracts hosted in the cloud (continued)

implementation is recorded as operating, general and maintenance expenses as they are accrued; for example, training costs.

The implementation costs are presented as prepaid expenses in the statement of financial position and once the implementation phase is completed, they are amortized to operating, general and maintenance expenses during the life of the contract.

Impairment of non-financial assets

The Company reviews the carrying amounts of its non-financial assets at the end of each year in order to identify impairments or when facts or circumstances indicate that the amounts recorded may not be recoverable. If such indication exists and the carrying amount exceeds the recoverable amount, the Company values the assets or cash-generating units at their recoverable amount, defined as the greater of their fair value less selling costs and their value in use. The adjustments generated by this concept are recorded in the results of the year in which they are determined.

The Company evaluates at the end of each year if there is any indication of the impairment loss of the value for a non-financial asset. If there is such an indication, the Company re-estimates the recoverable value of the asset and, if applicable, reverses the loss by increasing the asset to its new recoverable amount, which will not exceed the net book value of the asset before recognizing the loss for deterioration, recognizing the credit in the statements of comprehensive income of the period.

On August 1, 2020, the Barge Thermoelectric Power Plant Estrella del Mar I was disconnected from the electricity grid of the Republic of Panama, as a result of this disconnection, the Company recognized an impairment loss for $31 million, which are presented under the heading of depreciation, amortization and impairment, in the statements of comprehensive income.

Investment in affiliate

Investments in entities over which the Company has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting and reported as "Investment in affiliate" on the statements of financial position. The Company periodically assesses if there is an indication that the fair value of an equity method investment is less than its carrying amount. When an indicator exists, any excess of the carrying amount over its estimated fair value is recognized as impairment when the loss in value is deemed to be other-than-temporary.

3. Summary of Accounting Policies (continued)

Investment in affiliate (continued)

The Company discontinues the application of the equity method when an investment is reduced to zero and the Company is not otherwise committed to provide further financial support to the investee.

The Company resumes the application of the equity method if the investee subsequently reports net income to the extent that the Company's share of such net income equals the share of net losses not recognized during the period in which the equity method of accounting was suspended.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liability. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are amortized on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Useful lives
Land	1 to 35 years
Buildings	5 years
Generation facility	11 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflect the exercise of a purchase option, amortization is calculated using the estimated useful lives of the assets. The right-of-use assets are also subject to impairment.

3. Summary of Accounting Policies (continued)

Leases (continued)

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, of the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low value assets

The Company applied the short-term lease recognition exemption to its short-term leases of machinery and equipment, if those leases have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases and leases of low value assets are recognized as expenses on a straight line basis over the lease term.

Contract asset

A contract asset is initially recognized for the income obtained from the supply of electricity and energy on a conditional basis. Once the energy and/or capacity has been supplied and the customer has accepted it, the amount recognized as a contract asset is reclassified to trade receivables.

3. Summary of Accounting Policies (continued)

Deferred financing costs

Financing costs related to long-term debt are deferred and amortized using the effective interest method, over the term of such financings. The total net balance of deferred financing costs is presented as a direct reduction from the face amount of the related debt. The Company recorded amortization expense of $1,132 and $1,067, net of capitalization, for the years ended December 31, 2020 and 2019, respectively.

The Company capitalizes as part of the cost of the assets those financing costs directly attributable to the acquisition, construction, production or installation of an asset that requires a period of time to be ready for its intended use. Financing costs that do not meet the criteria for capitalization are recorded in the statements of comprehensive income of the year in which they are incurred.

Financial liabilities

Recognition and measurement

Financial liabilities (including loans and accounts payable) are initially recognized at fair value plus costs directly attributable to the transaction. In case of maintaining a financial liability for trading, it would be measured at fair value with changes in profit and loss.

After initial recognition, financial liabilities are measured at amortized cost; any difference between the financial liability (net of transaction costs) and the value of the deferred financing cost is recognized in the statements of comprehensive income over the period of the loans using the effective interest method. The Company recognizes gains or losses in the statements of comprehensive income of the period when the financial liability is written off.

The amortized cost of a financial instrument is defined as the amount at which the financial instrument was measured on the date of initial recognition less capital payments, plus or minus the accumulated amortization, applying the effective interest rate method, of any difference between the initial amount and the amount due, less any provision.

Derecognition of financial liabilities

Financial liabilities are derecognized by the Company when the obligation under the liability is discharged, canceled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statements of comprehensive income.

3. Summary of Accounting Policies (continued)

Provisions

A provision is recognized when the Company has a present obligation, legal or constructive, as the result of a past event, and it is probable that the Company will require cash resources to settle the obligation and the amount of the obligation can be measured reliably. The amount of the provisions recorded are assessed periodically and the necessary adjustments are recorded in the results of the year.

Net income per share

Net income per share measures the performance of an entity over the reported period and it is calculated by dividing net income by the amount of the weighted average outstanding shares during the year. The weighted average outstanding shares is 214,717,428 for the years 2020 and 2019.

Revenue recognition and concentration

The Company derives its revenue from the sale of electricity through contracts or the spot market. Revenue is recognized upon the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

The electricity is sold to distribution companies, customers and other spot market agents. Our generation contracts, based on specific facts and circumstances, can have one or more performance obligations as the promise to transfer energy and capacity may or may not be distinct depending on the nature and terms of the contract. As the performance obligations are generally satisfied over time and considers the output method to measure progress, the performance obligations meet the criteria to be considered a series.

For the year ended December 31, 2020 and 2019, 91% and 97% of electricity sales were derived from sales to distribution companies (EDEMET, EDECHI and ENSA), reserve contracts with AES Changuinola, S.R.L. and large customers.

Interest income

Interest income corresponds to interest earned on bank and time deposits, calculated at the applicable effective interest rate, commercial interest income that is determined by customer contracts and other agreements.

3. Summary of Accounting Policies (continued)

Income tax

Income tax for the year includes both current tax and deferred tax. The income tax is recognized in the statements of comprehensive income of the current year or in equity, as appropriate. The current income tax refers to the estimated tax payable on the taxable profit of the year, using the rate enacted at the date of the statement of financial position. The deferred income tax is calculated based on the liability method, considering the temporary differences between the carrying amount of the assets and liabilities reported for financial purposes, and the amounts used for tax purposes.

The amount of deferred income tax is based on the form of realization of the assets and payment of liabilities, considering the tax rate that is expected to be applied in the period in which it is estimated that the asset will be realized or that the liability will be paid. Deferred income tax assets are recognized to the extent that it is probable that sufficient taxable benefits will be available in the future, against which temporary differences may be used.

Commitments and contingencies

All losses from contingent liabilities arising from claims, litigation, agreements, penalties and others, are recognized when it is probable that the liability will have to be incurred and the amounts of expenses could be reasonably estimated. Legal costs related to contingencies are recognized as an expense when incurred.

Derivative instruments

The Company records all derivative financial instruments in the statements of financial position at fair value, regardless of their purpose or purpose.

The accounting record for changes in the fair value of derivative financial instruments varies depending on whether the derivative is considered a hedge for accounting purposes, or if the derivative instrument is a fair value or cash flow hedge. If the derivative financial instrument is classified for accounting hedging purposes, it may be:

(1) a fair value hedge of existing assets or liabilities or firm commitments, or

(2) a hedge of cash flows related to existing assets or liabilities or expected transactions.

3. Summary of Accounting Policies (continued)

Derivative instruments (continued)

Derivatives are initially recognized at fair value on the date the contract is recorded and are subsequently valued at fair value on each date of the statements of financial position. The resulting gain or loss is recognized immediately, unless the derivative is designated as a hedging instrument in which case the recognition in gains and losses over time will depend on the nature of the hedging relationship.

The derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is beyond 12 months and it is not expected to be realized or settled in less than this time. Other derivatives are presented as current assets or current liabilities, since their maturity is less than 12 months.

As part of its risk management strategy to hedge the potential risk of refinancing the $375 million bonds maturing in 2022, the Company entered into three interest rate swap agreements, with The Bank of Nova Scotia, Citibank, NA and JP Morgan Chase Bank, N.A. The swap agreements exchanged a 3-month LIBOR rate at a fixed interest rate of 1.6759%, 1.5905% and 1.5643%, respectively. These derivatives would be effective for a period of 10 years, starting on June 30, 2021.

As a result of the refinancing (note 5), on August 10, 2020, the Company canceled the hedging instruments it had contracted. The settlement cost of these instruments was $35.5 million, which are presented in the statements of financial position as other comprehensive loss. This balance will be amortized in a straight line over a period of 10 years, starting on June 30, 2021.

New and amended standards and interpretations

The Company did not present any impact associated with the new standards and interpretations issued.

Standards issued but not yet effective

The Company does not believes any impact associated with the new and amended standards and interpretations issued but not yet effective, will be material to the financial statements of the Company.

(Expressed in thousands of dollars of the United States of America, except for the stock information)

4. Cash and cash equivalents

As of December 31, 2020 and 2019, cash and cash equivalents are composed of the following:

	2020	2019
Petty cash	$ 10	$ 10
Bank deposits	32,771	13,552
Time deposits	2,000	16,046
	$ 34,781	**$ 29,608**

The average interest rate for time deposits with maturities of less than 3 months is 1.25% and 1.58% for the years 2020 and 2019, respectively.

5. Balances and Transactions with Affiliates and Related Parties

The balances and transactions with related parties as of December 31, 2020 and 2019, are as follows:

In the statements of financial position:	**2020**	**2019**
Accounts receivable-related parties short-term:		
Empresa de Distribución Eléctrica Metro Oeste, S.A. (EDEMET)	$ 27,076	$ 29,425
Elektra Noreste, S.A. (ENSA)	14,212	14,945
Empresa de Transmisión Eléctrica, S.A. (ETESA)	1,314	3,149
Ministerio de Economía y Finanzas	9,580	9,580
Empresa de Distribución Eléctrica Chiriquí, S.A. (EDECHI)	5,917	5,846
Caja de Seguro Social	1,710	1,126
Bahía Las Minas, Corp.	17	8
Enel Fortuna, S.A.	246	103
Electropaulo Metropolitana Electricidade de Sao Paulo S.A.	62	62
Contraloría General de la República	120	127
Autoridad del Canal de Panamá	144	22
	$ 60,398	**$ 64,393**
Other accounts receivable-related parties long-term:		
Empresa de Distribución Eléctrica Metro Oeste, S.A. (EDEMET)	$ 4,761	$ —
Elektra Noreste, S.A. (ENSA)	1,667	—
Empresa de Distribución Eléctrica Chiriquí, S.A. (EDECHI)	1,179	—
Empresa de Transmisión Eléctrica, S.A. (ETESA)	2,841	—
	$ 10,448	**$ —**

(Expressed in thousands of dollars of the United States of America, except for the stock information)

5. Balances and Transactions with Affiliates and Related Parties (continued)

In the statements of financial position:	**2020**	**2019**
Accounts payable-related parties short-term:		
Empresa de Distribución Eléctrica Metro Oeste, S.A. (EDEMET)	$ 23	$ 1,065
Enel Fortuna, S. A.	307	4,422
Autoridad del Canal de Panamá	114	186
Empresa de Transmisión Eléctrica, S.A. (ETESA)	365	219
Elektra Noreste, S.A. (ENSA)	763	2,104
Empresa de Distribución Eléctrica Chiriquí, S.A. (EDECHI)	30	157
Empresa de Generación Eléctrica, S.A. (EGESA)	25	51
Electropaulo Metropolitana Electricidade de Sao Paulo S.A.	22	22
Bahía Las Minas, Corp.	—	1,038
	$ 1,649	**$ 9,264**

In the statements of comprehensive income, the transactions with related parties during the years ended December 31, 2020 and 2019, are as follows:

In the statements of comprehensive income	**2020**	**2019**
Electricity sales:		
Empresa de Distribución Eléctrica Metro Oeste, S.A. (EDEMET)	$ 134,489	$ 180,122
Elektra Noreste, S.A. (ENSA)	72,013	91,022
Empresa de Distribución Eléctrica Chiriquí, S.A. (EDECHI)	27,906	34,900
Bahía Las Minas, Corp.	70	233
Empresa de Transmisión Eléctrica, S.A. (ETESA)	679	1,262
Caja de Seguro Social	1,708	3,031
Enel Fortuna, S.A.	2,124	261
Contraloría General de la República	437	507
Autoridad del Canal de Panamá	278	64
	$ 239,704	**$ 311,402**
Transmission costs:		
Empresa de Transmisión Eléctrica, S.A. (ETESA)	$ 4,990	$ 6,186
Bahía Las Minas, Corp.	39	51
	$ 5,029	**$ 6,237**

(Expressed in thousands of dollars of the United States of America, except for the stock information)

5. Balances and Transactions with Affiliates and Related Parties (continued)

In the statements of comprehensive income	**2020**	**2019**
Electricity purchases:		
Enel Fortuna, S.A.	$ 3,507	$ 13,887
Autoridad del Canal de Panamá	4,135	9,997
Empresa de Distribución Eléctrica Metro Oeste, S.A. (EDEMET)	2,191	21,790
Bahía Las Minas, Corp.	387	12,961
Empresa de Transmisión Eléctrica, S.A. (ETESA)	1,280	2,161
Elektra Noreste, S.A. (ENSA)	—	7,297
Empresa de Distribución Eléctrica Chiriquí, S.A. (EDECHI)	—	3,195
Empresa de Generación Eléctrica (EGESA)	—	98
	$ 11,500	**$ 71,386**
Electricity purchases: (variable transmission costs)		
Empresa de Transmisión Eléctrica, S.A. (ETESA)	$ 2,998	$ 1,725
Empresa de Distribución Eléctrica Metro Oeste, S.A. (EDEMET)	1,188	568
	$ 4,186	**$ 2,293**
Interest expense, net		
Ministerio de Economía y Finanzas (amortization of compensatory fund)	$ —	$ (246)
	$ —	**$ (246)**

The Panamanian Government owns 50.46% of the Company´s authorized capital and has a significant investment in the generation, distribution and transmission companies in the electric power industry in Panama. Consequently, all the transactions with these companies are considered transactions with related parties.

Moratorium on the pandemic COVID-19

As part of a national plan to mitigate the adverse economic impacts caused by the pandemic COVID-19, the local authorities of the electricity sector, supported by the Government of Panama, approved various regulations for all participants in the Panamanian electricity market. This resulted in market participants having the right to: i) defer up to 36 months or ii) enter into parallel agreements to their PPA to define the payment terms for the electricity consumed in the months of March, April, May and June. Due to the lack of parallel agreements between the distribution companies, the accounts receivable pending with EDEMET, ENSA and EDECHI were deferred for a period of 36 months as of September 2020. As of December 31, 2020 the balance of these accounts receivable in the statements of financial position amounts to $11,954, of which $4,347 is recorded in accounts receivable from related companies - short term and $7,607 in accounts receivable from related companies - long term.

5. Balances and Transactions with Affiliates and Related Parties (continued)

Government Compensation

To reduce the impact of high spot market prices on hydro companies due to the transmission constraints to transport energy from the west of the country, delays in expansion projects and transmission line improvements, in 2013, the Panamanian Government began to negotiate compensation mechanisms.

The Government agreed to reimburse the difference between the cost at which the Company purchased energy in the spot market and the price at which the Company sells that energy under the PPAs with the Distribution Companies for an agreed quantity of 70 MW per hour, but subject to a maximum reimbursement of $40,000 in 2014 and $30,000 in 2015 and 2016.

On April 20, 2015, the Comptroller General of Panama filed a motion before the Supreme Court of Justice to determine whether or not the resolution of the Panamanian Government that authorized the compensation to AES Panamá, S.R.L. (Cabinet Resolution No. 42 dated March 31, 2014, or the Cabinet Resolution) contravened certain articles of the Panamanian Constitution. Pursuant to Panamanian law, the Supreme Court of Justice requested the Attorney General of Panama to render an opinion on the motion.

On May 7, 2015, the Attorney General opined that the Cabinet Resolution should be declared unconstitutional. The Supreme Court of Justice ordered that a summons be published in a local newspaper for 3 consecutive days, so that within 10 business days of the last publication date, the Comptroller General of Panama and any other person may submit written arguments on the merits of the case. In July 2015, AES Panamá, S.R.L. lawyers submitted its closing arguments. On February 8, 2017, the Supreme Court of Justice declared non-viable, the unconstitutionality challenge presented by the Comptroller General of Panama against Cabinet Resolution No. 42 of March 31, 2014, issued by the Executive branch of the Republic of Panama.

In October 2017, the Comptroller General of Panama filed the following legal actions: (i) a Contentious Administrative Action of Nullity against Cabinet Resolution No. 42 of March 31, 2014 and Agreement No. 001-2014 of April 29, 2014 signed between the Ministry of Economy and Finance and AES Panamá, S.R.L. The Company has not had formal access to the process, nor has it been incorporated as a party. The claim was accompanied by a request for provisional suspension of the effects of the acts filed. The Third Chamber of the Supreme Court has not manifested itself with respect to said request; (ii) Action of Unconstitutionality against Cabinet Resolution No. 42 of March 31, 2014. Currently, said action was admitted and is pending a fiscal hearing or opinion by the Attorney General's Office.

5. Balances and Transactions with Affiliates and Related Parties (continued)

Government Compensation (continued)

Through resolution dated December 19, 2017, the claim is admitted and is sent to the Attorney General's Office. Through Vista No. 017 of January 5, 2018, the Public Prosecutor of the Administration requests that the submitted petition be declared non-viable. Subsequently, by resolution dated January 16, 2018, it is ordered to publish an edict for up to three (3) business days in a newspaper of national circulation so that, within 10 days from the last publication, the interested parties present arguments for written. During March 2018, some arguments were presented, however, the Attorney General's Office is still pending to resolve the merits of the case.

In May 2020, the Plenary of the Supreme Court of Justice dismissed the unconstitutionality action brought by the Office of the General Comptroller of the Republic against Cabinet resolution 41 of 2014, leaving the Government obliged to comply with the agreed payments, in the terms and conditions that had been approved for the subscription of the Compensation Agreement to the company ENEL Fortuna, S.A. The Company is in conversation with the Government to equip the terms and conditions of Cabinet Resolution No. 42 of March 31, 2014.

As of December 31, 2020, the Company has invoiced $46,174 and collected $36,594 in reimbursements reducing the costs of our purchases of electricity. As of December 31, 2020, the balance of this account receivable amounts to $9,580 and is presented as accounts receivable related parties in the current assets in the statements of financial position.

Rate Adjustment Refund

On September 27, 2017, ASEP issued Resolution AN No. 11667 - Elec, authorizing ETESA to defer the rate refund of years 2, 3 and 4 to the Market Agents of the tariff period from July 2013 to June 2017, as a result of the review of Charges for Use and Connection of the Transmission System (CUSPT) and of the Integrated Operation Service (SOI), so that it becomes effective as of July 2021, for a period of 8 years.

ASEP through Resolution AN No.11872 modified the repayment periods to 5 years for adjustments to CUSPT and to 2 years for adjustments to SOI, both to be effective from July 2021.

ETESA confirmed the refund amounts applicable to the Company's rate adjustment in the amount of $2,310 plus interest, which were recorded in accounts receivable from related companies - short term in the statements of financial position due to the fact that the Company received a letter of intent to pay in 2020, however, as a result of the pandemic COVID-19, the payment was not carried out and the payment plan is maintained for July 2021 as established in the Resolution from the ASEP AN No. 11872.

(Expressed in thousands of dollars of the United States of America, except for the stock information)

5. Balances and Transactions with Affiliates and Related Parties (continued)

Rate Adjustment Refund (continued)

On May 10, 2019, the ASEP issued Resolution AN No. 13350 - Elec, which orders ETESA to apply to the market agents the rate adjustment for year 4 of the tariff period from July 2013 to June 2017 according to the established procedure. The amount applicable to the rate adjustment to the Company for year 4 was $270 plus interest, which are recorded in accounts receivable from related companies - short term in the statements of financial position as of December 31, 2019. Due to the fact that the Company received a letter of intention to pay in 2020, however, as a result of the pandemic COVID-19, the payment was not carried out and the payment plan is maintained for July 2021 as established in the Resolution of ASEP AN No. 11872. As of December 31, 2020, the total owed amounts to $3,157, of which $316, corresponding to installments from July to December 2021, are recorded as accounts receivable from related companies - short term and $2,841 as accounts receivable from related companies - long term, in the statements of financial position.

The balances and transactions with affiliates for the years ended December 31, 2020 and 2019, are as follows:

In the statements of financial position:	**2020**	**2019**
Accounts receivable affiliates:		
Gas Natural Atlántico S. de R.L.	$ 2,662	$ 97
AES Global Power Holdings B.V.	1,455	1,455
AES Panama Generation Holdings S.R.L.	575	—
Empresa Electrica de Oriente, S.A. de C.V.	298	—
Other affliliates	201	203
Global Energy Holdings C.V.	189	189
AES Tietê Energia S.A.	177	177
AES Argentina Generacion S.A.	134	134
AES Latin America S. de R.L.	124	30
AES Changuinola, S.R.L.	88	1,075
The AES Corporation	14	14
	$ 5,917	**$ 3,374**
Accounts payable affiliates:		
AES Changuinola, S.R.L.	$ 18,286	$ 1,939
AES Latin America S. de R.L.	2,263	3,517
AES Panama Generation Holdings S.R.L.	1,949	—
Gas Natural Atlántico S. de R.L.	190	3,203
The AES Corporation	3	16
Other affliliates	201	185
	$ 22,892	**$ 8,860**

(Expressed in thousands of dollars of the United States of America, except for the stock information)

5. Balances and Transactions with Affiliates and Related Parties (continued)

In the statements of financial position:	2020	2019
Loan payable - short term:		
AES Panama Generation Holdings S.R.L.	$ 4,721	$ —
	$ 4,721	**$ —**
Loan payable - long term:		
AES Panama Generation Holdings S.R.L.	$ 509,492	$ —
	$ 509,492	**$ —**

Loan payable with affiliate, net

On August 10, 2020, the Company signed a loan agreement with its affiliate AES Panama Generation Holding, S.R.L., for a total of $525.3 million. The interest on this loan will be paid semi-annually beginning on November 30, 2020. The loan is made up of two tranches:

- Tranche A of $ 12.3 million at a variable rate of LIBOR 6 months plus 3.75% and the principal will be paid semi-annually from November 2020 until maturity on November 30, 2022,

- Tranche B of $ 513 million at a fixed rate of 4.625% and the principal will be paid semi-annually from May 31, 2023 until maturity on May 31, 2030.

The funds received were used to fully cancel the international bonds for $ 375 million, the bank loan for $72 million, $32.7 million for the development of renewable energy projects, $8 million for financing closing expenses and termination of an interest rate coverage for $35.5 million, the latter is recorded in equity, as part of the other comprehensive items in the statements of financial position and will be amortized for a period of ten years as of June 2021.

As of December 31, 2020, the loan payable with affiliate, net of deferred financial costs is presented below:

	2020
Loan payable short - term	$ 4,721
Loan payable long - term	518,292
Deferred financing costs	(8,800)
Loan payable - long term, net	509,492
Total loan payable with affiliate, net	**$ 514,213**

(Expressed in thousands of dollars of the United States of America, except for the stock information)

5. Balances and Transactions with Affiliates and Related Parties (continued)

The maturities of the loan payable for the following years are detailed below:

	Tranche A	Tranche B
2021	$ 4,721	$ —
2022	5,164	—
2023	—	14,709
2024	—	16,821
2025	—	10,228
Thereafter	—	462,570
	$ 9,885	$ 504,328

Sales-purchases energy - AES Changuinola, S.R.L.

On March 9, 2007, the Company signed a reservation contract No. 01-07 with AES Changuinola, S.R.L., for the purchase and sale of power and energy, which, after having been modified by several amendments, became administered as a physical contract as of January 1, 2014.

As a result of the signed amendments, as of January 2014, the existence of a lease was determined for the portion corresponding to the capacity of $615 per month, increasing to $1,491 as of 2016 and $1,521 as of June 1, 2018 until the year 2030.

Due to the adoption of the new standard IFRS 16, as of January 1, 2019, the Company recognized a right-of-use asset (electricity generation facility) and lease liability for this lease previously classified as operating leases (Note 12).

On June 30, 2015, the Company signed with AES Changuinola, S.R.L., a capacity reserve contract for a period of 5 years, beginning July 1, 2015. On August 16, 2017, amendment No.1 was signed, increasing the amount of contracted capacity from October 1, 2017 until June 30, 2020. This contract was not renewed.

Sales-purchases energy - Gas Natural Atlántico, S. de R.L.

On March 1, 2016, the Company signed with Gas Natural Atlántico, S. de R.L., a subsidiary of the Corporation, a framework contract for the purchase and sale of firm capacity for a period of three years with automatic extension. Additionally, AES Panamá, S.R.L. maintains energy purchases and sales with Gas Natural Atlántico, S. de R.L., through the spot market.

(Expressed in thousands of dollars of the United States of America, except for the stock information)

5. Balances and Transactions with Affiliates and Related Parties (continued)

The transactions with affiliates for the years ended December 31, 2020 and 2019 in the statements of comprehensive income, are as follows:

In the statements of comprehensive income:	**2020**	**2019**
Electricity Sales:		
AES Changuinola, S.R.L.	$ 1,877	$ 3,723
Gas Natural Atlántico S. de R.L.	7,214	1,037
AES CLESA y Cía, S. en C. de C.V.	202	—
	$ 9,293	**$ 4,760**
Electricity purchases:		
AES Changuinola, S.R.L.	$ 71,571	$ 9,597
Gas Natural Atlántico S. de R.L.	7,006	22,786
AES CLESA y Cía, S. en C. de C.V.	30	31
	$ 78,607	**$ 32,414**
Operating, general and maintenance expense (Management fee):		
AES Latin America S. de R.L.	$ 5,409	$ 3,516
Big Sky	3,896	—
AES Servicios América S.R.L.,	103	174
AES Solutions LLC	—	$ 3,413
	$ 9,408	**$ 7,103**
Other expense, net (Administrative services income):		
AES Changuinola, S.R.L.	$ 792	$ 792
	$ 792	**$ 792**
Interest expense, net (interest expense)		
AES Panama Generation Holdings S.R.L.	$ 9,146	$ —
	$ 9,146	**$ —**

Management fee expenses

- In November 2010, the Company entered into a management contract with AES Solutions LLC, a subsidiary of the Corporation. The contract provided that the annual management fee was for the minimum amount of $4,000; and would be adjusted annually due to changes in inflation. The Administrative Council approved the charges every six months which, annually, would be at least the minimum amount agreed. The total fees charged as management fee were included in operating, general and maintenance expenses in the statements of comprehensive income amounted to $3,413 for the year ended December 31, 2019.

5. Balances and Transactions with Affiliates and Related Parties (continued)

Management fee expenses (continued)

In June 2019, the Company signed an amendment to this contract in which AES Solution LLC transfers all the obligations and rights of the contract to its subsidiary AES Latin America S. de R.L. being thus the benefits of the services between AES Panamá, S.R.L and AES Latin America S. de R.L. For the year ended December 31, 2020 and 2019, the transactions generated by this contract amounted to $5,409 and $3,516, respectively, which are presented as management fee in operating, general and maintenance expenses in the statements of comprehensive income.

- The Company maintains a technical assistance agreement with AES Servicios América S.R.L., a subsidiary of the Corporation. For the years ended December 31, 2020 and 2019, fees were $6 and $77, respectively, included in operating, general and maintenance expenses in the statements of comprehensive income as management fee.

- In June 2017, AES Panamá S.R.L. signed a human resources services agreement with AES Servicios América, S.R.L. which consists of payroll supervision, validation of calculations and coordination of all activities performed by the external payroll consultant. For the years ended December 31, 2020 and 2019, the fees for this concept were $97 for both years, included in operating, general and maintenance expenses in the statements of comprehensive income as management fee.

- On January 1, 2020, AES Panama, S.R.L., signed a corporate global service agreement with AES Big Sky, L.L.C. through which the Company will receive digital services and technical assistance, human resources services, operations and commercial activities. This contract is valid for five years, after this date, unless terminated earlier in accordance with the termination clause of the contract. The agreement will be automatically renewed for successive periods of one year, unless either party notifies the other in writing, at least ninety days before the expiration of the period in force at that time, of its intention not to renew. For the year ended December 31, 2020, the fees for this concept were $3,896, which are presented in operating, general and maintenance expenses, in the statements of comprehensive income.

Agreement for software implementation

On February 27, 2020, the Company, in conjunction with other AES affiliates, signed an agreement with its affiliate Uplight, Inc., for the implementation of a digital portal for customer interaction, "DCEP" (Digital Customer Engagement Portal), which consists of a market platform related to the electricity sector industry. The contract was in force until December 31, 2020. The costs incurred in the implementation of this software amounted to $886 of which $446 are presented in operating, general and maintenance expenses, in the statements of comprehensive income and $440 were capitalized as contracts for computer applications hosted in the cloud, of

5. Balances and Transactions with Affiliates and Related Parties (continued)

Agreement for software implementation (continued)

which $428 are included in the statements of financial position as prepaid expenses and $12, corresponding to the amortization of December 2020, are included in operating, general and maintenance expenses, in the statements of comprehensive income.

Administrative services income

The Company has a management contract with AES Changuinola, S.R.L. which was modified in January 2017 establishing a change in the methodology for calculating the fees, using as a basis the costs incurred plus 5%. For the years ended December 31, 2020 and 2019, the total fees charged as administrative services income are included in other (expenses) income, net in the statements of comprehensive income amounted to $792 for both years.

Rental income

As of December 31, 2020 and 2019, the Company billed rents to affiliated companies in the amount of $270 each year. These contracts have a duration of one year with option for automatic renewal. The last renewal will expire in February 2021. Rental income is recorded in the other expense, net account in the statements of comprehensive income.

Income from reimbursable expenses

On May 30, 2019, the Company signed an expense reimbursement contract with AES ANDRES DR, S.A, For a maximum total amount of $300, this contract was terminated on April 30, 2020, and three amendments were subsequently signed. In the first amendment of May 1, 2020, the maximum reimbursement amount was changed to $364 and the contract term from May 1, 2020 to September 30, 2020, in the second amendment of September 29, 2020 the contract term was extended until October 31, 2020 and in the third amendment of November 13, 2020, the contract was extended until December 31, 2020. For the years December 31, 2020 and 2019, income from reimbursable expenses related to this contract has been recorded for $217 and $110 in the statements of comprehensive income as a decrease in the item of operating, general and maintenance expenses, within salaries and other benefits.

Insurance

The Company maintains an all risk insurance policy with ASSA Compañía de Seguros, S.A. ("ASSA"). This insurance company, in turn, diversifies the risk by reinsuring with a group of insurance companies among which includes a related party of the Company, AES Global Insurance Corporation. The policy taken with ASSA covers all operational risks including machinery breakdown and business interruption.

(Expressed in thousands of dollars of the United States of America, except for the stock information)

5. Balances and Transactions with Affiliates and Related Parties (continued)

Insurance (continued)

For this contract, the Company has recorded insurance expense of $5,446 and $4,565 for the years ended December 31, 2020 and 2019, respectively. These amounts are classified as operating, general and maintenance expense in the statements of comprehensive income.

Dividends

For the years ended December 31, 2020 and 2019, the Company declared and paid dividends to its partners of $25,000 and $13,058, respectively. On the other hand, the Company has not received dividends from its affiliate AES Changuinola, S.R.L. during this years.

Capital reduction

For the years ended December 31, 2020 and 2019, the Company reduced the authorized and issued capital by $64,960 and $25,744, respectively, in order to return capital to shareholders. As a consequence of this reduction, the authorized capital of the Company went from $115,365 to $50,405 during 2020 and from $141,139 to $115,365 in 2019.

6. Accounts receivable - trade and contract assets

As of December 31, 2020 and 2019, accounts receivable trade had a balance of $1,791 and $5,859, respectively. Its maturities are short term and do not include past due or impaired balances.

As of December 31, 2020, the Company maintains a contract asset balance of $263.

7. Inventory, net

As of December 31, 2020 and 2019, the following summarizes the inventory balances:

	2020	2019
Spare parts	$ 2,827	$ 5,244
Fuel inventory	—	758
Other inventories	—	223
Obsolescense provision	(475)	(505)
Total of inventories, net	**$ 2,352**	**$ 5,720**

For the years ended December 31, 2020 and 2019, the Company recognized obsolescence expense of $73 and $107, respectively. These amounts are classified as operating, general and maintenance expense in the statements of comprehensive income.

(Expressed in thousands of dollars of the United States of America, except for the stock information)

8. Property, Plant and Equipment, net

Property, Plant and Equipment, net, is detailed as follows:

	December 31, 2020						
	Land	Buildings	Electricity generation facilities	Office furniture and equipment	Transportation equipment	Construction in progress	Total
Cost:							
Beginning balance	$ 5,938	$ 249,250	$ 712,691	$ 7,624	$ 2,297	$ 8,471	$ 986,271
Additions	2,145	1,642	78,500	538	—	17,221	100,046
Reclassifications and adjustments	110	1,842	1,540	904	—	(4,653)	(257)
Sales and disposals	—	(752)	(366)	—	—	—	(1,118)
Held for sale	—	—	(14,912)	—	—	—	(14,912)
Impairment	—	(857)	(62,352)	(326)	(147)	(360)	(64,042)
Ending balance	8,193	251,125	715,101	8,740	2,150	20,679	1,005,988
Accumulated depreciation:							
Beginning balance	—	129,780	365,803	6,706	1,827	—	504,116
Depreciation	—	3,192	22,833	436	162	—	26,623
Sales and disposals	—	(577)	(308)	—	—	—	(885)
Impairment	—	(703)	(32,944)	(215)	(137)	—	(33,999)
Ending balance	—	131,692	355,384	6,927	1,852	—	495,855
Net balance	**$ 8,193**	**$ 119,433**	**$ 359,717**	**$ 1,813**	**$ 298**	**$ 20,679**	**$ 510,133**

	December 31, 2019						
	Land	Buildings	Electricity generation facilities	Office furniture and equipment	Transportation equipment	Construction in progress	Total
Cost:							
Beginning balance	$ 5,702	$249,250	$ 708,757	$ 8,064	$ 2,222	$ 9,533	$ 983,528
Additions	—	—	82	165	138	6,462	6,847
Reclassifications	236	—	7,191	8	—	(7,524)	(89)
Sales and disposals	—	—	(3,339)	(613)	(63)	—	(4,015)
Ending balance	5,938	249,250	712,691	7,624	2,297	8,471	986,271
Accumulated depreciation:							
Beginning balance	—	126,657	337,729	6,827	1,664	—	472,877
Depreciation	—	3,123	29,457	484	226	—	33,290
Sales and disposals	—	—	(1,383)	(605)	(63)	—	(2,051)
Ending balance	**—**	**129,780**	**365,803**	**6,706**	**1,827**	**—**	**504,116**
Net balance	**$ 5,938**	**$119,470**	**$ 346,888**	**$ 918**	**$ 470**	**$ 8,471**	**$ 482,155**

(Expressed in thousands of dollars of the United States of America, except for the stock information)

8. Property, Plant and Equipment, net (continued)

For the years ended December 31, 2020 and 2019, the Company capitalized interest of $493 and $261, respectively and deferred financing costs by $29 and $12, respectively.

In May 2020, the Company completed the acquisition of the Penonome I wind farm from Goldwind International for $80.1 million. Transactions were accounted for as asset acquisitions, so the consideration transferred plus transaction costs were allocated to individual assets and liabilities assumed based on their fair values. For this transaction, property, plant and equipment, net by $79.5 million and intangibles for $9.6 million were included. As part of property, plant and equipment, the El Coco substation was received, built by Goldwind at the project location to connect the facility to the grid. According to the regulatory scheme in Panama, said transmission assets will be owned by ETESA, which generally reimburses the developers who build the assets at cost once the title is transferred. The Company recognized a liability for this concept for $9.6 million payable to Goldwind, once ETESA reimburses the transfer. As of December 31, 2020, it is recorded in accounts payable as part of non-current liabilities in the statements of financial position.

After the disconnection of the Barge Estrella del Mar I on August 1, 2020, the Company concluded that the barge was no longer part of the Company's pool of assets and performed an impairment analysis. The Company determined that the asset's book value was not recoverable and recognized an asset impairment loss of $30 million. Additionally, an impairment of spare parts inventory was recognized for $0.9 million, both amounts are presented under depreciation, amortization and impairment, in the statements of comprehensive income..

Asset retirement obligation

In December 2014, the Company recognized an asset retirement obligation related to the required future retirement and dismantlement of equipment and facilities located on the land leased from Refinería Panamá, S.R.L., for the operation of the Barge Estrella del Mar I. In December 2020, the Company decreased the recognized amount of this obligation by $ 0.4 million due to the fact that the dock should not be removed. This amount was included in other expense, net in the statements of comprehensive income (Note 15).

As of December 31, 2019, the carrying value for this concept was $60 and was presented in the statements of financial position as a component of electricity generation facilities, net. As of December 31, 2020, this obligation is fully amortized and is detailed below:

	2020	2019
Cost	$ 1,213	$ 1,213
Accumulated amortization	(1,213)	(1,153)
Net balance	**$ —**	**$ 60**

(Expressed in thousands of dollars of the United States of America, except for the stock information)

8. Property, Plant and Equipment, net (continued)

Asset retirement obligation (continued)

The following table summarizes the amounts recognized related to asset retirement obligations for the periods indicated:

	2019	2019
Balance at beginning of the year	$ 1,500	$ 1,438
Accretion expense	—	62
Revisions in estimated cash flows	(438)	—
Net balance	**$ 1,062**	**$ 1,500**

9. Intangible assets, net

As of December 31, 2020 and 2019, the following table summarizes the balances of intangible assets, net:

	2020			2019		
	Cost	Accumulated amortization	Carrying amount	Cost	Accumulated amortization	Carrying amount
Contracts	$ 9,287	$ (1,689)	$ 7,598	$20,000	$ (18,000)	$ 2,000
Software	4,306	(2,865)	1,441	3,689	(1,894)	1,795
Construction in progress - Software	—	—	—	719	—	719
Total	**$13,593**	**$ (4,554)**	**$ 9,039**	**$24,408**	**$ (19,894)**	**$ 4,514**

In June 2015, AES Panamá, S.R.L. signed an agreement with Erryl Capital Inc. and International Electric Power, LLC, to acquire three capacity sales agreements in the amount of $20,000, for a period of 5 years from July 2015. The yearly amortization is $4,000 and ended in June 2020, so that for 2020 only $2,000 was amortized and is recognized in the comprehensive income statements as part of the depreciation, amortization and impairment expense.

The amount paid for capacity sales contracts was recognized as an intangible asset amortized over the term of these contracts, under the straight-line method.

As a result of the acquisition and merger with UEP Penonomé I, S. de R.L. in 2020, $9,287 of intangible assets were added corresponding to the PPA maintained by UEP Penonomé I, S.R.L with Alternergy, S.A. for the sale of 28 MWh of contracted energy from December to April of each year during the duration of the contract, from January 2014 to December 2023, at a price of 125 per MWh, which is substantially higher than the current future price. For the year ended December 31, 2020, amortization expenses of $1,689 have been recorded and are included in

(Expressed in thousands of dollars of the United States of America, except for the stock information)

9. Intangible assets, net (continued)

the comprehensive income statements as part of the depreciation, amortization and impairment expense.

The movement of intangible assets is detailed below:

	Contracts	Software and licenses	Construction in progress - Software	Total
Balances as of January 1, 2019	$ 6,000	$ 343	$ 1,824	$ 8,167
Additions	—	2	956	958
Amortization	(4,000)	(700)	—	(4,700)
Reclassification	—	2,149	(2,060)	89
Balances as of December 31, 2019	2,000	1,794	720	4,514
Additions	9,287	19	286	9,592
Amortization	(3,689)	(971)	—	(4,660)
Reclassification and retirements	—	599	(1,006)	(407)
Balances as of December 31, 2020	**$ 7,598**	**$ 1,441**	**$ —**	**$ 9,039**

10. Investment in affiliate

The Company has a 20% interest in its affiliate AES Changuinola, S.R.L., which owns an hydroelectric plant with an installed capacity of 223 megawatts in the Province of Bocas del Toro.

As of December 31, 2020 and 2019, the investment in affiliate is shown below:

Affiliate	Commercial activity	% of equity participation 2020	% of equity participation 2019	2020	2019
AES Changuinola, S.R.L.	Electricity generation	20%	20%	$ 49,699	$48,634

For the year ended December 31, 2020

Affiliate	Assets	Liabilities	Equity	Revenue	LTC and deemed tax	Net Income	Other comprehensive Income	Equity participation
AES Changuinola, S.R.L.	$ 637,862	$ 389,368	$ 248,494	$ 89,896	$ 84,958	$ 4,938	$ 389	$ 988

For the year ended December 31, 2019

Affiliate	Assets	Liabilities	Equity	Revenue	LTC and deemed tax	Net Loss	Other comprehensive Income	Equity participation
AES Changuinola, S.R.L.	$ 610,093	$ 366,925	$ 243,168	$ 27,526	$ 36,964	$ (9,438)	$ 389	$ (1,888)

(Expressed in thousands of dollars of the United States of America, except for the stock information)

10. Investment in affiliate (continued)

For the years ended December 31, 2020 and 2019, the Company has recorded in relation to its 20% share in earnings of AES Changuinola, S.R.L., an income of $988, and a loss of $(1,888), respectively. These amounts are presented as equity earnings (loss) in investment in affiliate in the statements of comprehensive income for the years ended December 31, 2020 and 2019. The investment is recorded in the statements of financial position in the category of investment in affiliate.

11. Accrued expenses and other liabilities

For the years ended December 31, 2020 and 2019, the following summarizes the accrued expenses and other liabilities balances:

	2020	2019
Accrued benefits	$ 3,068	$ 3,344
Other taxes payable	2,834	2,589
Labor accruals	709	1,370
Other accruals	279	195
Lease liability (Note 12)	11,518	8,794
	$ 18,408	**$ 16,292**

12. Lease

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019 and recognized a right-of-use asset and a lease liability measured at the present value of lease payments to be made over the lease term related to this lease. (note 3). As a result of the implementation the Company identified lease contracts for various items (electricity generation facility, land and buildings) used in its operations.

Electricity generation facility:

In August 2013, the Power Purchase Agreement (PPA) with AES Changuinola S.R.L. was amended with the purpose that the Company buys from AES Changuinola S.R.L. all its generated energy, its firm capacity and the construction prime factor for both energy and capacity. Through the terms of the PPA, AES Changuinola S.R.L. could only supply it with its own generation assets. Under commercial terms, the PPA as amended is classified as a physical agreement. This feature conditions that it is remote that a party other than the Company would take energy from AES Changuinola S.R.L. The Company is required to pay for the firm capacity and the capacity construction prime factor even when no energy is generated. In accordance with how the PPA is structured, administration determined that it shall be accounted as an operating lease.

12. Lease (continued)

Electricity generation facility (continued)

The minimum lease payments of the PPA are determined based on the capacity and its construction prime factor; energy payments and its related construction prime factor are not considered as part of the minimum lease payments since there is no minimum amount established for them. Minimum lease payments determined throughout the term of the PPA are accounted for on a straight-line basis and the difference between such amount and the amounts invoiced is presented as an asset or liability in the Company´s statements of financial position.

Land and buildings:

- The Company had a contract with Refinería Panamá, S.R.L. for the land located in Bahía Las Mina, Province of Colón in Panamá which was used by the Company for the ground based equipment needed for installation and connection of the electric power generation Barge Estrella del Mar I. The Company built support structures in the leased property including an electrical substation and transmission equipment, pipeline to supply fuel docks, storage tanks for equipment, among others. This lease was effective for five years starting in March 2015, the date of commercial operation of the Barge Estrella del Mar I. The Company had recognized a right-of-use asset and a lease liability presented in the statements of financial position in 2019, measured at the present value of the lease payments that would be made during the term of the lease related to this lease. This contract was extended until June 2020 and was not renewed as a result of the withdrawal of the thermal power plant from the market.

- The Company has a contract for its corporate offices. This lease is effective for 10 years starting in January 2013. The Company recognized a right-of-use asset and a lease liability, presented in the statements of financial position, measured at the present value of lease payments to be made over the lease term related to this lease.

- As a result of the acquisition and merger with UEP Penonomé I, S. de RL in 2020, the Company maintains land lease contracts where the 22 turbines of the Nuevo Chagres Phase I wind project are located. The project is located in El Coco, district of Penonomé, Coclé province, with an installed capacity of 55 MW. The contracts are valid for 25 years and began between 2012 and 2013. The Company recognized a right-of-use asset and a lease liability, presented in the statements of financial position, measured at the present value of the lease payments that would be carried out during the term of the lease.

(Expressed in thousands of dollars of the United States of America, except for the stock information)

12. Lease (continued)

Below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Land	Building	Electricity generation facilities	Total
As of January 1, 2019	$ 1,334	$ 2,457	$ 133,939	$ 137,730
Amortization expense	(1,231)	(603)	(11,161)	(12,995)
As at December 31, 2019	**$ 103**	**$ 1,854**	**$ 122,778**	**$ 124,735**
As of January 1, 2020	$ 103	$ 1,854	$ 122,778	$ 124,735
Additions	4,189	—	384	4,573
Amortization expense	(676)	(603)	(11,226)	(12,505)
As at December 31, 2020	**$ 3,616**	**$ 1,251**	**$ 111,936**	**$ 116,803**

Below are the carrying amounts of lease liabilities (in accrued expenses and other liabilities - current and other liabilities non-current).

	2020	**2019**
As of January 1	$ 151,224	$ 144,644
Additions	4,482	—
Accretion of interest	10,920	10,384
Payments to capital and interest	(11,179)	(3,804)
As of December 31	**$ 155,447**	**$ 151,224**
Current (Note 11)	$ (11,518)	$ (8,794)
Non-current	$ (143,929)	$ (142,430)

The maturity analysis of lease liabilities is disclosed in Note 24.

The following are the amounts recognized in the 2019 statement of comprehensive income:

	2020	**2019**
Amortization expense of right-of-use assets	$ 12,505	$ 12,995
Interest expense on lease liabilities	10,920	10,384
Expense relating to leases of low-value assets (included in operating, general and maintenance expense)	—	11
Variable lease payments (included in other cost of electricity sales)	—	30
Total amount recognized in statement of comprehensive income	**$ 23,425**	**$ 23,420**

(Expressed in thousands of dollars of the United States of America, except for the stock information)

13. Held for sale assets

Non-current assets that are expected to be recovered primarily through sales rather than being recovered through continued use are classified as held for sale. The Company has plans to sell the Barge Thermoelectric Power Plant Estrella del Mar I with an installed capacity of 72MW, which was disconnected from the electricity grid of the Republic of Panama at the request of the Company as of 00:00 hours on 1 August 2020, this request was approved by Resolution AN No. 16183-Elec of July 14, 2020 by ASEP.

The held for sale assets are detailed below:

In the statements of financial position		
Held for sale assets:		
Fixed assets - Barge EDM I	$	14,912
Fuel and raw materials inventory		217
Spare parts inventory		1,347
	$	16,476

The group of assets of the barge was evaluated for impairment and an impairment loss of $31 million was recognized during 2020, and are presented under depreciation, amortization and impairment, in the statements of comprehensive income.

In the statements of comprehensive income		
Depreciation, amortization and impairment:		
Impairment of fixed assets - Barge EDM I	$	30,043
Impairment of spare parts inventory		934
	$	**30,977**

On November 25, 2020, the Company's shareholders approved the asset sale plan. The sale of the barge is expected to close in the second quarter of 2021.

14. Financial debts, net

Line of credit

Loans payable in the short term, are originated by the use of lines of credit with maturities less than 12 months. During 2020 and 2019, the Company received credit lines disbursements by $22,900 and $25,000, respectively. The Company canceled both disbursements in the same year in which they were granted.

(Expressed in thousands of dollars of the United States of America, except for the stock information)

14. Financial debts, net (continued)

Loan payable, net

On March 20, 2020, the Company signed a syndicated non-ratifying line of credit agreement with Banco General, S.A. and The Bank of Nova Scotia for $72 million for the acquisition of the UEP I wind farm project in the province of Cocle, Republic of Panama with a capacity of 55MW. The interest rate of this credit line is LIBOR plus a 3.5% annual margin payable every three months and the repayment term of the disbursement is March 24, 2022. This loan was paid in full on August 14, 2020 .

For this financing, deferred financing costs of $539 were paid.

Bonds payable, net

On June 18, 2015, the Company issued new bonds for $300,000 and used the proceeds to pay $217,046 of the 2016 bonds and the outstanding balance of the syndicated loan for $55,491. This new debt was subscribed and distributed by Banco General, S.A. and Deutsche Bank Securities Inc. issued under rule 144A/Regulation S of the New York Stock Exchange in the local and international market with a due date of June 25, 2022 and an annual interest rate of 6.00% with a single payment upon maturity, and semiannual interests payments. In October 2016, the Company re-opened the 2022 bonds, issuing an additional $75,000, under the same terms and conditions as the original issuance. The total issuance of the bonds for $375,000 was canceled with the funds received from the loan with AES Panama Generation Holding, S.R.L. on August 10, 2020 (Note 5).

As of December 31, 2019, bonds payable were as follows:

	2019
Bonds	$ 375,000
Unamortized premium	1,282
Deferred financing cost, net	(3,008)
Total bonds payable,net	**$ 373,274**

Amortization of the premium and deferred financial cost were included in interest expense, net in the accompanying statements of comprehensive income.

As a result of the early extinguishment of the bonds, a penalty of $5,625 was paid, which is recorded in the statements of comprehensive income under other expense, net. Additionally, the financing costs and the discount that were maintained to date for $1,750 were written off, which are included in interest expense, net in the statements of comprehensive income.

15. Commitments and Contingencies

Commitments

Purchase – sale energy contracts

The Company has contracted certain contractual obligations derived from the power and energy supply contracts associated with the generation concession contracts. To guarantee the obligations in accordance with the contracts signed with the distribution companies, the Company maintained as of December 31, 2020, contract performance guarantees of an amount of $77,155 and for 2019, it kept contract performance guarantees for of $64,047 and letter of credit of $4,437. Additionally, for both years, the Company maintained guarantees of $ 28,000 in favor of the Autoridad Nacional de los Servicios Públicos / Comptroller General of Panama for the concession of the hydroelectric exploitation, which guarantee the generation of electric energy.

As of December 31, 2020, the Company also maintains a stand-by letter of credit for $7,164 to guarantee the payments for purchases in the spot market and $500 for purchases in the Regional Electricity Market. In addition, the Company maintains guarantees as of December 31, 2020 in favor of ETESA for $767 to guarantee the payments for transmission services.

Additionally, the Company also maintained a stand-by letter of credit for an amount of $500 to ensure the payments for the purchase of fuel required for the barge operation, which expired on October 30, 2020 and does not have a renewal.

It also had a stand-by letter of credit for an amount of $7 to guarantee the payment corresponding to the Bahía Las Minas Access Contract and the barge, which expired on December 31, 2020 and has no renewal.

As of December 31, 2020 and 2019, the Company maintains surety bonds to guarantee the payments of the energy supply contracts with our clients Metro de Panamá and Alternegy, for $1,935 and $5,040, respectively.

On February 1, 2019, the Company acquired a compliance bond with maturity on February 1, 2020, for an amount of $5,158 in favor ETESA and the Comptroller General of Panama to guarantee defects and redhibitory vices for the replacement of the drivers of the Bahía Las Minas - Panama 115KV lines according to the transfer agreement No. GG-105-2018, related to the project of repowering of the transmission

On October 26, 2006, for the bid of EDEMET-EDECHI 02-05, the Company signed the contracts EDEMET 15-06 and EDECHI 19-06 for the supply of power and energy in the long term. The first contract with EDEMET for a total of 15MW and a second contract with EDECHI for a total of 35MW are both effective from January 1, 2011 to December 31, 2020.

14. Commitments and Contingencies (continued)

Commitments (continued)

Purchase – sale energy contracts (continued)

The Company maintains a reserve contract with AES Changuinola S.R.L., for the purchase - sale of firm capacity and energy as described in Note 5 as of December 31, 2020.

On October 13, 2008, as consequence of the bid EDEMET 01-08, the Company signed contracts EDEMET 04-08 for a total of 77MW and ELEKTRA 07-08 for 23MW to supply firm capacity and energy for a 10-year period that runs from the year 2012 to 2022.

Further in the same tender EDEMET 01-08, the Company signed contracts EDEMET 08-08 for 3157MW and ELEKTRA 09-08 for 9.43MW to supply firm capacity and energy in the long term, for a period of ten years from the year 2013 to 2022.

In August 2012, the Company participated in the act of long-term tender ETESA 01-12 and on September 17, 2012, ETESA notified the Company of the award of the principal bid of power in the amount of 159 MW from 2019-2020, 209 MW in 2021, 309 MW in 2022 and 350 MW from 2023 to 2030. In October 2012, the corresponding contracts to this adjudication were signed with the three distribution companies (EDEMET 117-12, EDECHI 122-12 AND ELEKTRA 062-12).

The Company signed the contracts EDEMET No. 29-14, EDECHI No. 33-14 and ENSA No. DME 012-14 for the supply of capacity and energy for a period of 5 years from July 1, 2015. These contracts were mainly supplied by the barge Estrella del Mar I. These contracts ended on June 30, 2020.

On June 30, 2015, the Company signed with AES Changuinola, S.R.L. a capacity reserve contract for a period of 5 years, beginning July 1, 2015. On August 16, 2017, amendment No. 1 was signed, increasing the amount of power contracted from October 1, 2017 until June 30, 2020.

In February 2020, the Company participated in the long-term tender ETESA 02-19 and on March 31, 2020 ETESA notified the award of the main offer presented by AES Panamá, S.R.L. for the Short-Term Contracting for supply of energy for the period from August 2020 to December 2022. As a result of the award, contracts were signed with the three distribution companies (EDEMET 04-20, EDECHI 23-20 and ELEKTRA 15-20).

14. Commitments and Contingencies (continued)

Commitments (continued)

Purchase – sale energy contracts (continued)

As of December 31, 2020, the Company mantains several contracts for the supply of capacity and energy to large customers (Sunstar Hotels and Development, S.A.; Contraloría General de la República; Caja de Seguro Social; Cemento Interoceánico; Embajada de los Estados Unidos; Avipac Inc.; Varela Hermanos; Importadora Ricamar, S.A.; Cervecería Nacional, S.R.L.; Aceti-Oxigeno, S.A.; Productos Toledano, S.A.; Corporación La Prensa, S.A.; Desarrollo Inmobiliario del Este, S.A.; Felipe Motta, S.A.; Supermercados Xtra, S.A.; Costa del Este Town Center Group, S.A.; Club Unión; S.A.; H. Tzanetatos & Metales Panamericanos, S.A.; Lavery; Televisora Nacional, S.A. & Fundación para la Educación en la Televisión; Agroindustrial Rey, S.A. & Inmobiliaria Don Antonio, S.A., Banco General, S.A.; Banistmo, S.A.; Harinas del Istmo, S.A.; I Storage Inc.; Panafoto, S.A.; Panafoto Zona Libre, S.A.; Metro de Panamá, S.A.; Compañía Azucarera La Estrella, S.A.; Altrix de Panamá, S.A.; PH Pearl at the Sea; Motta Internacional, S.A.; Express Distributors Inc; Tikal Intercontinental; ASSA Compañía de Seguros, S.A.; Hospital Punta Pacífico, S.A.; Del Monte de Panamá, S.A.; Galores Refrigerados, S.A.; Sociedad de Alimentos de Primera, S.A.; Helados La Italiana, S.A.; Producción Panameña de Hielo, S. A.; Universidad Latina de Panamá, S. A.; Cemento Bayano, S.A.; The Bank of Nova Scotia, PSA; Panama International Terminal, S.A.; Bimbo de Panamá, S.A y Panama Ports Company, S.A.). These contracts have a validity period between 2020 and 2035.

Fuel Purchase Contract

On October 29, 2014, the Company entered into a contract with Refinería Panamá, S.R.L. for the purchase of fuel oil (Fuel Oil No. 6 or Bunker) needed for the operation of the Barge Estrella del Mar I. The contract term was for a period of five years and began March 2015. Additionally, the Company signed an addendum No.1 to purchase Fuel Oil No. 2 (diesel) required for the ancillary services of the Barge Estrella del Mar I. Late April 2016 the Company signed the amendment No.2, modifying clauses that established the Premium Price for the purchase of Fuel Oil No. 6 (Bunker). This contract has already been finished due to the fact that the Barge Estrella del Mar I was disconnected from the Panama electricity grid on August 1, 2020.

Concession contracts

The Company has acquired fifty-year water concession contracts which give certain rights, including the generation and sale of electricity generated by the hydroelectric plants and water rights for the use of the Bayano, Chiriquí, Los Valles and Caldera rivers. The Company is required to manage, operate, and provide maintenance to the plants throughout the contract's term. This term may be renewed for an additional fifty years subject to the prior approval of ASEP.

14. Commitments and Contingencies (continued)

Commitments (continued)

Concession contracts (continued)

The most important terms of the concession contracts signed between the Company and the ASEP are described below:

- The ASEP grants the Company a concession for the generation of hydroelectric energy by means of the exploitation of hydroelectric resources located on the Bayano, Chiriquí, Los Valles and Caldera rivers.

- The Company is authorized to render the generation of electricity as a public service, which entails the operation and maintenance of power plants with their respective transmission lines to connect to the public network, and transformation equipment for producing and selling power on the national electrical system as well as selling energy on the international market.

- The duration of each of the concessions granted is 50 years, and they can be extended for a period of up to 50 years by means of a request to the ASEP and their subsequent approval.

- The Company will have the right to own, operate and maintain the property on the facilities and to make improvements to them. Previous authorization is required in those cases in which the Company increases the capacity of any of the plants by 15% or more at the same site.

- The Company will have full access to its own property and to the property of the facilities

- The Company will have rights over the real estate as well as the right of way or easement within the hydroelectric facilities so that it can accomplish all of the activities required for the generation and sale of hydroelectric energy. Likewise, the Company will also have the right of way and access to the areas of the hydroelectric facilities that are currently in working condition and in use.

- The Company has the right to request the forcible acquisition of real estate and the establishment of easements in its favor in accordance with the provisions of Law No.6 and its regulation.

14. Commitments and Contingencies (continued)

Commitments (continued)

Guarantee

- In June 2016, the Company has given unconditional and irrevocable guarantee for the payment of the capital and interest related with the debt agreement of Gas Natural Atlántico II, S.R.L. by $30,060. This guarantee ended with the payment of the debt by GANA II to the bank in August 2020, for which an income of $518.5 was recognized, which is presented in other expenses, net, in the statements of comprehensive income.

- On May 25, 2018, the Company granted an unconditional, absolute and irrevocable guarantee for the fulfillment of the obligations acquired in the medium-term contract by Gas Natural Atlántico II, S. de R.L. with Global Bank Corporation for a total amount of $9,000. The guarantee granted by AES Panamá, S.R.L. was for an amount of $4,509, corresponding to 50.1% of the debt, participation percentage of AES on Gas Natural Atlántico II, S. de R.L.

Described above guarantees ended and ceased to have effect on August 14, 2020.

Credit lines

As of December 31, 2020, the Company has authorized credit lines with different banking institutions for $26,000, of which $500 are used for issuance of letter of credits.

Contingencies

The Company may be exposed to environmental costs as part of the ordinary course of business. The liabilities are recognized when the environmental impact studies indicate that corrective measures are probable and the costs can be reasonably estimated.

The estimates of the liabilities are based on currently available facts, existing technology, and current laws and regulations. They also take into consideration the probable effects of inflation and other social and economic factors, and include an estimate of associated legal costs. As of December 31, 2020, there are no known environmental liabilities.

The Company is involved in certain legal processes as part of the ordinary course of business. It is the opinion of the lawyers and the Company that none of the outstanding claims will have an adverse effect on the results of its operations, financial position, or cash flows. As of December 31, 2020, the Company does not maintain provisions related to these litigation.

14. Commitments and Contingencies (continued)

Contingencies (contingencies)

- In October 2015, Ganadera Guerra, S.A. and Constructora Tymsa, S.A. filed separate lawsuits against AES Panamá, S.R.L., in the local courts of Panama. The claimants allege that AES Panamá, S.R.L., profited from a hydropower facility (La Estrella) being partially located on land owned first by Ganadera Guerra, S.A. and later by Constructora Tymsa, S.A., and that AES Panamá, S.R.L., must pay compensation for its use of the land. The compensation requested is approximately $680,000 for Ganadera Guerra, S.A. and $100,000 for Constructora Tymsa, S.A.

  In October 2016, the court dismissed Ganadera Guerra, S.A. claim because of Ganadera Guerra, S.A. failure to comply with a court order requiring Ganadera Guerra, S.A. to disclose certain information. In January 2017, Ganadera Guerra, S.A. presented again the corrected demand, which was admitted in February 2017. In October 2017, AES Panamá, S.R.L. files an appeal for reconsideration against the claim of Ganadera Guerra, S.A., which was denied through decree No.1356 notifying Order No. 1752, of November 9, 2017.

  On November 15, 2018, the re-entry of the file is made known and it is ordered to lift the suspension of terms and proceed with the termination of the evidence. Therefore, on November 23, 2018, the Company's lawyers presented evidence. Also, there are ongoing administrative proceedings concerning whether the Company is entitled to acquire an easement over the land and whether the Company, can continue to occupy the land. The Company believes it has meritorious defenses and claims and will assert them vigorously; however, there can be no assurances that it will be successful in its efforts.

  The Company, Constructora Tymsa, S.A. and Ganadera Guerra, S.A., signed an MOU (Memorandum of Understanding), which establishes the obligations of each of the parties regarding the purchase and sale of the land and the withdrawals that must be presented to the authorities. Likewise, the sale of the property was duly registered.

  On August 5, 2020, Ganadera Guerra, S.A. and the Company, jointly presented the withdrawal of the claim and the claim.

  For both processes, the withdrawal is allowed and the file of the file is ordered.

- In February 2013, the sanctioning administrative process was presented to the Comisión Sustanciadora of the Autoridad Nacional de los Servicios Públicos against AES Panama, S.R.L. alleging non-compliance with market rules during a blackout that occurred on February 25, 2013.

(Expressed in thousands of dollars of the United States of America, except for the stock information)

14. Commitments and Contingencies (continued)

Contingencies (continued)

Through Resolution AN No.11009-CS of March 6, 2017, the Autoridad Nacional del Ambiente resolves the sanctioning administrative procedure and sanctions the Company with a fine of $250. Through Resolution AN No. 1115 CS of April 6, 2017, the appeal for reconsideration presented by the Company against Resolution AN No. 11009-CS of March 6, 2017 is resolved and resolves to deny the appeal for reconsideration presented and maintains Resolution AN No. 11009-CS of March 6, 2017. Subsequently, constitutional guarantees were presented that were admitted by the Supreme Court of Justice on June 19, 2017. AES Panamá, SRL files a Contentious Administrative Demand of Full Jurisdiction, to declare null, as illegal, Resolution AN No. 11009-CS of March 6, 2017, issued by ASEP.

On September 12, 2017, the claim is admitted and subsequently, the Public Prosecutor files a reply. Within the administrative process of full jurisdiction, witnesses are presented for the process, who are admitted and a statement is taken from them.

In November 2018, AES Panamá, S.R.L. through their lawyers and the Public Prosecutor for the Administration they present their arguments on the merits..

- Contentious-Administrative Lawsuit of Full Jurisdiction. For annulling the resolved of the Resolution AN No. 13362-CS of May 14, 2019, which imposes on UEP Penonomé I, S. de R.L. now AES Panamá, S.R.L a fine in the amount of $200 for the alleged infraction of regulations on electricity.

16. Authorized capital

As of December 31, 2020 and 2019 the authorized capital amounted to $50,405 and $115,365, respectively, which is represented by 214,717,428 shares of participation for both years, which are duly authorized, issued and paid.

17. Net Income per Share

The net income per share was calculated as follows:

	2020	2019
Basic calculation of income per share:		
Net income	$ 11,990	$ 18,390
Total shares	214,717,428	214,717,428
Net income per share	**$ 0.01**	**$ 0.09**

(Expressed in thousands of dollars of the United States of America, except for the stock information)

18. Operating, General and Maintenance Expense

The operating, general and maintenance expense for the years ended December 31, 2020 and 2019, are as follows:

	2020	2019
Salaries and other benefits	$ 13,968	$ 14,103
Right-of-use asset amortization	12,505	12,995
Management fee	9,408	7,103
Service and maintenance contracts	6,208	6,867
Insurance	5,891	4,842
Other market related fees	2,394	2,576
Basic services	1,946	1,002
Expenses related to leases of low value and short term contracts	—	11
Advisory and professional fees	2,914	1,768
Others	2,881	3,006
Taxes and surcharges	576	1,112
Obsolescence provision	73	107
	$ 58,764	**$ 55,492**

19. Interest expense, net

The interest expense, net for the years ended December 31, 2020, 2019 and 2018, was as follows:

	2020	2019
Interest expense - financial	$ (15,305)	$ (22,555)
Interest expense with affiliate	(9,146)	—
Interest expense - lease	(10,920)	(10,384)
Interest expense - amortization of accounts receivable discount	—	246
Subtotal	(35,371)	(32,693)
Amortization of deferred financing costs	(1,132)	(1,067)
Amortization of bond premium	283	463
Write-off of deferred financing costs and debt discount due early debt extinguishment	(1,750)	—
Interest income - commercial	118	356
Interest income - financial	304	571
Subtotal	422	927
Total	**$ (37,548)**	**$ (32,370)**

(Expressed in thousands of dollars of the United States of America, except for the stock information)

20. Other expense, net

For the years ended December 31, 2020 and 2019, other income (expense), net was as follows:

	2020	2019
Administrative services income	$ 792	$ 792
Rental income	270	270
Other income	1,632	820
Gain on sale of property, plant and equipment	—	15
Loss on early extinguishment of debt	(5,625)	—
Other expenses	(72)	(399)
Loss on retirement of property, plant and equipment	(233)	(1,964)
	$ (3,236)	**$ (466)**

21. Income Tax

For the years ended December 31, 2020 and 2019, the provision for income tax consists of the following:

	2020	2019
Current	$ 15,965	$ 13,977
Deferred	(10,939)	(5,373)
	$ 5,026	**$ 8,604**

In Panama, according to article 699 of the Tax Code, modified by article 9 of Law 8 of March 15, 2010, effective as of January 1, 2010, establishes that income tax for legal entities engaged in the activity of generation and distribution of electrical energy, will pay income tax at the rate of thirty percent (30%) when companies in which the State has a shareholding greater than forty percent (40%) of actions.

Additionally, entities whose taxable income exceeds $1,500 calculate the annual income tax by applying the tax rate to the greater of:

a) The net taxable income calculated by the established method (traditional)
b) The net taxable income resulting from applying the total taxable revenues by 4.67% (Alternate Method of Calculating Income Tax - CAIR).

For the year ended December 31, 2020, the Company generated a taxable income for which the estimate of current income tax has been determined under the traditional method applying a rate of 30% to taxable income to determine the tax for the year.

(Expressed in thousands of dollars of the United States of America, except for the stock information)

21. Income Tax (continued)

The provisions of article 710 of the current Tax Code establishes that taxpayers will present an estimated income statement that they will obtain in the year following that covered by the sworn statement, which must not be less than the income indicated in the affidavit. Taxpayers must make advance payments based on the determination of the estimated statement divided into three installments to be paid quarterly in the months of June, September and December.

During 2020, no income tax payments were made due to a credit in favor of $13,567. In 2019, income tax payments were made for a total of $25,471, based on the results obtained of the previous year.

According to the tax regulations, income tax returns of the Company are subject to review by the tax authorities for the last three fiscal years including the year ended December 31, 2020.

As of December 31, 2020 and 2016, deferred income tax liability, net was composed by the following items:

	2020	2019
Deferred tax assets:		
Asset retirement obligations	$ 319	$ 450
Expense provisions	1,076	1,177
Deferred financing costs	822	885
Lease	11593	7894
Other comprehensive items	10,704	—
Total deferred tax assets	**24,514**	**10,406**
Deferred tax liability		
Compensation of capitalized insurance	12,119	13,043
Capitalized interest	2,023	2,004
Asset retirement obligations	—	18
Accumulated depreciation on investment tax credit	1,633	2,027
Accelerated depreciation	32,288	36,879
Revalued assets	36,168	37,795
Accelerated depreciation of property, plant and equipment of wind facility due acquisition	8,778	—
Ending balance	93,009	91,766
Deferred tax liability, net	**$ 68,495**	**$ 81,360**

21. Income Tax (continued)

As of December 31, 2020, the deferred tax liability includes the amount from the acquisition of UEP Penonomé I, S. de R.L. for $8,778, the deferred tax liability did not impact the company's results as it was recognized within net assets at the time of acquisition.

Additionally, the deferred tax asset was recognized for the derivative instrument carried out in 2020 for an amount of $10,704 that was recorded in equity.

Accelerated Depreciation

Since 2009, the Company has applied accelerated depreciation using the method of descending sum of digits, one of the methods allowed in the income tax regulations. The application of this method was calculated for a group of assets of the Company related with the hydroelectric power plant. For the other assets, the straight-line method was applied. In addition, since 2018, the Company applied accelerated depreciation using the method of descending sum of digits for the Barcaza Estrella de Mar assets.

Asset Revaluation

The Company applied fair value or revaluation as an attributable cost, as permitted by IFRS 1 in paragraph 16. The Company's Management applied fair value as an exemption from the attributable cost and the adjustment of $194,029 corresponding to the increase in the fair value of these assets against the retained profits. As set out in IAS 12, it is required to register passive deferred income tax on assets accounted for at fair value. The calculation of the initial deferred tax was $58,209 and was recorded against retained earnings. The application of the liability deferred tax is made through the excess annual depreciation expense on the revalued assets, which is recorded in the statements of comprehensive income.

Lease

The Company, as lessee, adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application at January 1, 2019, base on this, the deferred tax asset was adjusted considering the final balances as of December 31, 2019.

Tax on dividends

Stockholders pay an income tax of ten percent (10%) which is withheld from the dividends they receive. If no dividends are distributed, or the total distribution is less than forty percent (40%) of the taxable net income, an advance of the dividend tax of four percent (4%) until these dividends are finally declared.

(Expressed in thousands of dollars of the United States of America, except for the stock information)

21. Income Tax (continued)

Tax on dividends (continued)

This rate of four percent (4%) is called "Deemed Tax" and is considered an advance on the tax on dividends. For the years ended December 31, 2020 and 2019, dividend tax payments have been made for a total of $1,273 and $3,080, respectively, for the dividends declared and paid.

Transfer Pricing Law

During the three years ended December 31, 2019, transfer pricing regulations remain in force. They cover any transaction the taxpayer carries out with related parties that are tax residents of other jurisdictions, provided that such transactions have an effect such as income, cost or deductions in determining the tax base for income tax purposes, in the fiscal period in which the transaction is carried out.

Taxpayers must comply annually, with the obligation to submit a transfer pricing report (report 930) 6 months after the closing date of the fiscal period. In addition, they must have a study containing the information and analysis supporting whether its transactions with related parties are in accordance with the provisions established in the fiscal code. The Company estimates that transactions carried out with related parties will not have a significant impact on the provision of income tax for 2020 and 2019.

22. Fair Value of Financial Instruments

The Company established a process to determine fair value of financial instruments. The determination of fair value considers market quoted prices. Nevertheless, in many occasions no quoted market prices exist for several of the Company's financial instruments. In cases in which market quoted prices are not available, the fair value is based on estimates using current value or other valuation techniques. These techniques are affected significantly by the assumptions employed, including the discount rate and future cash flows.

The estimate fair value of financial instruments as of December 31, 2020 and 2019 are detailed below:

	2020		**2019**	
	Book value	Fair value	Book value	Fair value
Financial Liability				
Loan payable - affiliate, net	**$ 514,213**	**$ 557,302**	$ —	$ —
Bonds payable, net	$ —	$ —	$ 373,274	$ 384,771

22. Fair Value of Financial Instruments (continued)

The following methods and assumptions were used to estimate fair values:

- The carrying amount of certain financial assets, including cash and equivalents, accounts receivable, current and non-current accounts receivable affiliates and certain financial liabilities including accounts payable, to suppliers and affiliates, due to their short maturity nature, is considered equal to their fair value.

- For bonds payable and loan payable-affiliates that are arranged at fixed interest rates and expose the Company to fair value interest rate risk, Management estimates the fair value of the Company's borrowings by discounting their future cash flows at market rates and is classified at Level 2 in the hierarchy of fair value.

Hierarchy of fair value of reasonable financial instruments

All assets and liabilities measured at fair value or on which the Company makes fair value disclosures are classified within the fair value hierarchy. Such classification is based on the lower level of information used to determine such value and which is significant for the determination of fair value as a whole. The fair value hierarchy consists of the following three levels:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2020 and 2019, the Company has not made reclassifications between hierarchy levels.

23. Risk and Capital Management

Risk Management

The Company has exposure to the following risks in the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk

22. Fair Value of Financial Instruments

Risk Management (continued)

This note presents information about the Company's exposures to each of the aforementioned risks, the objectives of the Company, the policies and procedures to measure and manage the risk and the administration of the Company's capital. The financial statements also include additional quantitative disclosures.

The administration is responsible for establishing and monitoring the frame of reference of the Company's risk management. The administration, which is responsible for the development and monitoring of the Company's risk management policies.

Credit risk

The Company has exposure to credit risk on the financial assets held.

Credit risk is the risk that the debtor or issuer of a financial asset, owned by the Company, does not comply fully and on time, with any payment that must be made in accordance with the agreed terms and conditions at the time the Company acquired or originated the respective financial asset.

Company administration has financial instruments with a minimum risk of loss due to the fact that the transactions carried out in the Panama electricity market maintain the principle of guarantee of payment, both for the contract market and the spot market.

In the case of the contract market, payment guarantee bonds are maintained, while for the spot market, all transactions are managed by the National Dispatch Center (CND) through a collection system via an Administration and Collection Bank. To guarantee payment, the CND tells each market agent the amount of the payment guarantee (“Bank letter”) that it must keep in force to guarantee timely payment according to a payment schedule sent by the CND together with the Document of Economic Transactions, and generally ranges within 30 days.

Due to the above and commercial rules, the credit risk of spot market transactions is minimal, since they are managed by an Administration and Collection Bank run by the CND, and where each market agent must maintain a payment guarantee that backs up energy transactions, however, as part of a national plan to mitigate the adverse economic impacts caused by the pandemic COVID-19, the local authorities of the electricity sector, supported by the Government of Panama, approved various regulations for all participants in the Panamanian electricity market. This resulted in market participants having the right to: i) defer up to 36 months or ii) enter into parallel agreements to their PPA to define the payment terms for the electricity consumed in the months of March, April, May and June.

(Expressed in thousands of dollars of the United States of America, except for the stock information)

22. Fair Value of Financial Instruments

Risk Management (continued)

Credit risk (continued)

Due to the lack of parallel agreements between the distribution companies, the accounts receivable pending with EDEMET, ENSA and EDECHI were deferred for a period of 36 months as of September 2020. As of December 31, 2020 the balance of these accounts receivable in the statements of financial position amounts to $11,954, of which $4,347 is recorded in accounts receivable from related companies - short term and $7,607 in accounts receivable from related companies - long term.

At the dates of the statements of financial position there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the balance of accounts receivable included in the statements of financial position.

Liquidity risk

It consists of the risk that the Company cannot fulfill all its obligations due to, among others, the deterioration of the quality of the client portfolio, the excessive concentration of liabilities, the lack of liquidity of the assets, or the financing of long-term assets with short-term liabilities.

Company administration monitors liquidity risk through a planning of cash flows to ensure compliance with the commitments. Monitoring consists of preparing a projected report of expected cash flows and planned disbursements, which is reviewed monthly.

To project the expected cash flows, the Company considers the collection date of its financial instruments and the planned disbursements based on the due date of the obligations.

The table below summarizes the maturity profile of the financial liabilities based on contractual undiscounted payments as of December 31, 2020 and 2019:

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
As of December 31, 2020					
Loan payable-affiliate, net	$ —	$ 4,721	$ 46,922	$ 462,570	$ 514,213
Accounts payable	30,999	—	9,915	—	40,914
Asset retirement obligations	1,062	—	—	—	1,062
Accrued expenses and other liabilities	9,736	8,672	—	—	18,408
Other liabilities	—	—	52,427	91,502	143,929
	$ 41,797	**$ 13,393**	**$ 109,264**	**$ 554,072**	**$ 718,526**

(Expressed in thousands of dollars of the United States of America, except for the stock information)

23. Risk and Capital Management (continued)

Risk Management (continued)

Liquidity risk (continued)

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
As of December 31, 2019					
Bonds payable, net	$ —	$ —	$ 373,274	$ —	$ 373,274
Interest payable	—	466	—	—	466
Accounts payable	34,456	—	741	—	35,197
Asset retirement obligations	—	—	1,500	—	1,500
Accrued expenses and other liabilities	7,498	8,794	—	—	16,292
Other liabilities	—	—	40,001	102,429	142,430
	$ 41,954	**$ 9,260**	**$ 415,516**	**$ 102,429**	**$ 569,159**

Market risk

Market risk is the risk that changes in the market prices of energy sales as well as interest rates affect the Company's income or the value of its possessions in financial instruments. The objective of market risk management is to manage and control exposures to market risk within acceptable parameters, while optimizing risk performance.

The price of energy in the occasional market varies depending on the dry or wet season and the extreme climatic conditions that may occur in the geography regions where the hydroelectric plants operate, the prices of the international market fuel and availability of thermal power and demand of the country.

On March 11, 2020, the World Health Organization raised the public health emergency situation caused by the outbreak of the coronavirus (COVID-19) to an international pandemic. The rapid evolution of events, on a national and international scale, represents an unprecedented health crisis, which will impact the macroeconomic environment and the evolution of business. To face the economic and social impact of COVID-19, among other measures, the Government of Panama has approved a series of extraordinary urgent measures to address the COVID-19 Pandemic. In response to the COVID-19 pandemic, we implemented changes that we determined were in the best interest of our employees, as well as the communities in which we operate. This includes employees working from home to the extent possible, while additional security measures are in place for employees continuing critical work on site. Due to the above, the Company has not had and does not expect any negative impact on its financial situation.

23. Risk and Capital Management (continued)

Risk Management (continued)

Market risk (continued)

The Company maintains contracts with distribution companies and large clients, for capacity and energy supply. For 2020 and 2019, the Company maintains 82.24% and 93.89%, respectively, of its firm contracted capacity and it is estimated that this percentage of contracting will be at these levels for future periods. In this way, the administration minimizes the impact of changing sales prices in the occasional market. However, at any time, in the months of low contributions, the Company could resort to the purchase of energy in the occasional market at prices higher than the prices established in the current sales contracts, but this condition will depend on the prices of the fuels used for generation (bunker and diesel).

On the other hand, it is worth mentioning that as one of the mitigating measures to reduce price risks in the market, the company has diversified its generation portfolio with the installation of the Barge Estrella de Mar I thermal power plant, which was operating until August 1, 2020.

Additionally, as one of the mitigating measures to reduce price risks in the market, the Company has diversified its generation portfolio with the acquisition of the wind project called Nuevo Chagres Phase I.

Finally, in addition to these measures and depending on market conditions, the Company could import energy from the Regional Electricity Market.

Considering the prior evaluation and approval of the administration, the Company only invests in savings accounts with fixed interest rates.

Interest rate risk

The Company is not significantly exposed to fluctuations in interest rates since it maintains a loan with an affiliate, in which the long-term tranche B has a fixed rate. On the other hand, tranche A is exposed to fluctuations in the LIBOR rate, this is an international reference rate that fluctuates based on interbank market conditions. The Company does not expect significant impacts on its financial statements as a result of the volatility of the LIBOR rate on the cash flows associated with this loan (Note 5).

Capital management

The Company manages its capital by maintaining a healthy financial structure, optimizing debt balances, minimizing risks to creditors and maximizing return for shareholders.

(Expressed in thousands of dollars of the United States of America, except for the stock information)

24. Changes in liabilities of financing activities

The changes in liabilities of financing activities are detailed as follows:

2020

	As of January 1, 2020	Cash flows-received	Cash flows-payments	Deferred financing costs	Discount / Premium	Accretion of interest	Non-cash movements	As of December 31, 2020
Loan payable	$ —	$ 94,900	$ (94,900)	$ —	$ —	$ —	$ —	$ —
Loan payable - affiliate, net	—	525,309	(2,296)	(8,800)	—	—	—	514,213
Bonds payable, net	373,274	—	(375,000)	3,008	(1,282)	—	—	—
Lease	151,224	—	(11,179)	—	—	10,920	4,482	155,447
	$ 524,498	**$ 620,209**	**$ (483,375)**	**$ (5,792)**	**$ (1,282)**	**$ 10,920**	**$ 4,482**	**$ 669,660**

2019

	As of January 1, 2019	Cash flows-received	Cash flows-payments	Deferred financing costs	Discount / Premium	Accretion of interest	Non-cash movements	As of December 31, 2019
Loan payable	$ 12,000	$ 25,000	$ (37,000)	$ —	$ —	$ —	$ —	$ —
Bonds payable, net	372,658	—	—	1,079	(463)	—	—	373,274
Lease	—	—	(3,804)	—	—	10,384	144,644	151,224
	$ 384,658	**$ 25,000**	**$ (40,804)**	**$ 1,079**	**$ (463)**	**$ 10,384**	**$ 144,644**	**$ 524,498**

25. Subsequent Events

Subsequent events were evaluated by Management until March 31, 2021, date on which the financial statements were authorized by Management for issuance.

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