

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
Refinadora Costarricense de Petróleo, S.A.

### *Qualified Opinion*

We have audited the accompanying financial statements expressed in U.S. dollars of Refinadora Costarricense de Petróleo, S.A. (“RECOPE” or “the Company”), which comprise the statements of financial position as of December 31, 2020 and 2019 and the corresponding statements of profit or loss and other comprehensive income, changes in stockholders’ equity, and cash flows for the years then ended, and the notes to the financial statements, including a summary of the significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects the financial position of Refinadora Costarricense de Petróleo, S.A. as of December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### *Basis for Qualified Opinion*

As of December 31, 2019, the Company has recorded an investment in a joint venture (SORESO) for a carrying amount of ¢6.057 (million), and since 2016, the Company has approved actions to terminate the Joint Venture Agreement between RECOPE and China National Petroleum Corporation International, Ltd. (CNPCI), by means of arbitration at the Arbitration Court of the International Court of Arbitration of the International Chamber of Commerce (ICC), based in London, England. It was until the end of 2019 that the Arbitration Court (ICC) ordered the termination of the Joint Venture Agreement. As a result, RECOPE recognized in the financial statements for the year ended December 31, 2019, an allowance for impairment of the investment in the joint venture for ¢18.977 (million), and for the remainder, the Company is awaiting the resolution of the receiver who will be responsible for the liquidation of the joint venture to determine the recoverable value of the balance of the investment in SORESO (Note 7). Therefore, as of December 31, 2019, RECOPE conducted a partial impairment analysis of the investment in SORESO, based only on the unaudited financial statements of that entity as of that date, leaving a balance of ¢6.057 (million). Likewise, it did not conduct an impairment analysis on such investment in prior periods. International Accounting Standard No.36 “Impairment of Assets” requires impairment assessments to be performed annually on these types of investments. Consequently, we are not aware of any additional impairment adjustment that needed to be recorded for the investment as of December 31, 2019, as well as of the impairment amount that should have been recognized in the financial statements as of December 31, 2018 or earlier.

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 RECOPE in accordance with the Code of Professional Ethics of the Association of Certified Public Accountant of Costa Rica and the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code), and the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### *Emphasis on Matters*

In 2020, as a result of the proceeding brought by the Arbitration Court (CCI), RECOPE received a partial liquidation of the investment (Note 7). The funds received from the liquidation of SORESCO were delivered to the Ministry of Finance, in accordance with the provisions of Law 9925 on the Efficiency of Public Fund Management. This emphasis does not represent a qualification to our opinion.

Additionally, without qualifying our opinion, we draw attention to Note 26 to the financial statements, which indicates the impacts and actions taken by the Company due to the spread of the COVID-19 pandemic.

### *Other Matter*

The financial statements originally issued in Spanish have been translated into English for the convenience of the readers outside of Costa Rica.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	Audit Approach on Key Audit Matter
<p><b><i>Inventories</i></b> - As disclosed in the financial statements, there are inventories as of December 31, 2020 and 2019, for ¢130,685 million and ¢191,643 million, respectively, which are recognized at the lower of cost or net realizable value (Note 4).</p> <p>The Company imports mainly 4 types of fuels (Super gasoline, diesel, Plus 91 gasoline and A-1 jet) and distributes them through its plants located in certain areas of the country. During 2020, international fuel prices</p>	<p>When considering the value of fuel inventories at net realizable value, we compared the current estimated selling price of inventories, taken from the latest price list, with the available fuel cost. We found no cases where the net realizable value was above cost, nor the need to recognize any allowance.</p> <p>We agree with Management that no allowance is required to be recognized and that the related disclosure was adequate in terms of accounting standards.</p>

Key Audit Matter	Audit Approach on Key Audit Matter
<p>declined rapidly due to the COVID-19 pandemic, as a result of a significant drop in the demand due to restrictions on vehicle mobility, combined with difficult market conditions, therefore, during certain months of the year, there was an erosion of commercial margins due to high volumes and low inventory turnover. These factors resulted in a risk that fuel inventory costs may be above the realizable value and this is considered a key audit matter.</p> <p><b>Electronic Data Processing</b> - The Company uses an electronic data processing system for its operations whose transaction volume and automation level are high. In terms of the risk inherent to the processes and operation of the IT applications, the segregation of duties, the transfer of data among different applications and automatic controls, the possibility of operating failures remains, which may result in data processing errors and, consequently, errors in the presentation of the financial statements; therefore, the assessment of the IT processing environment has been deemed a key audit matter.</p>	<p>We conducted tests on the design and implementation of general controls of computers, the proper allocation of users to the key applications within the scope of the audit, and the data transfer process among different applications, as well as automatic controls in the main applications that support the most relevant business processes for the financial statements.</p> <p>For computer applications and databases with a direct impact on the scope of our audit, we conducted tests to identify the existence of proper controls to verify the integrity and accuracy of financial reports and identified whether there were significant matters or exceptions in the tests performed.</p>

### *Other Information*

Management is responsible for the other information. Other information includes the explanatory notes of the financial indicators obtained before issuing the financial statements, and is included in pages 72 to 75. Our opinion on the financial statements does not include the other information, and we do not express any form of conclusion or assurance on it.

In relation to the audit of financial statements, it is our responsibility to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. If, based on the work we have performed on the information we have obtained before issuing the report, we identify material inconsistencies on the other information, we must report them to you. We have nothing to report on this regard.

After reading the integrated report, if we conclude that a material inconsistency exists, we are required to communicate the matter to the Audit Committee, and analyze if a reportable condition exists in accordance with International Standards on Auditing. We have nothing to report on this regard.

## *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material statements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the RECOPE'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 RECOPE or to cease operations, or has no realistic alternative but to do so.

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

## *Auditor's Responsibility*

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 qualified 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 RECOPE'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 RECOPE'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 RECOPE 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, related safeguards.

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

  
José Ant. Amador Zamora - C.P.A. No.2760  
Insurance Policy No.0116 FIG 7  
Expires: September 30, 2021  
Revenue law stamp for ¢1.000, law No.6663  
La Ribera de Belén, Heredia, Costa Rica



May 6, 2021



# REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2020 AND 2019

(Expressed in United States Dollars)

	Notes	2020	2019
<b>ASSETS</b>			
CURRENT ASSETS:			
Cash and cash equivalents	1c, 2	US\$ 109,605,724	US\$ 89,958,639
Accounts receivable	1d, 3	2,342,866	9,298,588
Supplier advances		3,393,090	4,651,365
Inventories	1e, 1f, 1g, 4	212,454,037	334,485,376
Prepaid expenses	5	<u>4,296,147</u>	<u>4,698,941</u>
Total current assets		332,091,864	443,092,909
LONG TERM ACCOUNTS RECEIVABLE	1d, 3	595,430	638,916
PROPERTY, PLANT, VEHICLES AND EQUIPMENT - Net	1h, 1i, 1j, 1k, 6	1,025,013,278	1,122,597,785
INVESTMENT IN JOINT VENTURE	1l, 7		10,571,763
INVESTMENT IN FINANCIAL ASSETS	8	85,299,684	53,084,949
OTHER ASSETS	9	<u>24,260,270</u>	<u>26,506,608</u>
TOTAL		<u>US\$1,467,260,526</u>	<u>US\$1,656,492,930</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
CURRENT LIABILITIES:			
Current portion of the long term debt	12	US\$ 1,579,599	US\$ 3,722,455
Accounts payable	10	132,982,257	200,340,778
Deferred income	1n	11,366,674	12,069,492
Accumulated expenses and other liabilities	1p, 1q, 1r, 1s, 1t, 11	<u>9,130,875</u>	<u>9,793,240</u>
Total current liabilities		155,059,404	225,925,965
LONG TERM DEBT	12	8,687,794	10,267,392
LONG TERM BONDS PAYABLE	13	182,386,097	185,666,086
DEFERRED INCOME TAX	1n, 14	141,152,400	110,223,988
ALLOWANCE FOR EMPLOYEES' LEGAL BENEFITS	1o, 1p	<u>21,765,305</u>	<u>22,674,183</u>
Total liabilities		<u>509,051,001</u>	<u>554,757,614</u>

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# REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

(Expressed in United States Dollars)

	Notes	2020	2019
STOCKHOLDERS' EQUITY:			
Capital stock	16	US\$ 370,515,185	US\$ 370,515,185
Legal reserve	1u	6,722,053	6,722,053
Surplus from revaluation	1h	569,155,242	625,719,256
Surplus from donation	1w, 17		34,808,316
Retained earnings		443,966,759	423,856,123
Foreign exchange translation reserve	1b	<u>(432,149,714)</u>	<u>(359,885,617)</u>
Total stockholders' equity		<u>958,209,525</u>	<u>1,101,735,316</u>
TOTAL		<u>US\$1,467,260,526</u>	<u>US\$1,656,492,930</u>

(Concluded)

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

# REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

## STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in United States Dollars)

	Notes	2020	2019
SALES	1x, 19	US\$ 1,890,918,668	US\$ 2,698,728,916
COST OF SALES	1y, 1z	<u>(1,675,642,260)</u>	<u>(2,466,358,312)</u>
GROSS PROFIT		215,276,408	232,370,604
OPERATING EXPENSES	1aa, 19	<u>(180,539,898)</u>	<u>(178,176,236)</u>
OPERATING PROFIT		34,736,510	54,194,368
OTHER INCOME (EXPENSES):			
Sale of services		16,351	29,077
Financial expenses		(11,979,924)	(14,978,975)
Financial income		6,757,225	7,262,350
Exchange rate differences - net		(8,379,242)	8,477,825
Rental income		192,705	236,755
External transfers	1q	(54,349,683)	(11,125,160)
Impairment from investment in joint venture	7	(2,802,203)	(32,247,436)
Other expenses - net	6	<u>5,094,613</u>	<u>(16,137,753)</u>
LOSS BEFORE INCOME TAXES		(30,713,648)	(4,288,949)
DEFERRED INCOME TAXES	1m, 14	<u>3,358,930</u>	<u>280,365</u>
NET LOSS		<u>US\$ (27,354,718)</u>	<u>US\$ (4,008,584)</u>

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



# REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

## STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in United States Dollars)

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	Notes	2020	2019
NET LOSS		US\$ (27,354,718)	US\$(4,008,584)
OTHER COMPREHENSIVE INCOME			
Item to be reclassified to profit:			
Foreign currency translation adjustment	1b	(72,264,096)	65,833,612
Item not to be reclassified to profit:			
Deferred tax liability from reappraisal of land	1g, 1l, 14	<u>(43,738,571)</u>	<u>                    </u>
OTHER COMPREHENSIVE INCOME OF THE YEAR		<u>US\$(143,357,385)</u>	<u>US\$61,825,907</u>

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

**REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(Expressed in United States Dollars)

	Notes	Capital Stock	Legal Reserve	Surplus from Revaluation	Surplus from Donation	Retained Earnings	Foreign Exchange Translation Reserve	Total
BALANCES, DECEMBER 31, 2018		US\$370,515,185	US\$6,722,053	US\$640,252,349	US\$ 34,808,316	US\$413,331,614	US\$(425,719,229)	US\$1,039,910,288
Comprehensive profit of the year						(4,008,584)	65,833,612	61,825,028
Transfer from surplus to retained earnings	1i			(14,533,093)		14,533,093		
BALANCES, DECEMBER 31, 2019		370,515,185	6,722,053	625,719,256	34,808,316	423,856,123	(359,885,617)	1,101,735,316
Comprehensive profit of the year				(43,738,571)		(27,354,718)	(72,264,096)	(143,357,385)
Transfer from surplus to retained earnings	1i			(12,825,442)		12,657,038		(168,404)
Transfer of surplus from donation to retained earnings	1v, 17				(34,808,316)	34,808,316		
BALANCES, DECEMBER 31, 2020		<u>US\$370,515,185</u>	<u>US\$6,722,053</u>	<u>US\$569,155,242</u>	<u>US\$</u>	<u>US\$443,966,759</u>	<u>US\$(432,149,714)</u>	<u>US\$ 958,209,526</u>

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

# REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Expressed in United States Dollars)

	Notes	2020	2019
<b>OPERATING ACTIVITIES</b>			
Net loss of the year		US\$ (27,354,718)	US\$ (4,008,584)
Deferred tax	14	(3,358,930)	(280,365)
Loss from asset disposal	6	421,043	423,029
Effect from participation in joint venture	7	454,297	41,646
Impairment of assets - long term	6, 7	2,802,203	43,910,966
Interest expense		11,068,321	11,037,266
Depreciation and amortization	6	45,387,714	47,704,571
Unrealized exchange rate differences		9,912,989	(7,341,100)
Changes in operating assets and liabilities:			
Accounts receivable		6,622,391	(2,397,224)
Inventories		103,876,019	(76,412,326)
Supplier advances and prepaid expenses		1,069,207	2,278,670
Accounts payable		(56,265,619)	35,006,941
Deferred income		130,701	(268,115)
Accumulated expenses and other liabilities		3,076,454	4,986,016
Employees' legal benefits		<u>677,262</u>	<u>(13,540,472)</u>
Cash provided by operating activities		98,519,344	43,538,143
Tax paid	14		
Interest paid		<u>(15,366,137)</u>	<u>(15,323,024)</u>
Net cash provided by operating activities		<u>83,153,207</u>	<u>28,215,119</u>
<b>INVESTMENT ACTIVITIES</b>			
New investments of financial assets	8	(29,623,793)	(19,361,358)
Additions of fixed assets	6	(35,373,176)	(35,373,176)
Return on investment		14,250,000	
Other assets		<u>449,839</u>	<u>4,379,975</u>
Net cash used in investment activities		<u>(50,297,129)</u>	<u>(50,354,559)</u>
<b>FINANCING ACTIVITIES</b>			
New loans			
Debt amortization		<u>(2,899,514)</u>	<u>(6,117,333)</u>
Net cash used in financing activities		<u>(2,899,514)</u>	<u>(6,117,333)</u>

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# REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Expressed in United States Dollars)

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	<b>2020</b>	<b>2019</b>
NET CHANGES IN CASH AND CASH EQUIVALENTS	US\$ 29,956,563	US\$(28,256,773)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	89,958,639	111,667,206
EFFECTS ON EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(10,309,477)</u>	<u>6,548,206</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>US\$(109,605,724)</u>	<u>US\$ 89,958,639</u>

(Concluded)

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

# REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (Expressed in United States Dollars)

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### 1. NATURE OF THE BUSINESS, PRESENTATION BASES AND SIGNIFICANT ACCOUNTING POLICIES

*Nature of Operations* - Refinadora Costarricense de Petróleo, S.A. (“RECOPE”, or the “Company”) was incorporated in accordance with the laws of the Republic of Costa Rica by means of a notarial instrument. As stipulated in Law Number 5508 of April 19, 1974: all the shares of Allied Chemical and Atico, S.A. were transferred and assigned to the government of Costa Rica for the price of one US dollar (US\$1.00). The central offices are located in Barrio Tournón, in San José de Costa Rica.

As a result of this transfer agreement, the government of Costa Rica received 19,300 shares of RECOPE’s capital stock. In this way, the President’s Cabinet holds Stockholders’ meetings as the highest authority at RECOPE. Upon decree No. 7927-H from December 15, 1977, RECOPE, S.A. is regulated as a state-owned company structured as a mercantile corporation, but under the oversight and monitoring of the Office of the Comptroller General of the Republic.

In accordance with Law Number 6588 of August 13, 1981, its main objectives are the following:

- Refining and processing of oil, gas, and other hydrocarbons, as well as their derivatives
- Manufacturing of petrochemical products and that of the directly or indirectly related products
- Commercializing and transporting oil and its derivatives by bulk
- Maintaining and developing the necessary facilities
- Executing, as appropriate and subject to prior authorization by the Office of the Comptroller General of the Republic, development plans for the energy sector in accordance with the Plan for National Development

Among other matters, the above law prohibits RECOPE, without prior legal authorization, from doing the following:

- Grant loans
- Make donations
- Award subsidies or grants
- Build inter-oceanic pipelines

Law No.7356 published in the official newspaper La Gaceta of September 6, 1993 states that RECOPE is declared a monopoly in behalf of the State to import, refine and distribute crude oil, derivative fuels, asphalt and naphtha. Article No.2 of the law establishes that the State grants the monopoly's administration to RECOPE, provided that its capital stock entirely belongs to the State. Likewise, the State shall not be able to assign, dispose, or give in guarantee any representative share of RECOPE.

RECOPE, S.A. is an entity regulated by the General Superintendence of Securities (SUGEVAL), the National Stock Exchange (Bolsa Nacional de Valores de Costa Rica, S.A.), and the Securities Market Regulatory Law, and it was authorized through resolution SGV-R-2702 of August 27, 2012, in order to issue debt securities to be marketed in the brokerage market of Costa Rica.

RECOPE's financial statements as of December 31, 2020 were duly approved by Management and the Board of Directors in the ordinary meeting held on March 1, 2021.

**Presentation Basis** - The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the IASB, and are presented in millions of US dollars.

The financial statements have been prepared on the historical cost basis (except for property, plant, vehicles and equipment, which are shown at their fair values). Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purpose in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16, and, measurements that have some similarities to fair value but are not fair value, such as net realizable value under IAS 2 or value in use under IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- **Level 1** - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **Level 2** - Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- **Level 3** - Inputs are unobservable inputs for asset or liability.

**Significant Accounting Policies** - The significant accounting policies used in the preparation of the financial statements are summarized as follows:

- a. **Currency and Transactions in Foreign Currency** - Management has determined that the Costa Rican colon is RECOPE's functional currency. The transactions denominated in US dollars are registered at the exchange rates in force as of the date of the transaction; RECOPE's assets are registered at the purchasing exchange rate and liabilities at the selling exchange rate. Exchange rate differences originated from the liquidation of assets and obligations denominated in such currency, as well as the adjustment of balances as of closing date, are registered as part of RECOPE's results. As of December 31, 2020 and 2019, the exchange rate of the colon regarding the US dollar for companies of the non-banking public sector was ¢615,74 and ¢573,53 for selling transactions, respectively, and ¢615,12 and ¢572,95 for purchasing transactions, respectively.

As of the date of issue of the financial statements, the current exchange rate of the Central Bank of Costa Rica was ¢618,26 and ¢609,30, for selling and purchasing transactions, respectively.

- b. **Currency Translation into U.S. Dollars** - The Company's functional currency is the Costa Rican colón (¢). Accordingly, the local currency financial statements were translated into United States Dollars using the following basis: assets and liabilities were translated at the closing exchange rate, stockholder's equity was measured using the historical exchange rates prevailing when each transaction took place. Income and expense items were translated at the weighted average rate for the period. The effect of translation is charged to stockholder's equity in a separate item denominated Foreign Exchange Translation Reserve.
- c. **Cash and Cash Equivalents** - Cash and cash equivalents include balance of cash on hand and due from banks, deposits at sight, and short-term (high liquidity) investments with an original maturity equal to or less than three months.
- d. **Financial Instruments** - Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

- **Financial Assets** - All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

*Classification of Financial Assets* - Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is 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.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets 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.

*Amortized Cost and Effective Interest Method* - The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

- The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.
- Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial



assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognized in profit or loss and is included in the “finance income - interest income” line item.

*Impairment of Financial Assets* - The Company recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at fair value through other comprehensive income, trade accounts receivable and contractual assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company recognizes expected lifetime credit losses for trade accounts receivable and contractual assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to debtors, general economic conditions and an evaluation of both current and expected future conditions as of the reporting date, including the time value of money where appropriate.

For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

*Significant Increase in Credit Risk* - In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information

that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to RECOPE's core operations.

*Measurement and Recognition of Expected Credit Losses* - The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used to determine the expected credit losses are consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 Leases.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

- **Financial Liabilities** - All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

The effective interest method is a method for calculating the amortized cost of a financial liability and for allocating interest expenses during the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that are an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, at the amortized cost of a financial liability.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid and payable is recognized in profit or loss.

- e. ***Inventories*** - Inventories are valued at the lower of cost or net realizable value. The net realizable value is the estimated selling price of a product in the normal course of operation, less the estimated necessary costs to perform the sale and a reasonable percentage of profit.

Finished product and works in progress are registered at the average manufacturing cost. The raw materials, materials, supplies, and spare parts are registered at the average cost, and merchandise in transit is registered at cost according to the suppliers' invoice. The raw materials inventory (petroleum and other raw materials), as well as materials and supplies are valued at the average weighted cost.

The following are recognized as direct shipping costs (CIF and other costs):

- Value of the invoice
  - Cost of maritime freight
  - Insurance cost
  - Payment of single fuel tax, according to Law No.8114
  - Payment of port services: JAPDEVA and independent inspectors
- f. ***Allowance for Obsolete Inventory*** - The amount is calculated based on the materials declared obsolete by the user in coordination with the warehouse department and according to a projection from the warehouse department regarding the lines declared obsolete in respect of the total of lines existing in the inventory.
- g. ***Single Fuel Tax*** - Upon enactment and enforcement of the Tax Simplification and Efficiency Law (Law No.8114), a single tax is instituted on fuel type - both domestically produced and imported fuel. The taxable event - as set forth in Article No.1 of this Law - takes place on two occasions:
- Upon import of finished goods prior to customs clearance.
  - For local production, manufacturing, cracking or refining, RECOPE shall settle and pay this tax within the first 15 calendar days of each month.

RECOPE is the single taxpayer and records this tax in its financial statements, as the taxable event takes place as part of Account 2102020401 Accounts Payable - Single Tax, and when imported as finished product, in account 1111060094 Prepaid Expenses-Single Tax.

The tax on fuel type is updated on a quarterly basis, subject to changes in the Consumer Price Index determined by the National Statistics and Censuses Institute (INEC). Under no circumstances shall the quarterly adjustment be above 3%.

The current decree for the rate is No.42674-H, published in Digital Supplement No.262 of October 31, 2020, effective from November 1, 2020 to January 31, 2021, which made an adjustment (0.52%), (No.41998-H, published in Digital Supplement No.196 of October 31, 2019, effective from November 1, 2019 to January 31, 2020, which made an adjustment (0.54%)).

This tax by product is broken down as follows:

Fuel	Tax by Liter (¢)	
	2020	2019
91 Plus gasoline	250,75	250,00
Premium gasoline	262,50	261,75
Diesel	148,00	147,75
Asphalt	51,00	50,75
Asphalt emulsion	38,50	38,25
Bunker (Fuel Oil)	24,00	24,25
G.L.P	51,00	50,75
Jet Fuel A1	150,25	150,00
Av Gas	250,75	250,00
Kerosene	71,50	71,50
Heavy diesel (gasoil)	49,00	48,75
Heavy naphtha	36,25	36,00
Light naphtha	36,25	36,00

The following are exempted from this tax payment (Article No.1 of Law No.8114):

- Fuel designated to supply commercial airlines and merchant ships or commercial passenger shipping lines, all providing international services.
  - Fuels used by the National Fishing Fleet, for non-sports fishing, in accordance with Law No.7384.
  - Product allocated for export.
  - Products sold to companies that enjoy the export free zone regime benefits.
  - Products sold to companies using the tax exemption benefit, under the specific legislation, in order to cover road construction service agreements.
  - Fuel purchased by international missions, embassies, the Red Cross, and the Fire Department.
- h. ***Property, Plant, Vehicles and Equipment*** - These assets are originally recorded at cost of acquisition and construction, as it corresponds, afterwards, any revaluation, less the accumulated depreciation or impairment of those assets is charged to such cost, so that they represent their fair value.

The land, the Moín port complex, the facilities, buildings, and heavy equipment and machinery kept for using in the production or supply of goods and services, or for administrative purposes, are shown in the statement of financial position at their revalued amounts, calculating the fair value as of the date of revaluation, less the subsequent depreciation or accumulated impairment losses. The revaluations will be done within a term of no less than five years, to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The last appraisal was prepared by a qualified expert in 2015. The appraisal was overall determined by using the Depreciated Replacement Cost Method, in accordance with the Going Concern criterion. The application of this criterion presupposes the existence of a permanent economic activity to which assets are incorporated, and it assumes: (1) that an abrupt interruption that neutralizes the going concern criterion will not take place, and (2) that the assets applied to the economic activity in normal conditions will generate sufficient income to absorb the amortization of such assets and other operating costs of the business.

In case of land, the basic criterion used was the market value, which considers that the value of a good is the one a buyer and a seller are willing to pay and receive for, respectively, in an arm's length transaction. The application of this criterion takes into consideration the existence of an active market for the asset that is intended to be appraised and of a significant number of potential buyers and sellers. This value, in all cases, is determined by a market research of the asset object of the appraisal within the appropriate environment, whether at a municipal, national, or international environment.

In the case of heavy equipment and machinery, the analysis was focused on the market research of machinery used with characteristics similar to those that are object of the valuation.

Any increase in the revaluation of such assets are recognized in other comprehensive income, and it accrues in equity, except if it reverses a decrease in its revaluation that has been previously recognized in profits or loss, in which case, the increase is credited to profits or loss to the extent the previous decrease is charged. A decrease in the carrying amount of the revaluation of such asset is registered in profits or loss to the extent that the balance, if any, kept in the property revaluation reserve regarding a previous revaluation of such asset, is exceeded.

Properties used during the course of the construction for purposes related to management, production, and supply, denominated "ongoing fixed assets", are registered at cost less any recognized impairment loss. Cost includes professional fees, and in case of those qualified assets, costs for capitalized loans, according to RECOPE's accounting policy. Such properties are classified in the corresponding categories of properties, plant, and equipment at the moment of their capitalization, and when they are ready for their intended use. Depreciation of these assets, as in the case of the other property assets, starts when the assets are ready for use.

Depreciation of revalued buildings is charged to profits or loss. In case of sale or subsequent disposal of revalued properties, surplus of revaluation attributable to the property revaluation reserve is directly transferred to retained earnings.

This account records the surplus from asset revaluation that RECOPE has made through the years and represents the net increase of value of the assets as a result of the revaluation, less the annual transfers of the depreciation expenses from revaluation, net of the deferred income tax recorded against retained earnings. Currently, the amount shown in this account corresponds to the revaluation of furniture, equipment and vehicles.

This account also includes the surplus from the increase in the value of assets that was determined by the technical experts in November 2015. As of the date of the financial statements, the Company is in the process of performing the corresponding technical appraisal according to the policy, and together with the technical appraisers.

Land is not subject to depreciation.

Furniture and equipment, as well as and vehicles, are stated at cost less accumulated depreciation and any recognized impairment loss.

An item of property, plant, and equipment will be written off at the time of disposal, or when no future economic benefits are expected to arise from the continued use of the asset. The profit or loss that arises from disposal or deregistration of an asset that belongs to properties, plant, and equipment is calculated as the difference between profit from sales and the carrying amount of the asset, and it is recognized in profit or loss.

- i. ***Investment at Moín Port Complex*** - The works corresponding to this investment are registered in the books of RECOPE, according to the provisions set forth in Agreement No.5. Article No.6 of the Ordinary Session No.89 of the President's Cabinet held on April 2, 1988. This resolution expressly acknowledges that works corresponding to that investment have clear title of ownership and domain in the name of RECOPE.

The resolution of the President's Cabinet was presented to the Board of Directors of RECOPE, and Management was notified, in accordance with Article No.12 of meeting number 2240-191 held on April 22, 1988.

- j. ***Depreciation*** - Depreciation on the revalued amounts and the historical cost is charged to the results of the period. The depreciation of fixed, historical and revalued assets is calculated using the straight-line method, taking technical useful life as a basis, as determined by expert appraisers for the accounts of property, plant and machinery. Whereas for the accounts of vehicles, furniture, and equipment, the useful life stated in the Regulations to the Income Tax Law is used. For the calculation of depreciation, the basis will be 100% of the cost, in accordance with an administrative decision related to the Integrated Management System.

Depreciation expense registration has been separated into assets registered at historical cost and expense of the revalued assets.

- k. ***Borrowing Cost*** - RECOPE capitalizes the interest on fixed assets in progress in accordance with IAS 23, which states that “borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset.” During 2020 and 2019, interest amounting to US\$3,040 thousands and US\$4,034 thousands, respectively, was capitalized.
  
- l. ***Investment in Joint Ventures*** - According to IFRS 11, a joint arrangement is a contractual agreement in virtue of which two or more participants start an economic activity that is subject to joint control through a separate vehicle. Joint control is the contractually agreed sharing of control of an arrangement, which only exists when the decisions on relevant activities require unanimous consent of the parties sharing control.

The contractual agreement gives the parties of a joint arrangement the right to the agreement’s net assets (that is to say, it is the vehicle, not the parties, who has the rights and obligation regarding liabilities related to the arrangement). No party has individual control on the arrangement.

- m. ***Income Taxes*** - It is determined according to the provisions established by the Income Tax Law No.7092 and Law No.7722 “Law on the Obligation of Government Institutions to Income Tax Payment.” Should any tax result from this calculation, it is charged to the results and credited to a liability account.

Deferred income tax is applied to those temporary differences between the carrying value of the assets and liabilities and the values used for tax purposes. A deferred tax liability represents a taxable temporary difference, and a deferred tax asset represents a deductible temporary difference. The asset or liability is not recognized if the temporary difference is originated from goodwill or from the initial registration of an asset or liability (different from a business combination) that does not affect the tax or accounting profit.

Deferred tax assets are originated from the deductible temporary differences associated with accounting provisions and estimates. The deferred tax liability is recognized by tax differences associated with the revaluation of fixed assets. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. The registered value of the deferred tax asset is reviewed as of the date of each balance sheet and adjusted if it is estimated that it is not likely to obtain enough taxable income or other sources of income that allow to fully or partially recover the asset.

Deferred income tax assets and liabilities are measured at the rate of tax which is expected to be applied during the period in which the asset will be realized or the liability paid. Deferred income tax assets and liabilities are shown net since they relate to the same fiscal entity and the right exists, and RECOPE expects to pay its tax liabilities and assets in a net way.

- n. ***Deferred Income*** - It corresponds to deposits made by the clients in behalf of RECOPE, which will be applied once the product is sold.
- o. ***Collective Bargaining Agreement*** - The Company entered into a Collective Bargaining Agreement with its employees for 2016-2019. Some of its most significant rights include: 8% contribution of the monthly payroll by the employer to the Employees' Savings and Loan Fund and a partial recognition of 35% of administrative expenses to the Employees' Savings and Loan Fund in accordance with Article 137, subparagraph f, and which is in force until 2022.
- p. ***Employees' Legal Benefits*** - Pursuant to Resolution No.11506-2013 of the Constitutional Court on August 30, 2013, published in judicial bulletin No.195 of October 1, 2013 and the opinion of the Company's Legal Department contained in official communication DJU-1604-2013 and in article No.142, subparagraph d) of the Collective Bargaining Agreement in force, severance pay cannot exceed twenty (20) months.

In accordance with transitional provision XXVII of Law No.9635 published in Supplement No.202 to La Gaceta No.225 of December 4, 2018 and the opinion of the Legal Department of RECOPE, according to official communication P-DJ-0019-2019, the following recommendations are made: to protect public funds, severance pay must be an amount of no more than 12 years according to a restrictive interpretation of the aforementioned transitional provision.

According to the policy, the Company retained an actuarial study for the calculation of retained earnings from employees' legal benefits as of December 31, whose primary objective is to obtain the amount of the coverage of the Actuarial Liability, including actuarial profits and losses, conclusions on the actuarial situation of the benefit plan and recommendations on adjustments to the provisions from Employees' Legal Benefits.

RECOPE registers a monthly provision charging operating expense for each cost center from which salaries are disbursed, calculated as 5.33% of same. In addition, 3% of monthly salaries are transferred to different pension funds selected for employees, and they will be deducted from the final termination payment made to employees.

- q. ***Contribution to the Costa Rican Social Security Fund Law No.9583 and Contribution to the National Emergency Commission Law No.8488*** - In accordance with Law No.9583, an amendment was made to Article 78 of Law No.7983 Funds for the Strengthening of the Disability, Old Age and Death Regime to establish a contribution of fifteen percent (15%) of the net profit of governmental public entities, whether or not in a competition regime, calculated in accordance with the annual Audited Financial Statements, as published in Supplement No.169 to La Gaceta No.176 of September 25, 2018.

According to decree No.41282-MP, Regulations to Article 46 of the National Emergency and Risk Prevention Law No.8488, all public entities will pay a fee of three percent (3%) in accordance with Supplement No.170 to La Gaceta No.176 of



September 25, 2018. To enforce such provision, the triggering event will be the generation of budget surplus throughout the fiscal year, or the profits, as applicable, generated during the respective fiscal year, and RECOPE establishes the net profit of the audited financial statements as the criteria for the calculation of this obligation.

- r. ***School Supplies Bonus and Vacation*** - It is calculated in accordance with the decrees issued by the Ministry of Labor every time there is a salary increase, and it is paid in January according to existing regulations. For 2019, 8.23% of the monthly payroll was provisioned, according to D.E. No.39202-MTSS-H published in the official newspaper La Gaceta No.170 of September 1, 2015.
- s. ***Christmas Bonus*** - RECOPE makes a monthly provision corresponding to payment of Christmas bonus to its employees in December, as established in the Code of Labor, Such provision corresponds to 8.33% per month.
- t. ***Employees' Vacation*** - RECOPE records the provision for vacations, in accordance with the studies conducted by the Compensation and Incentives Division of the Human Resources Department and the provisions of Article 27 of the collective bargaining agreement in force. The vacation period will be:
  - In the first four years of service, fifteen working days.
  - From the fifth to the ninth year, twenty-three working days.
  - From the tenth year and onwards, thirty working days.
- u. ***Legal Reserve*** - The commercial legislation of Costa Rica (Law No.3284 "Code of Commerce of Costa Rica." article No.143) establishes that every corporation must reserve 5% from its net profit up to reaching 20% of its capital stock.
- v. ***Investment Reserve*** - It corresponds to the reserves authorized by ARESEP with the aim to sustain the investment programs in compliance with Law 7722 and Law 7593 of ARESEP. As of December 31, 2020 and 2019, and due to the fact that RECOPE has not made any profits, the corresponding reserves have not been set aside.
- w. ***Surplus from Donation*** - It records donations received from Allied Chemical Corp, Petro Canada, and the Agency for International Development (AID) to perform the explorations of charcoal, as well as those from the Costa Rican Electricity Institute (ICE) to build the Castella-Garita oil pipeline and a debt remission from the Dutch government.
- x. ***Revenue Recognition*** - The sales of hydrocarbons are in cash, by which revenues are recognized when RECOPE has transferred to the buyer all significant risks and benefits related to the ownership of the sold fuels. RECOPE does not keep for itself any association with the common management of the goods sold. The amount of revenue can be reliably measured. It is probable that RECOPE receives the economic benefits associated with the sale, and the transaction costs can be reliably measured. Therefore, RECOPE records its income in accordance with IFRS 15.

This account records revenue from sales of hydrocarbons, which prices are defined by the Regulatory Authority. The following describes the procedure to establish the prices of fuels:

**Price Adjustment** - To modify the selling price of domestic fuels, RECOPE has two mechanisms:

- Normal price study.
- Extraordinary procedure using an adjustment formula.

These mechanisms are described in the following regulations:

- *Law No.6588 August 13, 1981*
- *Law No.7593 of the Regulatory Authority for Public Services*

The normal price study must be applied at least once a year, as well as when RECOPE may consider it necessary, this mechanism seeks to maintain prices to cover costs and expenses required for ordinary company activities.

The extraordinary adjustment formula is a mechanism to adjust sales prices that seeks to recover in the short term the funds necessary to cover the increased costs related to the import of crude oil and petroleum by products. This adjustment does not affect the operating costs and expenses of the Company.

The resolutions of extraordinary and ordinary adjustments to the institutional prices are made according to the model established by the Regulatory Authority, published in the official newspaper La Gaceta. The extraordinary adjustments through which the prices of all products are adjusted every second Friday of each month are resolved and applied one month afterwards; the last resolutions applied are the following, in colones per liter, without taxes:

2020 -

National Products / Institution Price	ARESEP RESOLUTIONS (¢/LT, WITHOUT TAX)				
	RIE-0120	RIE-0094	RIE-0087	RIE-0083	RIE-0076
Premium gasoline	226,90	246,62	283,70	275,20	246,52
91 Plus gasoline	215,80	233,71	265,85	258,14	238,64
Diesel 0.005% S (Automotive 500)	239,27	230,26	277,25	285,29	234,84
Diesel 0.50% S (Thermal)	253,87	248,98	255,09	257,43	248,73
Kerosene	230,01	221,12	232,23	236,75	217,95
Bunker	167,73	160,21	163,80	169,26	153,73
Bunker low Sulphur	185,82	176,97	180,36	187,40	173,82
IFO 380	224,24	221,55	224,00	227,44	222,52
Asphalts AC 20/30 and PG 70	189,90	185,65	194,17	197,82	175,95
Heavy diesel (gasoil)	206,75	200,33	203,98	211,21	196,52
Asphalt emulsion	121,78	118,70	124,38	126,35	112,81
G.L.P.	114,31	99,53	96,85	96,08	85,92
Av-Gas	564,27	582,91	603,81	585,70	526,98
Jet A-1	258,18	248,74	278,88	283,85	243,15
Heavy naphtha	209,24	206,45	210,49	212,42	200,42

RIE-0120-2020. Supplement No.283 of November 27, 2020. Includes K margin differentiated by type of product.

RIE-0094-2020. Supplement No.283 of October 27, 2020. Includes K margin differentiated by type of product.

RIE-0087-2020. Supplement No.258 of September 30, 2020. Includes K margin differentiated by type of product.

RIE-0083-2020. Supplement No.232 of September 2, 2020. Includes K margin differentiated by type of product.

RIE-0076-2020. Supplement No.194 of July 25, 2020. Includes K margin differentiated by type of product.

2019 -

National Products / Institution Price	ARESEP RESOLUTIONS (¢/LT, WITHOUT TAX)				
	RIE-0090	RIE-0087	RIE-0086	RIE-0070	RIE-0059
Premium gasoline	313,83	315,65	315,65	298,15	313,61
91 Plus gasoline	309,77	309,48	309,48	290,08	302,46
Diesel 0.005% S (Automotive 500)	341,50	346,00	346,00	327,86	321,29
Diesel 0.50% S (Thermal)	375,61	378,92	378,92	356,09	336,56
Kerosene	338,77	341,18	341,18	330,42	332,16
Bunker	170,82	214,97	214,97	195,26	222,02
Bunker low Sulphur	227,71	258,73	258,73	242,34	258,07
IFO 380	259,76	301,30	301,30	282,52	277,35
Asphalts AC 20/30 and PG 70	233,09	230,98	230,98	232,64	270,22
Heavy diesel (gasoil)	260,89	281,87	281,87	266,50	274,18
Asphalt emulsion	146,23	149,13	149,13	148,28	175,84
G.L.P.	96,86	88,21	88,21	81,34	81,19
Av-Gas	644,05	657,83	657,83	726,14	752,61
Jet A-1	375,18	377,64	377,64	358,54	360,30
Heavy naphtha	312,63	313,00	313,00	306,14	311,18

RIE-0090-2019. Supplement No.275 of December 9, 2019. Includes K margin differentiated by type of product.

RIE-0087-2019. Supplement No.263 of November 16, 2019. Includes K margin differentiated by type of product.

RIE-0086-2019. Supplement No.242 of November 4, 2019. Includes K margin differentiated by type of product.

RIE-0070-2019. Supplement No.213 of August 2, 2019. Includes K margin differentiated by type of product.

RIE-0059-2019. Supplement No.191 of August 28, 2019. Includes K margin differentiated by type of product.

- y. **Cost of Sales** - The cost of sale represents an issue of inventories intended for sale. The cost of inventory includes overall hydrocarbon production or purchase costs sold by RECOPE. Such sale results in regular income to RECOPE. Assessing inventory costs requires the moving average cost method, for it keeps costs as updated as possible, given inventory turnover and volatility of international hydrocarbon prices.
- z. **Mixing Unit** - This unit combines products to produce marine fuel and commercial gasoline among others. The costs obtained from the units above corresponding to new product are averaged products prepared from this mixing process include:
- Regular gasoline (Gas Ron 91 + colorants and additives).
  - Premium gasoline (M Gas Ron 95 + colorants and additives + MTBE).

The costs of the mixed products are averaged after with the initial inventory costs that correspond to the previous period. The usual losses in the products are part of the cost of sales.

- aa. **Expense Recognition** - Expenses are recognized on the accrual basis, as goods or services acquired are received or as accounting amortizations and reserves are registered, such as depreciation, asset impairment and provisions for losses.
- bb. **Leases** - The Company assesses whether a contract contains a lease at its origin. If any, the Company recognizes a right-of-use asset and a corresponding lease liability regarding all leases in which it is the lessee, except for short-term leases (12 months or less) and low-value assets (such as electronic tablets, personal computers and small pieces of office furniture and telephones). For these leases, the Company recognizes rental payments as an operating expense under the straight-line method over the term of the lease unless another method is more representative of the timing pattern of the economic benefits derived from the use of the leased assets. As of yearend, the Company does not have any leases for which it is required to recognize a right-of-use asset and a lease liability.
- cc. **Asset Impairment** - As of yearend, RECOPE evaluates the registered value of its assets to determine if there is any indication that such assets have suffered any impairment loss. When there exists such indication, the recoverable amount of the assets is estimated, in order to determine the amount of the loss, if any.
- dd. **Use of Estimates** - The financial statements are prepared according to the International Financial Reporting Standards, and consequently, they include amounts that are based on management's best estimate and judgment. The actual results could differ from such estimates. Estimates made by management include the useful life of property, plant, vehicles, and equipment, as well as the determination of provisions and the allowance for impairment from the investment in SORESCO.

ee. ***Adoption of New and Revised International Financial Reporting Standards (IFRS) -***

**Application of New and Revised International Financial Reporting Standards (“IFRS” or “IAS”) Mandatory for the Current Year** - In the current year, RECOPE implemented a series of new and revised IFRS, issued by the International Accounting Standards Board (IASB), which are mandatory and became effective for the years starting on or after January 1, 2020.

- *Initial Impact of the Application of Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, and IFRS 7)* - In September 2019, the IASB issued the Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged item or instrument affected by the current interest rate benchmark is modified as a result of ongoing interest rate benchmark reforms.

These amendments are not relevant for the Company since it does not apply hedge accounting to its exposure to benchmark interest rates.

- *Initial Impact of the Application of Other New and Amended IFRS That Are Effective for Reporting Periods Beginning on or After January 1, 2019* - In the current year, the Company has applied a series of amendments and interpretations to the IFRS below issued by the IASB and that are effective for reporting periods that begin on or after January 1, 2020. Their adoption has not had any material impact on the disclosures or amounts in these financial statements.
  - Amendments to References to the Conceptual Framework in IFRS - The Company has adopted the amendments included in the *Amendments to References to the Conceptual Framework in IFRS* for the first time this year. The amendments include resulting amendments to the affected standards that now refer to the new *Conceptual Framework*. Not all amendments, however, update such pronouncements with respect to the references and phrases of the *Conceptual Framework* that are related to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the *Conceptual Framework* they refer to (IASB *Conceptual Framework* adopted by the IASB in 2001, the 2010 IASB *Conceptual Framework*, or the new and revised 2018 *Conceptual Framework*) or to indicate the definitions of standards that have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The standards that have been amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

- Amendments to IFRS 3 - Definition of a Business - The Company has adopted the amendments to IFRS 3 for the first time this year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To qualify as a business, a set of activities or assets must include, as a minimum, an input and a substantive process that together significantly contribute to create output.

The amendment removes the assessment of whether market participants are capable of replacing any missing inputs or processes and of continuing to produce outputs. Additional guidance is introduced that helps to determine whether a substantive process has been acquired.

The amendments have introduced an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair values of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.

- Amendments to IAS 1 and IAS 8 - Definition of Materiality - The Company has adopted the amendments to IAS 1 and IAS 8 this year. The amendments made the definition of “material” in IAS 1 easier to understand and are not intended to modify the underlying concept of materiality in the IFRS. The concept of “obscuring” material information with immaterial information has been included as part of the new definition.

The threshold for materiality that influence users has changed from “could influence” to “could reasonably be expected to influence.”

The definition of “material” in IAS 8 has been replaced by a reference to the definition in IAS 1. In addition, the IASB amended other standards and the *Conceptual Framework* to include a definition of “material” to ensure consistency.

**New and Revised IFRS Standards not yet Effective** - At the date of authorization of these consolidated financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- I. *IFRS 17* - Insurance Contracts
- II. *IFRS 10 and IAS 28 (Amendments)* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- III. *Amendments to IAS 1 - Classification of Liabilities as Current or Non-Current*
- IV. *Amendments to IFRS 3 - References to the Conceptual Framework*
- V. *Amendments to IAS 16 - Property, Plant and Equipment - Proceeds before Intended Use*
- VI. *Amendments to IAS 37 - Onerous Contracts - Costs of Fulfilling a Contract*
- VII. *Annual Improvements to IFRS 2018 - 2020 Cycle - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 - Financial Instruments, IFRS 16 - Leases and IAS 41 - Agriculture.*

Management does not expect the adoption of the aforementioned standards to have a material impact on the Company's financial statements in future periods, except as indicated below:

- I. *IFRS 17 - Insurance Contracts - IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts*

IFRS 17 describes a general model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and explicitly measure the cost of such uncertainty, and take into account market interest rates and the impact of policyholder options and guarantees.

In June 2020, the IASB issued amendments to IFRS 17 to address concerns and implementation changes that were identified after IFRS 17 was published. The amendments defer the initial application date of IFRS 17 (incorporating the amendments) for the annual report beginning on or after January 1, 2023. Moreover, the IASB issued the Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the expiry date from the temporary exemption from applying IFRS 9 in IFRS 4 for annual periods beginning on or after January 1, 2023.

IFRS 17 must be applied retrospectively unless it is impractical, in which case the retrospective approach is modified or the fair value approach is applied.

In accordance with the transition requirements, the date of initial application is the beginning of the annual reporting period in which the Company first applies the Standard and the transition date is the beginning of the period immediately preceding the date of initial application.

- II. *Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* - The amendments to IFRS 10 and IAS 28 deal with a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that profit or loss resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or joint venture that is accounted for using the equity method is recognized in the parent's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. Similarly, profits and losses resulting from the remeasurement of retained investments in any former subsidiary (that has become an associate or a joint venture accounted for using the equity method) at fair value are recognized in the profit or loss of the former parent only to the extent of the unrelated investors' interest in the new associate or joint venture.

The effective date of the amendments has not yet been set by the IASB; however, earlier application is permitted. The Company's management anticipates that the application of these amendments may have an impact on the Company's financial statements in future periods should such transactions arise.

- III. *Amendments to IAS 1 - Classification of Liabilities as Current or Non-Current* - The amendments to IAS 1 affect only the presentation of liabilities as current and non-current in the statement of financial position, not the amount or timing of recognition of any asset, liability, income or expense is recognized, or the disclosures about those items.

The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period, specify that the classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights exist if there are covenants to be met at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

- IV. *Amendments to IFRS 3 - Reference to the Conceptual Framework* - The amendments update IFRS 3 so that it can refer to the 2018 *Conceptual Framework* instead of the *1989 Framework*. They also added a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether the acquisition date is a present obligation or exists as a result of a past event. For liens that are within the scope of IFRIC 21 *Liens*, the acquirer applies IFRIC 21 to determine whether the obligation gives rise to a liability to pay a lien that occurred at the acquisition date.

Finally, the amendments add an explicit statement that an acquirer should not recognize contingent assets acquired in a business combination.



The amendments are effective for business combinations for which the acquisition date is on or after the initial period of the first annual period that begins on or after January 1, 2022, and early application permitted if an entity also applies all other updated references (published together with the *Conceptual Framework*) at the same time or earlier.

- V. *Amendments to IAS 16 - Property, Plant and Equipment - Proceeds Before Intended Use* - The amendments prohibit deducting from the cost of an item of property, plant or equipment any proceeds from selling items produced before that asset is ready for use, i.e., proceeds while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The Company measures the costs of those items in accordance with IAS 2 *Inventories*.

The amendments also clarify the meaning of “testing whether an asset is functioning properly.” IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental or others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and costs included in profit or loss that relate to items produced that are not an output from the entity's ordinary activities, and which line item(s) in the statement of comprehensive income where such proceeds and costs are included.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The Company shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on January 1, 2022, with early application permitted.

- VI. *Amendments to IAS 37 - Onerous Contracts - Costs of Fulfilling a Contract* - The amendments specify that the “cost of fulfilling” a contract comprises the “costs that relate directly to the contract.” Costs that relate directly to a contract can either be incremental costs of fulfilling a contract (e.g. labor or materials) or an allocation of other costs that relate directly to fulfilling contracts (such as the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the Company has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the Company first applies the amendments. Comparatives should not be restated. Instead, the Company should recognize the cumulative effect of the initial application of the amendments as a balance sheet adjustment to retained earnings or such other component of equity, as appropriate, as of the date of initial application.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.

VII. *Annual Amendments to IFRS 2018-2020* - The Annual Amendments include amendments to four standards.

IFRS 9 - Financial Instruments - The amendment clarifies that when applying the “10%” test to assess whether a financial liability should be derecognized, an entity includes only the fees paid or received between the Company (the borrower) and the lender, including fees paid or received by the entity or the lender.

The amendments are applied prospectively to modifications or changes that occur on or after the date the entity first applies the amendment.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.

## 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31 is broken down as follows:

	<b>2020</b>	<b>2019</b>
Cash on hand and due from banks	<u>US\$109,605,724</u>	<u>US\$89,958,639</u>

As of December 31, 2020 and 2019, RECOPE does not maintain cash equivalents.

## 3. ACCOUNTS RECEIVABLE

A detail of accounts receivable is the following:

	<b>Note</b>	<b>2020</b>	<b>2019</b>
Short term:			
Government	15	US\$1,157,925	US\$7,804,451
Autonomous institutions	15	549,689	1,116,473
Clients		1,764	
Employees		49,566	37,527
Others		<u>583,922</u>	<u>340,137</u>
Total short term		<u>2,342,866</u>	<u>9,298,588</u>

(Continues)

	<b>Note</b>	<b>2020</b>	<b>2019</b>
Long term:			
Related parties	15	US\$1,138,051	US\$1,221,813
Others		<u>1,323</u>	<u>1,082</u>
Subtotal		1,139,374	1,222,895
Estimated credit loss		<u>(543,944)</u>	<u>(583,979)</u>
Total long term		<u>595,430</u>	<u>638,916</u>
Total account receivable		<u>US\$2,938,296</u>	<u>US\$9,937,504</u>

Balances are collected within 30 to 60 days.

#### 4. INVENTORIES

The inventory account is broken down as follows:

	<b>2020</b>	<b>2019</b>
Raw materials	US\$ 2,361,996	US\$ 4,353,484
Finished product	181,016,214	275,542,321
Semi-finished product	975,483	1,373,109
Inventory in transit	21,878,249	47,023,470
Material inventory (net of allowance for obsolete inventory for US\$186,773 thousands in 2020 and US\$201,039 in 2019)	<u>6,222,093</u>	<u>6,192,992</u>
Total	<u>US\$212,454,037</u>	<u>US\$334,686,415</u>

During 2020, US\$554 (thousands) of obsolete material was recognized directly in the income of the period.

Production costs included as part of the cost of inventories and the cost of sales amount to US\$7,051 (thousand) and ¢6,867 (thousands) as of December 31, 2020 and 2019, respectively.

Fuel costs recognized as part of the cost of inventories and the cost of sales amount to US\$1,596,508 (thousands) and US\$2,564,189 (thousands), during 2020 and 2019, respectively.

#### 5. PREPAID EXPENSES

Prepaid expenses are detailed as follows:

	<b>2020</b>	<b>2019</b>
Tax advances	US\$2,341,542	US\$2,886,810
Insurance	1,326,955	994,276
Others	<u>627,650</u>	<u>817,855</u>
Total	<u>US\$4,296,147</u>	<u>US\$4,698,941</u>

## 6. PROPERTY, PLANT, VEHICLES AND EQUIPMENT

The detail of property, plant, vehicles and equipment as of December 31, 2020 is the following:

Description	Initial Balance	Additions	Disposals	Capitalizations	Adjustments and Reclassifications	Foreign Exchange Translation Reserve	Final Balance
Fixed assets at cost:							
Properties	US\$ 10,918,422					US\$ (748,520)	US\$ 10,169,902
Moín Port complex	61,510,032			US\$ 48,506,410		(6,446,886)	103,569,556
Facilities	420,081,722		US\$ (4,809)	55,560,482		(31,353,110)	444,284,285
Building	66,211,387		(8,536)	6,633,784		(4,843,757)	67,992,877
Heavy machinery and equipment	46,178,203	US\$ 912,942	(139,564)	5,360,521		(3,447,779)	48,864,322
Furniture and equipment	65,339,762	4,794,580	(655,240)	1,594,900		(4,743,039)	66,330,962
Vehicles	23,603,928	39,309		981,405		(1,665,111)	22,959,531
Works in progress	194,428,750	18,444,086	(3,028)	(118,637,501)		(8,722,800)	85,509,506
Total at cost	<u>888,272,206</u>	<u>24,190,916</u>	<u>(811,177)</u>			<u>(61,971,002)</u>	<u>849,680,942</u>
Revalued fixed assets:							
Properties	146,782,983					(10,062,814)	136,720,169
Moín Port complex	19,037,914					(1,305,158)	17,732,756
Facilities	285,217,189		(199,822)			(19,544,086)	265,473,282
Building	55,456,307		77			(3,801,851)	51,654,532
Plant machinery and equipment	21,393,622		(24,174)			(1,465,544)	19,903,904
Furniture and equipment	3,233,991		(404,262)			(203,123)	2,626,606
Vehicles	2,805,882		(715)			(192,326)	2,612,840
Revalued total	<u>533,927,888</u>	<u>24,190,916</u>	<u>(628,896)</u>			<u>(36,574,903)</u>	<u>496,724,089</u>
Subtotal fixed assets	<u>1,422,200,094</u>	<u>24,190,916</u>	<u>(1,440,073)</u>			<u>(98,545,905)</u>	<u>1,346,405,031</u>
Depreciation at cost:							
Moín Port complex	(5,852,397)	(1,316,590)				461,744	(6,707,243)
Facilities	(116,642,824)	(14,824,845)	2,089	(20,756)		8,678,945	(122,807,390)
Building	(16,221,601)	(1,786,569)	7,411			1,193,878	(16,806,880)
Plant machinery and equipment	(15,803,279)	(2,445,697)	1,899			1,195,756	(17,051,322)
Furniture and equipment	(38,416,856)	(5,651,542)	544,658	(19,907)		2,869,393	(40,674,254)
Vehicles	(15,244,074)	(2,016,783)	461			1,137,766	(16,122,630)
Works in progress	(37,499)	(58,738)	14	46,031		3,154	(47,039)
Total accumulated depreciation of assets at cost	<u>(208,218,530)</u>	<u>(28,100,765)</u>	<u>556,532</u>	<u>5,369</u>		<u>(15,540,638)</u>	<u>(220,216,757)</u>
Revalued depreciation:							
Moín Port complex	(2,497,093)	(597,058)				198,639	(2,895,511)
Facilities	(65,259,313)	(13,091,692)	80,273			5,072,083	(73,198,648)
Building	(12,252,648)	(2,668,968)	527			962,667	(13,958,422)
Plant machinery and equipment	(5,522,865)	(905,064)	5,256			419,992	(6,002,682)
Furniture and equipment	(3,066,612)	(22,785)	370,371			194,254	(2,524,772)
Vehicles	(2,785,248)	(1,381)	692			190,976	(2,594,961)
Total accumulated depreciation of revalued assets	<u>(91,383,779)</u>	<u>(17,286,949)</u>	<u>457,119</u>			<u>7,038,612</u>	<u>(101,174,996)</u>
Total depreciation	<u>(299,602,309)</u>	<u>(45,387,714)</u>	<u>1,013,651</u>	<u>5,369</u>		<u>22,579,249</u>	<u>(321,391,753)</u>
Total depreciation	<u>US\$1,122,597,785</u>	<u>US\$(21,196,798)</u>	<u>US\$ (426,422)</u>	<u>US\$ 5,369</u>	<u>US\$</u>	<u>US\$(75,966,656)</u>	<u>US\$1,025,013,278</u>

The detail of property, plant, vehicles and equipment as of December 31, 2019 is the following:

Description	Initial Balance	Additions	Disposals	Capitalizations	Adjustments and Reclassifications	Foreign Exchange Translation Reserve	Final Balance
Fixed assets at cost:							
Properties	US\$ 10,267,550					US\$ 650,872	US\$ 10,918,422
Moín Port complex	57,305,503			US\$ 2,039,857	US\$ (1,483,096)	3,647,768	61,510,032
Facilities	386,053,423		US\$ (21,373)	7,833,099	1,491,810	24,724,763	420,081,722
Building	59,789,767			2,561,978		3,859,642	66,211,387
Heavy machinery and equipment	41,977,884	US\$ 1,486,929	(20,917)	32,626		2,701,681	46,178,203
Furniture and equipment	59,233,085	2,579,611	(1,706,818)	1,418,518	(1,605)	3,816,971	65,339,762
Vehicles	21,453,796	1,286,765	(517,483)			1,380,850	23,603,928
Works in progress	178,528,589	30,019,871		(13,886,078)	(11,671,810)	11,438,178	194,428,750
Total at cost	<u>814,609,597</u>	<u>35,373,176</u>	<u>(2,266,591)</u>		<u>(11,664,701)</u>	<u>52,220,725</u>	<u>888,272,206</u>
Revalued fixed assets:							
Properties	138,032,908					8,750,075	146,782,983
Moín Port complex	21,931,069		(4,170,270)			1,277,115	19,037,914
Facilities	264,283,066		4,070,481			16,863,642	285,217,189
Building	52,150,427					3,305,880	55,456,307
Plant machinery and equipment	20,153,453		(36,396)			1,276,565	21,393,622
Furniture and equipment	3,899,377		(888,471)			223,085	3,233,991
Vehicles	3,233,502		(615,890)			188,270	2,805,882
Revalued total	<u>503,683,802</u>		<u>(1,640,546)</u>			<u>31,884,632</u>	<u>533,927,888</u>
Subtotal fixed assets	<u>1,318,293,399</u>	<u>35,373,176</u>	<u>(3,907,137)</u>		<u>(11,664,701)</u>	<u>84,105,357</u>	<u>1,422,200,094</u>
Depreciation at cost:							
Moín Port complex	(4,692,683)	(985,751)			146,283	(320,246)	(5,852,397)
Facilities	(93,989,041)	(16,046,565)	20,812	(82,742)	(146,283)	(6,399,005)	(116,642,824)
Building	(13,531,467)	(1,783,966)				(906,168)	(16,221,601)
Plant machinery and equipment	(12,646,297)	(2,313,835)	20,721			(863,868)	(15,803,279)
Furniture and equipment	(32,223,454)	(5,382,883)	1,479,689	(137,905)		(2,152,303)	(38,416,856)
Vehicles	(12,837,345)	(2,016,835)	465,949			(855,843)	(15,244,074)
Works in progress	(150,839)	(100,852)		220,647		(6,455)	(37,499)
Total accumulated depreciation of assets at cost	<u>(170,071,126)</u>	<u>(28,630,687)</u>	<u>1,987,171</u>			<u>(11,503,888)</u>	<u>(208,218,530)</u>
Revalued depreciation:							
Moín Port complex	(2,724,644)	(699,079)			1,088,778	(162,148)	(2,497,093)
Facilities	(46,343,106)	(14,540,424)	72,725		(1,088,778)	(3,359,730)	(65,259,313)
Building	(8,913,988)	(2,700,343)				(638,317)	(12,252,648)
Plant machinery and equipment	(4,171,143)	(1,094,177)	35,583			(293,128)	(5,522,865)
Furniture and equipment	(3,644,474)	(30,702)	818,229			(209,665)	(3,066,612)
Vehicles	(3,161,314)	(9,159)	570,400			(185,175)	(2,785,248)
Total accumulated depreciation of revalued assets	<u>(68,958,669)</u>	<u>(19,073,884)</u>	<u>1,496,937</u>			<u>(4,848,163)</u>	<u>(91,383,779)</u>
Total depreciation	<u>(239,029,795)</u>	<u>(47,704,571)</u>	<u>3,484,108</u>			<u>(16,352,051)</u>	<u>(299,602,309)</u>
Total depreciation	<u>US\$1,079,263,604</u>	<u>US\$(12,331,395)</u>	<u>US\$ (423,029)</u>	<u>US\$</u>	<u>US\$(11,664,701)</u>	<u>US\$ 67,753,306</u>	<u>US\$1,122,597,785</u>

During 2019, the Company made adjustments to its assets in progress recognizing an impairment expense of €6.865 million. These assets belonged to the Refining and Refinery Expansion Project and the effect of the impairment was recorded in other expenses- net in the statement of profit and loss.

## 7. INVESTMENTS IN JOINT VENTURE

Investment in joint venture corresponds to a participation of 50% that RECOPE has in the stockholders' equity of Soresco, S.A. (Note 22.3)

The movement of year in the investment is the following:

	Note	2020	2019
Initial balance		US\$ 10,571,763	US\$ 41,128,406
Effect from participation		(454,297)	(41,646)
Return on investment		(14,250,000)	
Foreign exchange translation adjustment		6,934,737	1,732,439
Allowance for investment impairment		<u>(2,802,203)</u>	<u>(32,247,436)</u>
Final balance	15	<u>US\$</u>	<u>US\$ 10,571,763</u>

A detail of assets, liabilities, and results of Soresco, S.A. as of December 31, 2020 and 2019 is the following (in thousands):

	2020 (Unaudited)	2019 (Unaudited)
Assets:		
Currents	US\$ 31,127	US\$ 36,315
Non currents		<u>273</u>
Total assets	<u>US\$ 31,127</u>	<u>US\$ 36,588</u>
Liabilities:		
Currents	<u>US\$ 180</u>	<u>US\$ 4,548</u>
Total liabilities	<u>180</u>	<u>4,548</u>
Stockholders' equity:		
Capital stock	10	10
Additional paid-in capital	100,000	100,000
Accumulated losses	<u>(69,063)</u>	<u>(67,970)</u>
Total stockholders' equity	<u>30,947</u>	<u>32,040</u>
Total liabilities and stockholders' equity	<u>US\$ 31,127</u>	<u>US\$ 36,588</u>
Expenses:		
Operating expenses	US\$ (1,559)	US\$ (1,183)
Net financial income	<u>475</u>	<u>1,071</u>
(Loss) profit	<u>US\$ (1,084)</u>	<u>US\$ (112)</u>

As of December 31, 2020 and 2019, the additional paid-in capital by RECOPE is US\$50,000,000.

Since 2016, the Company has approved actions to terminate the Joint Venture Agreement between RECOPE and China National Petroleum Corporation International, Ltd. (CNPCI), by means of arbitration at the Arbitration Court of the International Court of Arbitration of the International Chamber of Commerce (ICC), based in London, England. This court ordered the termination of the Joint Venture Agreement between RECOPE and China National Petroleum Corporation International Ltd. (CNPCI) (Note 22.3). The liquidation process has begun and the Company is waiting for a receiver or liquidator to estimate the market and realization values of the assets recorded, as well as to recognize the liabilities pending recording until the closing and liquidation of the joint venture. It is at this point that the exact amount of the remaining recoverable cash and the remaining balance of the final loss from the investment can be estimated, and therefore an impairment allowance of US\$33,122,177 was created.

During 2020, the liquidation process began and according to Minute No. 21 of the Stockholders' Meeting of SORESCO, S.A. of December 9, 2020, based on the liquidator's report, duly approved by the stockholders of SORESCO, S.A., it was agreed to refund US\$14,250 (thousand), ¢8.663 (million) at an exchange rate of ¢607,93, as partial liquidation of the investment. Consequently, a foreign exchange translation adjustment of US\$6,815,909 was generated.

In December 2020, US\$14,250 (thousand) were transferred to the Ministry of Finance, as instructed in official communication P-0912-2020 dated December 14, 2020 and in compliance with the provisions of Law 9925 on the Efficiency of Public Fund Management, which establishes in its transitional provision IV that: “for a single time, Refinadora Costarricense de Petróleo (RECOPE) shall transfer, to the Ministry of Finance, the total amount resulting from the final liquidation of Sociedad Reconstructora Chino Costarricense (SORESCO).”

At the end of December 2020, since no additional resources are expected to be recovered, Management created an additional allowance for impairment amounting to ¢1.644 (million), equivalent to the total balance of the investment after the aforementioned refund.

## 8. INVESTMENTS IN FINANCIAL ASSETS

A detail of investments in financial assets is as follows:

	<b>2020</b>	<b>2019</b>
Financial assets measured at amortized cost:		
Securities in colones, interest between 3.30% and 13.32% (2019: 12.01% y 13.05%) per annum and maturing between January 25, 2021 and June 15, 2026 (2019: June 8, 2020 and June 15, 2026)	US\$23,149,268	US\$14,945,253

(Continues)

	<b>Note</b>	<b>2020</b>	<b>2019</b>
Securities in dollars, interest between 2.60% and 9.59% (2019: 8,91% and 9.59%) per annum and maturing between May 8, 2020 and March 30, 2028 March 26, 2021 and June, 2029 (2019: December 2, 2022 and June 29, 2029 May 8, 2020 and March 30, 2028)		<u>US\$62,150,416</u>	<u>US\$38,139,696</u>
Total	15	<u>US\$85,299,684</u>	<u>US\$53,084,949</u>

These investments have been made by the Company to anticipate the reserve of funds to be used at the time the bonds mature (Note 13). With Official Communication JD-0274-2017 the agreement reached by the Board of Directors is communicated, according to article 6 of the ordinary meeting #5013-219 held on December 18, 2017.

Of the investments, €346 million and US\$1,368 thousand are pledged as collateral in other governmental institutions.

The movement of investments of the year is as follows (in thousands):

	<b>2020</b>	<b>2019</b>
Initial balance	US\$53,085	US\$33,675
Increase	32,870	19,361
Exchange rate translation effect	<u>(656)</u>	<u>49</u>
Final balance	<u>US\$85,299</u>	<u>US\$53,085</u>

## 9. OTHER ASSETS

Other assets are broken down as follows:

	<b>2020</b>	<b>2019</b>
Software licenses	US\$ 18,337,550	US\$ 17,865,816
Service stations	5,852,769	6,196,829
Security deposits	2,525,240	2,338,860
Idle assets	12,079,646	14,609,689
Others	<u>745,259</u>	<u>800,286</u>
Subtotal	39,540,465	41,811,480
Accumulated amortization of software	<u>(15,280,357)</u>	<u>(15,304,872)</u>
Total	<u>US\$ 24,260,108</u>	<u>US\$ 26,506,608</u>

Service stations are idle since there are lawsuits that are pending resolution, filed by former users of the stations.



Non-operating assets correspond to real estate that RECOPE is not using and were transferred from property, plant and equipment.

The movement of idle assets is as follow:

	<b>2020</b>	<b>2019</b>
Initial balance	US\$14,609,689	US\$18,303,914
Allowance for impairment		(2,674,002)
Accumulated depreciation	(1,450,915)	(2,136,747)
Foreign exchange translation reserve	<u>(1,079,128)</u>	<u>1,116,524</u>
Final balance	<u>US\$12,079,646</u>	<u>US\$14,609,689</u>

The movement of the accumulated amortization of software is as follows:

	<b>2020</b>	<b>2019</b>
Initial balance	US\$15,304,872	US\$13,900,212
Increases	1,024,722	509,683
Foreign exchange translation reserve	<u>(1,049,237)</u>	<u>894,977</u>
Final balance	<u>US\$15,280,357</u>	<u>US\$15,304,872</u>

## 10. ACCOUNTS PAYABLE

Accounts payable are broken down as follows:

	<b>Note</b>	<b>2020</b>	<b>2019</b>
Supplier of oils and byproducts		US\$ 77,555,232	US\$126,426,143
Law No.8114 Single Tax	15	43,608,212	59,321,408
Trade		2,265,863	2,378,762
Others		<u>9,552,950</u>	<u>12,214,465</u>
Total		<u>US\$132,982,257</u>	<u>US\$200,340,778</u>

## 11. ACCUMULATED EXPENSES AND OTHER LIABILITIES

The accumulated expenses and other liabilities account is broken down as follows:

	<b>2020</b>	<b>2019</b>
Provision for school supplies bonus	US\$3,949,807	US\$4,317,872
Provision for Christmas bonus	336,059	352,500
Provision for vacations	1,142,195	1,226,257
Accumulated interest	<u>3,702,814</u>	<u>3,896,611</u>
Total	<u>US\$9,130,875</u>	<u>US\$9,793,240</u>

## 12. LONG TERM DEBT

A detail of the long-term debt is presented as follows:

	Notes	2020	2019
Scotiabank & Trust (Cayman) Ltd., in dollars, annual interest rate of Libor rate at six months plus 3.8%, maturity in 2020, guaranteed through promissory note	21.1		US\$ 2,142,857
BNP Paribas, in dollars, interest rate of, Libor rate at six months plus 2.75%, maturity in 2027, guaranteed through insurance	21.2	<u>US\$10,267,393</u>	<u>11,846,990</u>
Subtotal		10,267,393	13,989,847
Less: Current portion of the long-term debt		<u>(1,579,599)</u>	<u>(3,722,455)</u>
Total		<u>US\$ 8,687,794</u>	<u>US\$10,267,392</u>

Scheduled maturities of long-term debt as of December 31 are the following:

Year	2020	2019
2020		US\$ 3,722,455
2021	US\$ 1,579,599	3,722,455
2022	1,579,599	3,722,455
2023	1,579,599	2,822,483
2024	1,579,599	
2025 and thereafter	<u>3,948,998</u>	<u>                    </u>
Total	<u>US\$10,267,393</u>	<u>US\$13,989,848</u>

## 13. LONG-TERM BONDS PAYABLE

Long-term bonds payable as of December 31 are described below:

	2020	2019
Series A1 bonds payable	US\$ 50,000,000	US\$ 50,000,000
Premium in placement	199,190	290,612
Series A2 bonds payable	50,000,000	50,000,000
Premium in placement	72,602	79,961
Series A4 bonds payable	40,000,000	40,000,000
Discount in placement	(47,956)	(52,658)
Series A5 bonds payable	32,481,242	34,871,759
Premium in placement	476,078	593,721
Series A6 bonds payable	9,203,560	9,880,913
Premium in placement	<u>1,381</u>	<u>1,778</u>
Total	<u>US\$182,386,097</u>	<u>US\$185,666,086</u>

RECOPE, S.A. is an entity regulated by the General Superintendence of Securities (SUGEVAL), the Bolsa Nacional de Valores de Costa Rica, S.A. (Costa Rica's National Stock Exchange) and the Securities Market Regulation Law, and it was authorized through Resolution SGV-R-2702 of August 27, 2012, *public offer and registration in the National Registry of Securities and Intermediaries* to issue standardized debt bonds for US\$200 million dollars to be traded in the stock market of Costa Rica for the financing of a program of strategic investments. It is also authorized in the secondary market by the Financial System Superintendence of El Salvador per Certification No. SAVC-025917. The following is a detail of the characteristics of bonds payable:

Instrument	ISIN Code	Series in Placement	Amount Auctioned	Risk Rating	Issue Date	Maturity Date	Term of Issue	Face Value	Value Traded	Type of Rate	Gross Interest Rate	Net Interest Rate	Weighted Yield
Standardized Bonds	CRRECOPB0012	Series A1	<u>US\$ 50,000,000</u>	(1)	12/05/2012	12/05/2022	10 years	<u>US\$1,000</u>	<u>US\$1,000</u>	Fixed	5.98%	(2)	5.299%
Standardized Bonds	CRRECOPB0020	Series A2 (3)	<u>US\$ 50,000,000</u>	(1)	04/03/2013	04/03/2028	15 years	<u>US\$1,000</u>	<u>US\$1,000</u>	Fixed	6.36%	(2)	5.83%
Standardized Bonds	CRRECOPB0046	Series A4 (3)	<u>US\$ 40,000,000</u>	(1)	07/02/2014	07/02/2029	15 years	<u>US\$1,000</u>	<u>US\$1,000</u>	Fixed	7.07%	(2)	6.50%
Standardized Bonds	CRRECOPB0053	Series A5 (3-4-5)	<u>¢20.000.000.000</u>	(1)	03/24/2015	03/24/2025	10 years	<u>¢1.000,00</u>	<u>¢1.000,00</u>	Fixed	11.96%	(2)	10.99%
Standardized Bonds	CRRECOPB0061	Series A6 (6)	<u>¢ 5.667.000.000</u>	(1)	06/16/2016	06/16/2026	10 years	<u>¢1.000,00</u>	<u>¢1.000,00</u>	Fixed	9.946%	(2)	9.150%

Notes:

- (1) AAA (cri) FITCH Costa Rica, AAA Pacific Credit Rating
- (2) Net interest rate: Gross rate less income tax (DGT-951-2012),
- (3) According to the Regulations on the Public Offer of Securities and Official Communication DCP-211-2013, RECOPE allocated the totality of Series A2.
- (4) It corresponds to the second placement of the issue of Series A5, amounting to ¢4.020.000.000 (US\$6,591,569) and made on August 25, 2015, complementing the first placement for ¢12.000.000.000 (US\$19,676,324) made on March 24, 2015.
- (5) It corresponds to the third placement of the issue of Series A5, amounting to ¢3.928.000.000 made on November 23, 2015, complementing the first and second placements for ¢16.020.000.000 made on March 24, 2015 and August 25, 2015.
- (6) It corresponds to the first placement of the issue of Series A6, amounting to ¢5.667.000.000 made on June 16, 2016.

Risk rating AAA (cri) refers to securities issuances or debt obligations with the lowest likelihood of default risk in comparison with all other issues or obligations of the country. This rating was awarded by FITCH COSTA RICA, S.A. on December 22, 2020.

During 2020 and 2019, there have not been any bond placements.

The scheduled maturities of bonds are as follows:

<b>Year</b>	<b>2020</b>
2022	US\$ 50,199,190
2025	32,957,320
2026	9,204,940
2028	50,072,602
2029	<u>39,952,044</u>
Total	<u>US\$182,386,097</u>

#### **14. INCOME TAXES**

Based on the ruling of the Administrative Tax Court No.TFA-504-2011, the provisions established in Law No.7092 “Income Tax Law”, published in the official newspaper La Gaceta No.96 of May 19, 1988 and Law No.7722 “Obligation of Government Agencies to Pay Income Tax”, published in the official newspaper La Gaceta No.10 of March 15, 1998, regarding the obligation of RECOPE to pay income tax, were ratified at the administrative channels. For those matters not included in this law (7722), the application of the tax will be governed by the Income Tax Law No.7092. Regarding the income tax returns of the last two fiscal years (2017-2018), they were timely filed in accordance with the current regulations.

Through resolution TFA No.428-P-2018, on July 24, 2018, the Administrative Tax Court notified RECOPE about the resolution adopted, partially admitting the appeal filed by RECOPE. Consequently, it stated its position regarding the total deduction of the Income Tax Investment Reserve in accordance with the amount approved by ARESEP (Note 18).

Based on official communication No.DGT-1195-2019, of November 21, 2019, the Attorney General's Office of the Republic files an ordinary proceeding leading to a declaratory judgement (damage lawsuit) against the Company, against the resolution of the Administrative Tax Court mentioned above. Furthermore, RECOPE answered negatively to such lawsuit, on December 19, 2019. On January 17, 2020, the Contentious Court ruled on the matter and summoned the parties to a preliminary, oral and public hearing, indicating September 14, 2020 as the date for the hearing.

On September 28, 2020, a preliminary hearing was held where RECOPE's expert report contained in file 19-007658-1027-CAP-1 was admitted as evidence.

***Income Tax Calculation*** - Income tax is calculated on the net profit, less non-taxable income plus non-deductible expenses, less the investment reserve at the end of the fiscal year to get the net income (taxable income or taxable surplus) to which 30% is applied and corresponding to the current rate. It is filed and paid in March of the following year.

	<b>2020</b>	<b>2019</b>
(Loss) Profit before income tax	US\$(30,713,648)	US\$ (4,288,949)
Plus: Nondeductible expenses	37,349,152	76,104,359
Less: Other deductible	(7,637,930)	(92,415,717)
Less: Nontaxable income	<u>(11,078,166)</u>	<u>(1,117,422)</u>
Taxable gain	<u>US\$</u>	<u>US\$</u>
Current income taxes (30% on taxable gain)	<u>US\$</u>	<u>US\$</u>
Deferred taxes	<u>US\$ 3,358,930</u>	<u>US\$ 280,365</u>

As of December 31, 2020 and 2019, the Company's management considers that the items included in the calculation of the tax base for the determination of the income tax will not generate any uncertainty regarding the income tax treatment as required by IFRIC 23 - Uncertainty over Income Tax Treatments.

**Deferred Income Tax Asset** - The movement of the deferred income tax assets are detailed below:

	<b>2020</b>	<b>2019</b>
Balance at the beginning of year	US\$6,802,255	US\$10,316,681
Translation adjustment	(475,842)	547,716
Severance benefit accrual	<u>203,179</u>	<u>(4,062,142)</u>
Balance at the end of year	<u>US\$6,529,592</u>	<u>US\$ 6,802,255</u>

**Deferred Income Tax Liability** - The movement of the deferred income tax liability are detailed below:

	<b>2020</b>	<b>2019</b>
Balance at the beginning:	US\$ 117,026,243	US\$(114,243,349)
Effect from revalued fixed assets	(43,738,571)	
Effect from depreciation expenses on revalued assets	5,424,445	6,071,084
Exchange rate differences in depreciation rates and recognized in results	(2,268,694)	(1,728,577)
Translation adjustment	<u>9,927,072</u>	<u>(7,125,401)</u>
Deferred income tax liability of the year	<u>US\$(147,681,991)</u>	<u>US\$(117,026,243)</u>
Deferred income tax of the year - net	<u>US\$(141,152,400)</u>	<u>US\$(110,223,988)</u>

With the entry into force of Law No. 9635 Law for the Strengthening of Public Finances and its regulations, the Company recognized the deferred income tax corresponding to the revaluation surplus arising from the land (non-depreciable assets), in the amount of €25,668 thousand.

As of December 31, 2020 and 2019, the Company's management has estimated that it will have future taxable income against which to charge the deductible temporary differences existing at that date, and that it still has the legal power and rights to use and apply these deductible temporary differences.

**Income Tax Liability** - The movement of the income tax liability are detailed below:

	<b>2020</b>	<b>2019</b>
Balance at the beginning of year:		
Current income tax		
Application of credit balances		US\$(2,346,277)
Translation adjustment		
Income tax asset of the year	<u>US\$</u>	<u>US\$(2,346,277)</u>

**Transfer Pricing** - The resolution denominated Transfer Pricing Informative Return No.DGT-R-44-2016, published in Digital Supplement No.182 of September 13, 2016, states in Article 1 that taxpayers required to file an annual income tax return as stipulated in Article 2 of this resolution must file an annual transfer pricing informative return with the Tax Authorities in accordance with the sample return and instructions given therein and in accordance with the following statement: “Taxpayers classified as “national large taxpayers” or “large territorial companies” that perform national or cross-border operations with related parties.”

Regarding the foregoing, RECOPE’s Management has not filed any annual transfer pricing informative return because it considers that it would not apply, so it will submit an explanation about the filing of such return to the corresponding authorities, based on the following:

- a. The Company does not conduct transactions with related parties and has not maintained any type of commercial relationship through the purchase or sale of goods and services.
- b. Fuel sales are governed by the Public Services Regulatory Authority (ARESEP); therefore, RECOPE does not have the power to set the prices to sell its products, whether with related or unrelated parties.
- c. The purchases are made from entities with which it has no relationship under the terms set forth by Transfer Pricing Decree No.37898. It should be clarified that neither the Costa Rican Transfer Pricing regulations, nor the OECD Transfer Pricing Guidelines, on which the local regulations are based. These guidelines are not designed for the evaluation of governmental entities, which makes it difficult to interpret the term “related parties” in the public sector. However, the interpretation is that RECOPE's operations with entities of the Central Government or Local Government do not constitute related transactions.
- d. Prices are governed by another governmental institution (ARESEP), so they do not require a Transfer Pricing analysis; therefore, it would not be necessary to file an informative return.

## **15. BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

Balances with related parties are broken down as follows:

	<b>Notes</b>	<b>2020</b>	<b>2019</b>
Investment in joint venture:			
Soresco, S.A.	7	<u>US\$</u>	<u>US\$10,571,763</u>
Investment in financial assets:			
Ministry of Financing	8	<u>US\$85,299,684</u>	<u>US\$53,084,949</u>
Account receivable:			
Ministry of Financing	3	US\$ 1,157,925	US\$ 7,804,451
JAPDEVA	3	<u>549,689</u>	<u>1,166,473</u>
Total		<u>US\$ 1,707,615</u>	<u>US\$ 8,970,924</u>
Account receivable - long term:			
JAPDEVA		US\$ 643,044	US\$ 690,373
National Concession Board		494,168	530,539
Others		<u>839</u>	<u>901</u>
Total	3	<u>US\$ 1,138,051</u>	<u>US\$ 1,221,813</u>

The account receivable from JAPDEVA corresponds to a payment for using a tow truck, which generates an interest equal to the basic borrowing rate set by the Central Bank of Costa Rica of 6.15% (2019:6.15%). This agreement expires on June 1, 2019.

For the other accounts receivable, there is no expiration date or guarantee of their balance, and they do not earn interest.

	<b>2020</b>	<b>2019</b>
Accounts payable:		
Ministry of Financing	US\$42,270,807	US\$59,321,408
Government	<u>1,337,405</u>	<u>1,436,637</u>
Total	<u>US\$43,608,212</u>	<u>US\$61,198,982</u>

Accounts payable to the Ministry of Finance include the Single Tax Law No.8114 (Note 10), income tax payable and 2% withholdings.

The transactions with related parties are the following:

	<b>2020</b>	<b>2019</b>
Sales:		
Costa Rican Institute of Electricity		US\$20,907,894
To the Ministries of the Government		
of Costa Rica	<u>US\$ 228,341</u>	<u>244,197</u>
Total	<u>US\$ 228,341</u>	<u>US\$21,152,091</u>
Cost of sales:		
Costa Rican Institute of Electricity		US\$19,107,647

(Continues)

	<b>2020</b>	<b>2019</b>
To the Ministries of the government of Costa Rica	<u>US\$ 201,077</u>	<u>US\$ 223,171</u>
Total	<u>US\$ 201,077</u>	<u>US\$19,330,818</u>
Expenses:		
Seating fees to the Board of Directors	US\$ 37,489	US\$ 27,900
Salaries to directors and managers	<u>1,409,241</u>	<u>1,310,338</u>
Total	<u>US\$1,446,730</u>	<u>US\$ 1,338,238</u>

## 16. CAPITAL STOCK

RECOPE's capital stock amounts to US\$370,515,185 (¢200.103.000.000), represented by 30,000 common and nominative shares of ¢6.670.100 (US\$12,350.51) each.

## 17. SURPLUS FROM DONATION

As of December 31, surplus from donation is broken down as follows:

	<b>2020</b>	<b>2019</b>
Surplus donated by Allied Chemical Corp, PetroCanada donation		US\$ 3,223,159 25,544,828
AID donation (carbon exploration)		370,098
Debit remission - Government of The Netherlands		4,550,828
Castella pipe duct		<u>1,119,403</u>
Total	<u>US\$</u>	<u>US\$34,808,316</u>

Based on Official Communication JD-0201-2020 of June 9, 2020, Article No.5, of Ordinary Meeting No.5157-129, held on Wednesday, June 3, 2020, the agreement adopted by the Board of Directors was communicated, authorizing the corresponding reclassification to eliminate the balance of the donated surplus account against the retained earnings.

## 18. INVESTMENT RESERVE

Through resolution TFA No.428-P-2018 of July 24, 2018, the Administrative Tax Court notifies RECOPE about the resolution adopted by that instance regarding the deductibility of the Investment Reserve in the determination of the Income Tax, concluding that such total deduction is appropriate, according to the amount approved by ARESEP.

As of December 31, 2020 and 2019, and due to the fact that RECOPE has not made any profits, the corresponding reserves have not been set aside.



## 19. SALES, OPERATING EXPENSES AND EXTERNAL TRANSFERS

The sales are as follows:

	<b>2020</b>	<b>2019</b>
Diesel	US\$ 723,967,303	US\$ 998,040,992
91 Plus gasoline	458,370,733	621,300,012
Premium gasoline	492,217,517	689,163,522
JET - 1	76,416,397	191,900,700
Other derivatives	<u>140,420,931</u>	<u>216,144,026</u>
Total sales	1,891,392,880	2,699,027,986
Refunds	<u>(474,213)</u>	<u>(299,070)</u>
Total	<u>US\$1,890,918,668</u>	<u>US\$2,698,726,916</u>

Operating expenses by nature are as follows:

	<b>2020</b>	<b>2019</b>
Salaries	US\$ 73,364,401	US\$ 76,460,920
Non-personal services	44,978,361	48,302,462
Materials and supplies	10,979,085	13,193,007
Depreciation and amortizations	48,106,816	50,359,521
Current transfers	<u>(3,111,236)</u>	<u>(10,139,674)</u>
Total	<u>US\$180,539,898</u>	<u>US\$178,176,236</u>

Current transfers include expenses for benefits, subsidies and severance, among others.

External transfers for 2020 and 2019 amount to US\$54,349,683 and US\$11,125,160, respectively, and include the regulatory fee on the fuel supply and contributions to Costa Rican governmental institutions, which are established by law.

Transfers are detailed as follows:

	<b>2020</b>	<b>2019</b>
Law No.9840 Contribution to the Ministry of Finance due to the COVID-19 pandemic	US\$27,189,569	
Law 9925 on the Efficiency of Public Fund Management, Ministry of Finance (SORESCO)	14,762,102	
Law 8488 National Emergency Commission		
Law # 7983 Contributions to C.C.S.S.	8,520,201	US\$ 7,299,327
Others	<u>3,877,809</u>	<u>3,825,833</u>
Total	<u>US\$54,349,683</u>	<u>US\$11,125,160</u>

## 20. FINANCIAL INSTRUMENTS

A summary of the principal disclosures regarding RECOPE's financial instruments is the following:

### 20.1 SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies and adopted methods, including the criteria for recognition, basis for measurement, and basis on which income and expenses for each type of financial asset and liability is recognized are indicated in Note 1 to the financial statements.

### 20.2 FINANCIAL INSTRUMENTS - CATEGORIES

Financial instruments are categorized as follows:

	<b>2020</b>	<b>2019</b>
Financial assets:		
Cash	US\$109,605,724	US\$ 89,958,639
At amortized cost:		
Cash equivalents - held to maturity		
Accounts receivable	2,936,973	9,937,504
Security deposits	2,525,240	2,388,860
Investments on financial assets	<u>85,299,684</u>	<u>53,084,949</u>
Total assets	<u>US\$200,367,622</u>	<u>US\$155,369,952</u>
Financial liabilities:		
At amortized cost:		
Accounts payable	US\$132,982,257	US\$200,340,778
Long Term Debt	10,267,393	13,989,848
Long Term Bonds Payable	<u>182,386,097</u>	<u>185,666,086</u>
Total liabilities	<u>US\$325,635,747</u>	<u>US\$399,996,712</u>

A summary of the main risks associated with these financial instruments and Company risk management policies are described below:

- a. **Credit Risk** - Financial instruments that potentially subject RECOPE to credit risk mainly consist of cash, cash equivalents, accounts receivable and investments in financial assets. Cash and cash equivalents are maintained at a strong financial institutions. These are payable on demand with minimum recovery risk. The Investment in Financial Assets is held in securities of the Ministry of Finance and the recovery risk is deemed minimal.

In general, accumulation of credit risk in connection with receivables is limited, for most of RECOPE sales are in cash, as provided in Law No.6588 "RECOPE Incorporation Act" Only the Central Government is granted a sixty-day term. The remaining accounts receivable are assessed on a qualitative experience-based scale. Having balances receivable from related parties carries no risk, for no default problems have been detected over time.

- b. **Exchange Rate Risk** - RECOPE makes transactions in US dollars. This currency shows regular fluctuations against the Costa Rican colón in accordance with monetary and exchange policies by the Central Bank of Costa Rica. Accordingly, any fluctuation of the US dollar against the Costa Rican colón affects results, financial position, and cash flows. The Company is constantly monitoring net exposure in US dollars. This risk is reduced through the pricing formula, showing monthly currency variation in sales price adjustment. Assets and liabilities in foreign currency are described as follows:

	<b>2020</b>	<b>2019</b>
<b>Assets:</b>		
Cash and cash equivalents	US\$ 40,974,967	US\$ 57,309,265
Investments in financial assets	63,518,758	39,936,305
Accounts receivable	<u>4,947,511</u>	<u>5,750,580</u>
Total assets	<u>109,441,236</u>	<u>102,996,150</u>
<b>Liabilities:</b>		
Accounts payable	(99,937,991)	(148,766,504)
Debt	<u>(150,468,500)</u>	<u>(154,307,762)</u>
Total liabilities	<u>(250,406,491)</u>	<u>(303,074,266)</u>
Net exposure	<u>US\$(140,965,255)</u>	<u>US\$(200,078,116)</u>

**Exchange Rate Sensitivity Analysis** - The following description shows sensitivity to decrease or increase in foreign exchange rate. The sensitivity rate used by Management is 2%, accounting for the best estimate of exchange rate variation.

*Sensitivity to Increase / Decrease in Exchange Rate -*

Net exposure	<u>US\$(140,965,255)</u>
Closing exchange rate	<u>¢ 615,74</u>
Exchange rate variation of 2%	<u>12,31</u>
Loss / profits	<u>¢ (1.736)</u>

- c. **Liquidity Risk** - Liquidity risk is the risk if RECOPE fails to meet all its obligations in the agreed terms. RECOPE maintains liquid financial assets for transactions. In addition, a methodological request for adjustment of fuel prices is made to reduce the risk of significant differences between fuel price and sales price. Sales to third parties are in cash, as provided in Law No.6588, reducing default risk. Credit lines are also available for fuel purchase in order to reduce liquidity.

RECOPE is managing liquidity risk by maintaining proper cash reserves. Additionally, RECOPE is constantly monitoring cash flows and maturity matching analysis, allowing for timely issue of short and medium-term obligations.

Expected recovery of principal financial assets as of December 31, 2020 is as follows:

Financial Assets	Interest Rate	Less than 1 Month	1 - 3 Months	3 Months 1 Year	More than 1 Year	Total
Interest rate bearing Instruments	Between 0.12% and 13.32%	US\$109,605,724			US\$85,299,684	US\$194,905,408
Non-interest rate bearing instruments			<u>US\$2,936,973</u>			<u>2,936,973</u>
Total		<u>US\$109,605,724</u>	<u>US\$2,936,973</u>	<u>US\$</u>	<u>US\$85,299,684</u>	<u>US\$197,842,381</u>

Scheduled payments of principal financial liabilities as of December 31, 2020 are as follows:

Financial Assets	Interest Rate	1 - 3 Months	3 Months 1 Year	More than 1 Year	Total
Interest rate bearing Instruments	Between Libor six Months 2.75% and 11.96%		US\$ 1,579,599	US\$191,073,891	US\$192,653,490
Non-interest rate bearing instruments			<u>132,982,257</u>		<u>132,982,257</u>
Total		<u>US\$</u>	<u>US\$134,561,856</u>	<u>US\$191,073,891</u>	<u>US\$325,635,747</u>

Expected recovery of principal financial assets as of December 31, 2019 is as follows:

Financial Assets	Interest Rate	Less than 1 Month	1 - 3 Months	3 Months 1 Year	More than 1 Year	Total
Interest rate bearing Instruments	Between 0.05% and 11.96%	US\$82,095,518			US\$53,723,865	US\$135,819,383
Non-interest rate bearing instruments		<u>7,863,120</u>	<u>US\$3,198,157</u>	<u>US\$8,489,292</u>		<u>19,550,569</u>
Total		<u>US\$89,958,638</u>	<u>US\$3,198,157</u>	<u>US\$8,489,292</u>	<u>US\$53,723,865</u>	<u>US\$155,369,952</u>

Scheduled payments of principal financial liabilities as of December 31, 2019 are as follows:

Financial Assets	Interest Rate	1 - 3 Months	3 Months 1 Year	More than 1 Year	Total
Interest rate bearing Instruments	6.55%		US\$ 3,635,381	US\$195,933,953	US\$199,569,334
Non-interest rate bearing instruments		<u>US\$185,747,551</u>	<u>14,679,827</u>		<u>200,427,378</u>
Total		<u>US\$185,747,551</u>	<u>US\$18,315,208</u>	<u>US\$195,933,953</u>	<u>US\$399,996,712</u>

- d. **Interest Rate Risk** - RECOPE maintains significant liabilities mainly consisting of bank loans subject to interest rate variation. RECOPE hopes that its interest rates are not significantly increased in the short term. In case of the investments in financial assets and long-term bonds payable, it is important to mention that this is a fixed rate loan, thus reducing this risk. In regards to the remaining existing loans. RECOPE is currently reviewing interest rates and renegotiating financial conditions.

RECOPE issues bank bonds bearing interest at variable rates. Accordingly, it is subject to interest rate fluctuation. This risk is considered normal within RECOPE financing structure, for loans are arranged at market rates. Given net borrowing as of December 31, 2020. Management has developed a sensitivity analysis on potential interest rate variations. The table below shows annual profits (losses) that may result from interest rate variation of 1 and 2 percentage points, respectively:

	<b>Variable Interest Rate Borrowing</b>	<b>1%</b>	<b>2%</b>
Increase	<u>US\$10,267,393</u>	<u>US\$(102,674)</u>	<u>US\$(205,348)</u>
Decrease	<u>US\$10,967,393</u>	<u>US\$(102,674)</u>	<u>US\$(205,348)</u>

- e. **Capital Management Policy** - Capital Management Policy is contained in different regulations of RECOPE, including, inter alia, Law No.6588 “RECOPE Incorporation Act,” Law No.8131 “Law of Financial Administration and Public Budgets.” and Law No.7593 “Law of the Public Services Regulating Authority”. Law No.7010 “Public Indebtedness Law”. Law No.5525 “National Planning Law”, among others and the respective regulations.
- f. **Market Risk** - Market risk refers to international price variations of crude oil and petroleum by-products. International price variations from increased world demand for hydrocarbons always have an impact on the financial situation of RECOPE.

To reduce this risk, RECOPE has used a monthly sales price formula, demanding price adjustment to the Regulatory Authority while covering import price and exchange rate variations every time it is methodologically determined (on a monthly basis) that international price variations of crude oil and by-products have given rise to the need for price review. Historically, price adjustments have not necessarily been adjusted to the requests of RECOPE in terms of amounts and time. Therefore, variations in purchase of raw material and finished goods maintain the market risk inherent in the product and the need for price adjustment.

Based on a domestic sales price formula, RECOPE hedges price and exchange rate risk. It also reduces the market supply risk with different hydrocarbon suppliers and agreements therewith for different finished goods and crude oils.

**Market Risk Sensitivity Analysis** - In connection with the sensitivity analysis to assess the impact on RECOPE projected financial statements, different hydrocarbon “cocktail” price scenarios as well as product demand and purchase projection scenarios are used, thus. RECOPE conducts this type of analysis of its finances on an ongoing basis, using cash flow projections, income statements, and statements of financial position, taking into consideration, among others, price markets of hydrocarbon futures, local sale prices, which are monthly adjusted according to the behavior of fuel prices in the international market.

For the sales projections and demand analysis, multi-variable and co-integrated econometric models, least squares, and surveys are used among important clients with the consumption expectations of some clients, among others.

For the imports projections, which is one of the items with the greater impact in determining the cost of sales, daily consultation in specialized sources of information of present and future hydrocarbon international prices is made. Regarding the production schedule of the refinery, and the determination of profitability, a program denominated PETROPLAN is used when it is in operation.

Market sensitivity is mainly conducted for the previous factors because they are the ones with the greater impact in RECOPE's financial projections, in addition to the use of historical analysis and the future needs of the different premises of RECOPE.

Taking into consideration the above, under the assumption of a variation of 1% in the international prices of hydrocarbons, changes could occur in the national sales prices for US\$19,000,000 for a year. These variations in the price of hydrocarbons in the international market, as well as in the exchange rate, are considered in the price adjustment formula that is monthly applied using the definition of prices made by ARESEP.

### 20.3 LEVERAGE RISK MANAGEMENT

In the normal course of operations, RECOPE is exposed to a variety of financial risks, which it tries to minimize through the application of risk management policies and procedures. These policies cover market risk, liquidity risk, exchange rate risk, and interest rate risk. In addition, RECOPE manages its capital structure with the objective of achieving a profitability that will allow it to expand its business in accordance with national long-term development plans.

The capital structure used consists of the net debt (debt less cash and cash equivalents) and stockholders' equity, including capital stock, reserves, and retained earnings, RECOPE's leverage index is the following:

	<b>2020</b>	<b>2019</b>
Notes payable, bank debt and long-term bonds payable	US\$ 192,653,490	US\$ 199,655,934
Investments in financial assets	(85,299,684)	(53,084,949)
Cash and cash equivalents	<u>(109,605,724)</u>	<u>(89,958,639)</u>
Net debt	<u>US\$ (2,251,918)</u>	<u>US\$ 56,612,346</u>
Stockholders' equity	<u>US\$ 958,209,525</u>	<u>US\$1,101,735,316</u>
Leverage index	<u>0.24</u>	<u>5.14</u>

## 20.4 FAIR VALUE OF THE FINANCIAL INSTRUMENTS

Estimates of market fair value are made at a specific time, and they are based on relevant market information and information related to the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at a certain time a financial instrument.

The fair value of financial instruments negotiated in active markets is determined based on market price quotes as of the date of the financial statements.

The fair value of financial instruments not negotiated in active markets is determined based on valuation techniques and assumptions based on the market conditions as of the date of the financial statements.

These estimates are subjective by nature; they involve uncertainty and great judgment; therefore, they cannot be accurately determined. Any change in the assumptions or criteria can affect these estimates.

The accounts receivable and payable are non-derivative assets and liabilities with fixed or determined payments, and they are not quoted in an active market. It is assumed that their book value, less the allowance for impairment, if any, is approximate to their fair value.

The market value of financial assets and liabilities on the short term is approximate to their respective book value, mainly due to their maturity. The methods and assumptions used by RECOPE to establish fair market value of the financial instruments are detailed as follows:

- a. ***Cash, Cash Equivalents*** - Book value of these assets is approximate to their fair value due to their current nature.
- b. ***Investments in Financial Assets*** - The rates of investments are agreed at market rates and are adjustable to keep them at fair value; therefore, their carrying amount approximates their fair value.
- c. ***Accounts Receivable, Accounts and Notes Receivable on the Long Term, and Accounts Payable*** - Book value of these financial assets and liabilities at less than one year is approximate to their fair value due to their short term nature.
- d. ***Notes Payable and Long Term Debt*** - Rates of the loan are agreed at market value, and they are adjustable so that they can remain always at fair value; therefore, their market value is approximate to their reasonable value.

## 21. AGREEMENTS

### 21.1 LOAN AGREEMENTS WITH SCOTIABANK & TRUST (CAYMAN), LTD.

On January 11, 2013, a loan agreement was entered into with Scotiabank for the refinancing of liabilities:

**Amount** - US\$30 million.

**Disbursements** - 14 bi-annual installments as of the execution date of the loan agreement.

**Term and Amortization** - 7 years, 14 bi-annual installments with a maturity date in January 2020.

**Interest Rate** - An interest rate of 4.6% for the first 3 years and thereafter, a six-month Libor Rate + 3.80%,

**Interest in Arrears** - An interest rate of 2 additional points will be recognized for the previously defined rate.

**Commitment Fee** - In accordance with provisions set forth in Section 3.6. RECOPE will pay to the Bank a commitment fee of 0.25% per year on the disbursed loan balances. A prepayment fee of 2% on the amounts prepaid by the debtor is set for the loan.

Positive obligations in accordance with Clause 8.1:

- a. Keep the assets in the same preservation and working conditions, except for ordinary impairment over time, so that businesses related to them can be always conducted.
- b. Comply with all the significant aspects related to any applicable laws, regulations, executive orders, resolutions, and taxes.
- c. Comply with the terms and conditions of any commitments, arrangements, and agreements to which it is a party or which affect its assets.
- d. Keep its corporate capacity in full force and effect to be able to operate.
- e. Notify the Bank in writing about any case of non-compliance or circumstances that, over time, can become a case of non-compliance.
- f. Notify the Bank about any litigation and court, administrative, or arbitration proceedings that might have an adverse impact on its business.
- g. File any and all tax returns and other taxes on a timely basis.
- h. Provide the Bank with the following information: annual audited financial statements and annual projected cash flows, which must be sent within one hundred twenty calendar days of the end of the fiscal year (December 31 according to the definition set forth in item 1.13), interim quarterly financial statements, which must be sent within thirty calendar days of the end of the fiscal year.



- i. Keep a debt/capitalization ratio not higher than 60%.
- j. Keep a coverage ratio for the debt service (EBITDA/ interest expenses + current portion of the long-run debt) not less than two times. EBITDA stands for Earnings before Interest, Taxes, Depreciation and Amortization, plus other non-cash expenses and the income tax.
- k. Non-compliance with Clause 10.1:
  - Failure to pay the principal and interest at maturity.
  - In the event of non-compliance with the implementation of any other term, obligation, or condition contained in the loan agreement and this non-compliance is not corrected or removed within 30 calendar days of the occurrence date.
  - Use of loan funds for non-approved purposes.
  - In the event of a change that significantly and adversely affects the debtor's financial situation that prevents the compliance with the loan requirements in accordance with the terms agreed.
  - The failure to pay any applicable fees, rates, or taxes.

## **21.2 LOAN AGREEMENTS WITH BNP PARIBAS FORTIS SOCIÉTÉ GÉNÉRALE**

On September 22, 2015, RECOPE and BN PARIBAS FORTIS SOCIETE GENERALE enter into a loan agreement for the amount of US\$19,000,000 (nineteen million dollars), legal tender of the United States of America, to build four spherical tanks for the storage of LPG (YT-7712, YT-7713, YT-7714, YT-7715) in the refinery of Moín, in regard to public tender No.2011LN-00009-02.

***Term and Amortization*** - 10 years including a two-year grace period, 20 biannual payments, after the grace period with maturity in September 2027.

***Interest Rate*** - Payable biannually when due, calculated on the basis of 360 days (at six-month Libor rate + 2.75%)

***Method of Interest Payment*** - The last day of each interest period, the borrower must pay the interest accrued on the loan to which the borrower relates for that period of interest.

***Interest in Arrears*** - 2% on applicable interest rate (IR+2.0%).

***Fees and Commissions*** -

- a. **Commitment Fee** - 1.10% per year on undrawn balance, starting on the date the loan agreement is signed and payable biannually.

- b. **Structure Fee** - 1.0% flat on the loan full amount, payable at once upon signing the loan agreement.
- c. **Agency Fee** - 0.645% flat on the loan full amount, payable to the Agent at once upon signing the loan agreement.
- d. **CESCE Fee** - 5.9% flat, CESCE will cover Banks for 99% of political and commercial risks on the loan principal plus accrued interest.

***Advanced Payments and Voluntary Settlement*** - Subject to the prior written consent of CESCE, the Borrower may pay in advance any Loan on a Date of Interest Payment after the last day of the Availability Period, either in full or in part (subject to a minimum of five million dollars (US\$5,000,000)), provided that the borrower submits prior notice to the Agent with at least thirty (30) Business Days in advance.

Any amount previously paid may not be reimbursed and will be applied to Installment Fees in reverse chronological order.

Subject to the prior written consent of CESCE, the Borrower may-submitting prior notice to the Agent with at least thirty (30) Business Days in advance, settle the total or any part of the loan (being five million dollars (US\$5,000,000) the minimum amount.

***Special Obligations*** -

a. **Financial Definitions** -

- In this Clause 18 (Financial Covenants): “Certificate of Compliance” means a certificate mainly along the lines of the format provided in Exhibit 7 (Format of the Certificate of Compliance) or according to any other format agreed upon between the Borrower and the Agent.
- “Current Assets” means the total amount shown as current assets in the balance sheet of RECOPE prepared pursuant to IFRS.
- “Current Liabilities” means the total amount shown as current liabilities in the balance sheet of RECOPE prepared pursuant to IFRS.
- “Current Ratio” (or Liquidity Ratio) means, in regard to any Relevant Period, the coefficient of Current Assets for that Relevant Period relative to the Current Liabilities for that same period.
- “EBITDA” (abbreviation of “Earnings before Interest, Taxes, Depreciation and Amortization,” that is, profits before Interest, Taxes, Depreciation and Amortization). It means, relative to the Company, for any period, the addition (determined without duplication) of: (a) the Operating Income for that period plus (b) depreciation and amortization to the extent that they are deducted to determine the Operating Income for said period.

- “Financial Charges” means the total amount of accrued interest, commissions, discounts, prepayment fees, hedge fees or charges and other financial payments relative to financial indebtedness, which must be paid by RECOPE in cash or capitalized within the twelve months following the date of calculation:
  - Excluding initial fees or costs that are included as part of the effective adjustments to the interest rate;
  - Including the interest elements (but not the principal) of payments with regard to financial leases; and
  - Including any commissions, professional fees, discounts, and other financial payments which must be paid (deducting all amounts that must be paid to RECOPE) by RECOPE in accordance with any interest rate hedge agreement,
- “Financial Lease” means any lease agreement or installment sale agreement that, according to IFRS, would be treated as a financial or capital lease.
- “Net Debt Coverage Ratio” means, relative to any relevant period, the proportion of total net debt in the last day of that relevant period in EBITDA (abbreviation of “Earnings before Interest, Taxes, Depreciation and Amortization”, that is, profits before Interest, Taxes, Depreciation and Amortization) for that relevant period.
- “Operating Income” means, for any period, the operating income of RECOPE.
- “Relevant Period” means: (i) with respect to the Net Debt Coverage Ratio, each twelve-month period that ends on the last day of the fiscal year or around that date, and each twelve-month period ending the last day of each fiscal quarter or around that date; and

With respect to the Current Ratio, each twelve-month period that ends on the last day of the fiscal year or around that date, and each twelve-month period ending the last day of each fiscal quarter or around that date.

- “Total Net Debt” means, at any moment, the total amount of all the obligations of the Company in relation to Financial Indebtedness in that moment, but:
  - Including, in the case of Financial Leases only, their capitalized value; and

- Deducting the total amount of RECOPE's Investments in Cash and in Cash Equivalents at that moment and in a way that no amount is included or excluded more than once.

The Borrower must ensure that:

- The Net Debt Coverage Ratio for any Relevant Period is not higher than 3.00:1.00.
- The Current Ratio for any Relevant Period is not less than 1.20:1.00.
- Data of the Net Debt Coverage Ratio and the Current Ratio for previous accounting periods must be provided with respect to the most recently ended Relevant Period by reference to each one of the financial statements submitted per Section (a) (i) of Clause 17.1 (Financial Statements) and to each Certificate of Compliance submitted per Clause 17.2 (Certificate of Compliance).

**b. Breach of Contract -**

Failure to pay.

Illegal origin.

Corrupt practices.

Unlawfulness.

*Rejection* - The Borrower rejects a Transaction Document or shows its intention to reject a Transaction Document.

The Borrower is in breach of the agreement in any substantial manner.

The Borrower does obtain (as applicable) all Authorizations required per any term or condition of the Agreement entered into with the Contractor relative to the Borrower's registration and compliance, and the validity and enforceability of the transactions contained in the Agreement with the Contractor or such Authorizations are not or stop being in force.

### **21.3 JOINT VENTURE AGREEMENT - RECOPE - CNPCI**

On December 14, 2009, RECOPE and CNPCI signed the bylaws of the new entity, which was named SORESCO, S.A., which was registered at National Property Registry. The objective of SORESCO, S.A. was to implement the activities necessary for the development of the Refinery Expansion and Modernization Project.

The duration of the joint venture was 25 years. The authorized and registered capital of the joint venture was ten thousand dollars (US\$10,000) or its equivalent in colones divided into 10 shares with a nominal value of one hundred (US\$100) dollars or its equivalent in colones. The shares of the joint venture shall be distributed and issued by the parties in the following proportions: CNPCI 50 % and RECOPE 50%.

- a. ***The Project*** - The parties hereby agree to join efforts and resources for the development of the Project whose main objectives are:
  - To expand the refinery and its support and auxiliary services up to a capacity of 60,000 barrels of crude processing a day.
  - To produce fuels as specify in the Study, to offer significant improvements in product quality in compliance with international standards, to minimize the environmental impact of the process,
  - To improve the Refinery's competitiveness and profitability.
- b. ***Miscellaneous Provisions*** - The agreement was approved by the Comptroller General of the Republic on September 2nd, 2009, according to official communication No.091782009.

Through official communication DFOE-DI-1409 of the Office of the Comptroller General of the Republic of June 20, 2013, the comptroller body ordered RECOPE to refrain from using the feasibility study conducted by HQCEC and any other study based on the results of the latter because HQCC is a related party of CNPCI (which a 50% interest in Soresco) and the holding company CNPC, and ordered RECOPE to take any relevant corrective actions because it questioned the independence of the feasibility study of the Moín Refinery Expansion and Modernization Project because it lacks the necessary relevance for the decision-making process of the parties related to the Project, thus failing to comply with clause 5.02, subparagraph c) of the Joint Venture Agreement. Moreover, the Board of Directors, through official communication JD-245-2013, ratified, during ordinary meeting No.4720-273, Article No.7.3, the statements made by the Office of the Comptroller General of the Republic and ordered the compliance with the provisions stipulated by the comptroller body; therefore, to date, RECOPE has engaged the services of a Company that is conducting the necessary optimization studies to continue with the development of the project.

As of December 31, 2018, the balance of the investment of the joint venture RECOPE-CNPCI amounts to ¢25.058 million, equal to US\$41.1 million. The balance differs from the capital contribution because of the equity method used to show the profit or loss of SORESCO in the respective account. The capital contribution to SORESCO amounts to US\$50,005,000.

Official communication JD-0092-2016 of April 19, 2016, informed about the agreement reached by the Board of Directors of the Company, as recorded in Article No.4, of Ordinary Meeting #4933-139, held on Monday, April 18, 2016, stating that:

1. *The President of the Board of Directors was instructed to take actions to terminate the Joint Venture Agreement entered into between RECOPE and CNPCI, and to dissolve and liquidate the corporation SORESCO, S.A.*
2. *The President of the Board of Directors was instructed to inform the Government Council of the Republic of Costa Rica, established as the Stockholders' Meeting of RECOPE S.A., what was agreed, to request its approval.*
3. *Once the agreements have been ratified by RECOPE's Stockholders' Meeting, authorize the President of the Board of Directors to proceed in accordance with Article 159 of the Commercial Code, to call an Extraordinary Stockholders' Meeting of SORESCO, S.A., to formally inform to CNPCI about the decision to terminate the Joint Venture Agreement and dissolve SORESCO, S.A.*

Regarding paragraph 2 above, by means of JD-0131-2016 of May 25, 2016, the Board of Directors of the Company informed the agreement reached in Article #6.1 of the Ordinary Meeting #4938-144 of May 16, 2016, where it instructed and authorized the Presidency to take the actions tending to terminate the Joint Venture Agreement entered into between RECOPE, S.A. and CNPCI and the dissolution and liquidation of SORESCO, S.A.

At the end of 2019, the Arbitration Court of the International Court of Arbitration of the International Chamber of Commerce (ICC), based in London, ordered the termination of the Joint Venture Agreement between RECOPE and China National Petroleum Corporation International Ltd.

The liquidation process begins and the Company is waiting for a receiver or liquidator to estimate the market and realization values of the assets recorded, as well as to recognize the liabilities pending recording until the closing and liquidation of the joint venture. It is at this point that the exact amount of the remaining recoverable amount and the remaining amount of the final loss of the investment can be established, therefore, the impairment allowance was created at US\$32,247,436, keeping as of December 31, 2019 an undetermined balance of US\$10,571,763 (Note 7).

During 2020, the liquidation process began and according to Minute No.21 of the Stockholders' Meeting of SORESCO, S.A. of December 9, 2020, based on the liquidator's report, duly approved by the stockholders of SORESCO, S.A., it was agreed to refund US\$14,250 (in thousands), €8.663 (million) at an exchange rate of €607,93, as partial liquidation of the investment. Therefore, an exchange rate translation adjustment of US\$6,934,737 was generated.

In December 2020, US\$14,250 (in thousands) were transferred to the Ministry of Finance, as instructed in official communication P-0912-2020 dated December 14, 2020 and in compliance with the provisions of Law 9925 on the Efficiency of Public Fund Management, which establishes in its transitional provision IV that: “for a single time, Refinadora Costarricense de Petróleo (RECOPE) shall transfer, to the Ministry of Finance, the total amount resulting from the final liquidation of Sociedad Reconstructora Chino Costarricense (SORESCO)”.

At the end of December 2020, since no additional resources are expected to be recovered, Management created an additional allowance for impairment amounting to US\$2,802,203, equivalent to the total balance of the investment after the aforementioned refund.

## 22. EMPLOYEES’ LEGAL BENEFITS

As of December 31, 2020 and 2019, Recope commissioned an actuarial study to calculate the accrued benefits from the employees’ legal benefits whose primary objective was to obtain the amount of the coverage of the Actuarial Liabilities, including actuarial profit and loss, conclusions about the actuarial situation of the benefit plan and the recommendations for adjustments to the allowance for employees’ legal benefits.

The target population of the study includes all active employees, with a cutoff as of the date of the actuarial study of the liabilities, with a total number of 1,706 and 1,686 employees, respectively.

The hypothesis used for the study refers to a pension at the age of 62 years for men and 60 years for women, based on an early retirement plan set forth in the Costa Rican laws. Under such a base scenario, the effects of the following alternative interest rates or alternative salary increase rates are applied:

**Interest Rate** - 8.50% (9.30% for 2019).

**Salary Increase Rate** - 2.20% (2.50% for 2019).

**Long-term Inflation Rate** - 2% (2% for 2019).

At the same time, the variability in the pool of employees resulting from the termination of employment is not deemed an actuarial variable; therefore, the actuarial approach is not applicable. Its specific circumstances can be estimated by weighting the calculation of previous fiscal years and the global macroeconomic situation or the situation of the Company.

The payments related to the provision for severance pay are considered in the Company’s Budget submitted to the Office of the Comptroller General each year, and the amount includes an estimated number of all the employees who would be using such benefit that year, so when submitting the price request to ARESEP, they are considered so that they can be recognized in the price and be able to make such payments. To date, a threshold of 12 years is considered for the calculation of such provision, as defined by the Constitutional Chamber of the Supreme Court (*Sala IV*).

A comparative chart to show the sensitivity of the main variables used in the actuarial studies of 2020 and 2019 is shown as follows:

<b>Sensitivity Analysis to Compare 2020 and 2019</b>			
<b>Account</b>	<b>%</b>	<b>2020</b>	<b>2019</b>
Severance pay		US\$21,639,419	US\$22,522,840
Employees' death benefit		15,108	15,531
Family members' death benefit		132,716	135,812
<b>Severance pay balance</b>		<b><u>US\$21,787,243</u></b>	<b><u>US\$22,674,183</u></b>
<b>Measurement unit</b>			
Discount rate		8.50%	9.30%
Salary increase		2.20%	2.50%
Long-term inflation		2.00%	2.00%
<b>Measurement unit</b>			
		8.50%	9.30%
<b>Variation of Salary</b>	2.00%	181	260
<b>Increase Rate</b>	2.20%	199	325
	2.40%	217	390
<b>Measurement unit</b>			
		8.50%	9.30%
<b>Variation of Long-Term</b>	1.80%	162	195
<b>Inflation</b>	2.00%	181	260
	2.20%	199	325

A sensitivity analysis of the salary increase and the inflation rate variables in 2020 and 2019 was conducted to show the impact of these two measurement units.

It is important to point out that, for 2020 and 2019, the analysis was conducted under the assumption that the severance payment was established in 12 years because, according to transitional provision XXVII of Law No.9635 published in Supplement No.202 to official newspaper La Gaceta No.225 of December 4, 2018 and the criteria of the Company's Legal Department, according to official communication P-DJ-0019-2019, to safeguard public funds, a severance payment not greater than 12 years is recommended in accordance with a restrictive interpretation of such transitional provision.

## 23. CONTINGENT LIABILITIES

***Municipal Permit Tax*** - The municipal tax returns of the last five fiscal years are available to the municipalities where the Company operates. Management considers that the municipal tax returns, as they have been filed, will not be significantly adjusted as a result of a future review.

***Litigations and Judicial Proceedings*** - The information about important judicial proceedings sent by the Legal Department through communication DJU-0002-2020, with a cutoff as of December 2020, is as follows:



Summary of Judicial Proceedings in Force as of December 31, 2020				
Contingent Liabilities - Lawsuits Filed Against Recope				
Proceeding	Amount	Relevant Cases	Amount	Claimed Amount
Ordinary				
Contentious	28			US\$33,463,926
		Dragados Hidraulicos, S.A.	US\$ 4,845,285	
		ISIVEN	1,649,639	
		Alonso Chaves Fernández	3,266,399	
		ISIVEN, S.A.	3,825,791	
		I.C.E.	9,247,158	
Labor	13			483,377
Criminal	1			812
<b>Total</b>	<b>42</b>		<b><u>US\$22,834,273</u></b>	<b><u>US\$33,948,115</u></b>

The amounts of the cases in dollars are updated at the selling exchange rate of the non-banking public sector of ¢615,74.

Summary of Judicial Proceedings in Force as of December 31, 2020				
Contingent Assets - Lawsuits Filed by Recope				
Proceeding	Amount	Relevant Cases	Amount	Claimed Amount
Ordinary				
Contentious	54			US\$13,457,399
		Euromat. y Equipos de Construc, S.A.	US\$ 1,773,688	
		Novum Energy Trading Corp.	9,284,334	
Traffic	1			25,611
Labor	27			126,821
Criminal	1			13,710
<b>Total</b>	<b>83</b>		<b><u>US\$11,058,022</u></b>	<b><u>US\$13,623,541</u></b>

The amounts of the cases in dollars are updated at the buying exchange rate of the non-banking public sector of ¢615,12.

According to information set forth in official communication AJ-0017-2021, RECOPE faces 91 lawsuits in total, of which 49 cases are of inestimable amount. Additionally, RECOPE, as plaintiff, has a total of 93 defendants, of which 10 are of inestimable amount.

#### **Contingent Liabilities are Excluded and Modifications are Made -**

*A modification is made to the amount of Dragados Hidráulicos, S.A. File # 11-003973-1027-CA according to official communication P-DJ-0864-2020.*

*File 17-000147-0679-LA- CLAY WASHINGTON WILKINS Labor Court of the I Judicial Circuit of the Atlantic Region ¢32,000,000,00.*

*File 13-002976-1178-LA Runia Magalli Moreno Ruiz - Labor Court.  
II Judicial Circuit of San José, inestimable.*

*File 17-008829-1027-CA- Roderick Vladimir de Leon Isaacs - Labor Court.  
II Judicial Circuit of San José, inestimable.*

*File 10-000138-0868-LA Felix Martínez Murillo - Labor Court of Guanacaste.*

**Contingent Assets are Excluded -**

*File 18-001336-0639-LA Ronald Trinidad Ureña Morera - Labor Court.  
I Judicial Circuit of Alajuela, ¢1.879.221,4*

*File 18-001432-0166-LA - Glenn Romero Bolaños, Labor Court  
II Judicial Circuit of San José, ¢3.599.313.49.*

*File 18-001437-0166-LA - Luis Paulino Mejias Hernández, Labor Court  
II Judicial Circuit of San José, ¢3.659.134,9.*

*File 18-001345-0641-LA -Juan Carlos Bonilla Campos, Labor Court  
I Judicial Circuit of Cartago, ¢1.226.269,64.*

*File 19-000359-0679-LA- José Andrés Mora Ramírez, Labor Court of the I Judicial  
Circuit of the Atlantic Region, ¢671.237,41.*

**24. RELEVANT EVENTS**

The appearance of COVID-19 (acronym for Coronavirus Disease) in China in late 2019 and its subsequent global spread led to the viral outbreak being labeled on March 11, 2020 as a pandemic by the World Health Organization.

In March 2020, the President of Costa Rica declared a State of Emergency throughout the national territory, establishing a series of actions related to the prevention and containment of the virus, such as limiting crowds, suspending educational activities and public shows, closing borders and restricting the free transit at night, among others.

In addition to this economic outlook, the energy market was affected; the crisis experienced by the price of hydrocarbons was due to the contraction of the aggregate demand of oil byproducts, such as gasoline, oils, plastics, among others; in other words, the need for these products has decreased due to the pandemic. Oil prices plummeted with a tendency towards lower and lower prices as a consequence of three converging factors: abundant oil supply, the destruction of the oil demand due to the pandemic that disrupted the main economies, and finally a war of supply and prices.

The main economic impacts on RECOPE's financial situation during 2020 due to the global context and the special actions taken by the Government of Costa Rica to stop the spread of the pandemic, are described as follows:

- ***Impact on Hydrocarbon Demand*** - Total fuel demand during 2020 decreased by 660,270 liters compared to the previous year.
- ***Impact on Inventory Volumes*** - The average inventory volume during the 2020 increased by 190 thousand barrels compared to the previous year, from 2.25 million BBLs in 2019 to 2.43 million BBLs in 2020. The months with the highest inventory volume recorded during the year were from March to May.
- ***Impact on the Hydrocarbon Import Program*** - Repercussions on the Hydrocarbon Import Program were the rescheduling of shipments for hydrocarbon imports. However, in spite of the rescheduling, some shipments were delayed due to lack of space for the berthing of vessels during the year.
- ***Impact on Cash Flows*** - The impact on the Company's cash flows in 2020 occurred in April, when, given the actions taken to stop the spread of the pandemic, the demand for fuel was directly affected, causing a decrease of about 43% in the revenue from fuel sales, resulting in a cash shortage that forced the Company to use financing.
- ***Impact on the Company's Financial Results*** - As a consequence of the decrease in demand, RECOPE was significantly affected because sales revenues were not sufficient to cover its costs, despite the actions taken to reduce expenses.
- ***Law No.9840, Protection of Working People During the COVID-19 Pandemic*** - The coverage of this subsidy was effective for three months as of the entry into force of Law No.9840 (April 22, 2020), which established that RECOPE shall transfer to the Ministry of Finance, within the first five working days of each month, the difference in prices produced between the plant prices and the lower sales price resulting from the application of the price methodology approved by the Public Services Regulatory Authority (ARESEP).
- ***Law No 8488, National Law on Emergencies and Risk Prevention*** - Article 47 of Law No.8488 of the CNE states that:

*“Article 47.- Contributions from Institutions. Governmental institutions, including the three branches of government, local governments, state-owned enterprises and any other individual or legal entity, public or private, are hereby authorized to donate such sums as they may have available, for the creation of the National Emergency Fund.”*

The Company has taken several actions to cut down expenses and manage cash flows. Moreover, the market is tending to an adequate recovery of the fuel demand, in view of a reduction of vehicle restriction actions.

As of the date of this report, Management expects the situation to improve substantially in the coming months; however, the risks are latent and the impact will be related to the duration of the actions taken by the Government. The Company considers that it will continue to operate normally.

**25. APPROVAL OF THE FINANCIAL STATEMENTS**

The accompanying financial statements were approved by RECOPE's management on May 6, 2021.

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# REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

## FINANCIAL RATIOS

### FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Figures Expressed in Dollars of the United States of America)

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The explanatory notes and financial ratios are calculated at Management's request and are not mandatory in accordance with the International Financial Reporting Standards. However, for their calculation, the figures of the financial statements are used, which are presented in accordance with this accounting basis.

#### 1. FINANCIAL WORKING CAPITAL

The financial working capital is determined by the following way: current assets, less cash and cash equivalents. The current liabilities are deducted from this result, net of the current portion of the long-term debt.

	<b>2020</b>	<b>2019</b>
Current assets	US\$ 332,091,865	US\$ 443,092,909
Cash and cash equivalents	(109,605,724)	(89,958,639)
Current liabilities (does not include current portion)	<u>(155,059,404)</u>	<u>(222,203,509)</u>
Financial working capital	<u>US\$ 67,426,736</u>	<u>US\$ 130,930,761</u>

This ratio shows us that, in 2020, the financial working capital decreased compared to 2019. With the decrease in fuel consumption, RECOPE made fewer fuel purchases, with the resulting decrease in inventories and the financing with oil suppliers for the purchase of inventories as compared to 2020.

#### 2. LIQUIDITY RATIO

The liquidity ratio shows that RECOPE's capacity to generate cash from its most liquid assets and cover its short-term obligations. It is measured dividing the total of current assets among the current liabilities:

	<b>2020</b>	<b>2019</b>
Current assets	<u>US\$332,091,864</u>	<u>US\$443,092,909</u>
Current liabilities	<u>US\$155,059,404</u>	<u>US\$225,925,965</u>
Current assets/ Current liabilities	<u>214.17%</u>	<u>196%</u>

This ratio reveals that RECOPE has more capacity in 2020 to cover with its more liquid assets all short-term liabilities. The acid test ratio is not estimated, since in the case of RECOPE, the inventory has a very high turnover and does not distort the calculations; in addition, it gives content to the current asset.

### 3. TOTAL ASSET TURNOVERS

It indicates the relation of the assets total and income by showing the number of times that RECOPE uses them to generate that income.

	<b>2020</b>	<b>2019</b>
Sales	<u>US\$1,890,918,668</u>	<u>US\$2,698,728,916</u>
Assets	<u>US\$1,467,260,526</u>	<u>US\$1,656,492,930</u>
Sales/assets	<u>1.29</u>	<u>1.63</u>

In 2020, for every dollar invested in assets, RECOPE generated US\$1.29 in sales, which represents a decrease in the indicator obtained in 2019. Convertibility of assets to sales was lower due to lower fuel consumption.

### 4. FIXED ASSETS TURNOVER

This financial index determines the level of efficiency reached by the investments in properties, plant and equipment, in its function of generating income:

	<b>2020</b>	<b>2019</b>
Sales	<u>US\$1,890,918,668</u>	<u>US\$2,698,728,916</u>
Property, plant, vehicles and equipment - net	<u>US\$1,025,013,278</u>	<u>US\$1,122,597,785</u>
Sales/ property, plant, vehicles and equipment - net	<u>1.85</u>	<u>2.40</u>

The result of the turnover in 2019 indicates that, for each Costa Rican colon invested in fixed assets, RECOPE generated US\$1.85 in income, which represents a decrease with respect to the situation presented in 2019, due to a decrease in fuel consumption.

### 5. DEBT RATIO

It represents the proportion in which the existing assets have been financed by other persons, different from RECOPE:

	<b>2020</b>	<b>2019</b>
Liabilities	<u>US\$ 509,051,000</u>	<u>US\$ 554,757,615</u>
Assets	<u>US\$1,467,260,527</u>	<u>US\$1,656,492,930</u>
Liabilities/assets	<u>34.69%</u>	<u>33.49%</u>

According to the debt ratio, by 2020, 65.31% of the assets are held by equity investors (the Government), while in 2018 it was 66.48%.

## 6. DEBT RATIO (COST)

It indicates the proportion in which the existing resources have been financed by long-term loans.

	<b>2020</b>	<b>2019</b>
Long term debt	<u>US\$ 191,073,891</u>	<u>US\$ 195,933,479</u>
Assets	<u>US\$1,467,260,527</u>	<u>US\$1,656,492,930</u>
Long term debt/assets	<u>13.02%</u>	<u>11.83%</u>

In 2020, the long-term debt funded 13.02% of the total asset, and the remaining 86.97% was provided by RECOPE, which shows a 1.62 percentage point increase compared to the previous year.

## 7. PROFIT MARGIN ON SALES

This indicator shows the percentage obtained from the period's profit in relation to RECOPE's net sales.

	<b>2020</b>	<b>2019</b>
Net (loss) profit	<u>US\$ (27,354,718)</u>	<u>US\$ (4,008,584)</u>
Sales	<u>US\$1,890,918,668</u>	<u>US\$2,698,728,916</u>
Net (loss) profit/sales	<u>(1.45%)</u>	<u>(0.15%)</u>

This indicator reflects an impairment compared to 2019 due to unfavorable results in the 2020 income.

## 8. YIELD ON THE INVESTMENT

The yield on the investment measures the final profitability obtained on the total investment in RECOPE's assets. This index shows how satisfactory is the level of net income obtained in relation to the total investments in assets made by RECOPE.

	<b>2020</b>	<b>2019</b>
Net (loss) profit	<u>US\$ (27,354,718)</u>	<u>US\$ (4,008,584)</u>
Assets	<u>US\$1,467,260,526</u>	<u>US\$1,656,492,930</u>
Net (loss) profit/assets	<u>(1.86%)</u>	<u>(0.24%)</u>

This indicator reflects an impairment compared to 2019 due to unfavorable results in the 2020 income.

## 9. PROFIT MARGIN ON EQUITY

This indicator estimates the yield obtained by the equity investors (the State).

High profitability of the equity means that RECOPE generates a high level of net income in relation with the investment of the State.

	<b>2020</b>	<b>2019</b>
Net (loss) profit	<u>US\$ (27,354,718)</u>	<u>US\$ (4,008,584)</u>
Stockholders' equity	<u>US\$958,209,526</u>	<u>US\$1,101,735,316</u>
Net (loss) profit/equity	<u>(2.85%)</u>	<u>(0.36%)</u>

This indicator reflects an impairment compared to 2019 due to unfavorable results in the 2020 income, and the impact of recognizing deferred income tax on the revaluation of land.

#### 10. OPERATIONS / SALES EXPENSES

This ratio allows to measure the level of efficiency of a Company, which is related directly to the policies and measures imposed to control the growth of the operative expenses.

	<b>2020</b>	<b>2019</b>
Operating expenses	<u>US\$ 180,539,898</u>	<u>US\$ 178,176,236</u>
Sales	<u>US\$1,890,918,668</u>	<u>US\$2,698,728,916</u>
Operating expenses/sales	<u>9.55%</u>	<u>6.60%</u>

This ratio increased compared to the previous period, due to a decrease in sales compared to 2019. Most of these expenses do not have a direct and immediate relationship to the sales activity, so it is reasonable that they do not have a direct relationship to the sales activity.

#### 11. COVERAGE OF EXPENSES

The ratio between Adjusted EBITDA and financial expenses is defined as coverage of financial expenses. For the effects of the calculation, it will be understood for Adjusted EBITDA the sum of the operative income, the depreciation and the amortization of intangibles; and for financial expenses the sums paid for interests of the long-term debt.

	<b>2020</b>	<b>2019</b>
Operating profit	US\$34,736,510	US\$ 54,194,368
Depreciation and amortization	<u>48,106,816</u>	<u>50,539,521</u>
Total Adjusted EBITDA	<u>US\$82,843,326</u>	<u>US\$104,733,889</u>
Financial expenses	<u>US\$11,979,924</u>	<u>US\$ 14,978,975</u>
Adjusted EBITDA/financial expenses	<u>6.92</u>	<u>6.99</u>

This ratio establishes that RECOPE has constant coverage of the financial expenses corresponding to the long-term debt.

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