

Esentia Pipeline El Encino, S. de R. L. de C. V.

(subsidiary of Esentia Energy EELL, S. de R.L. de C.V.R. L. de C. V., whose ultimate parent is Esentia Energy Systems)

Audited Financial Statements

December 31, 2023 and 2022

Esentia Pipeline El Encino, S. de R.L. de C.V.

(subsidiary of Esentia Energy EELL, S. de R.L. de C.V., whose ultimate parent is Esentia Energy Systems)

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December 31, 2023 and 2022

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Independent Auditor's Report

To the Partners Meeting of
Esentia Pipeline El Encino, S. de R. L. de C. V.

Opinion

We have audited the financial statements of Esentia Pipeline El Encino, S. de R. L. de C. V. (the Company), which comprise the statement of financial position as at December 31, 2023, and the statements of net income and comprehensive income, of changes in equity and of cash flows for the year then ended and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") and the ethical requirements of the Professional Code of Ethics of Mexican Institute of Public Accountants that are relevant to our audit of the financial statements in Mexico. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Professional Code of Ethics of Mexican Institute of Public Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.



Key audit matter	How our audit addressed the key audit matter
Allowance for impairment losses over accounts receivable Allowance for impairment losses over accounts receivable As described in Notes 4b and 9 to the financial statements, the impairment of accounts receivable is periodically assessed by recognizing an allowance for impairment losses based on an expected credit losses model. We have focused on this area during our audit mainly due to the importance of the carrying amount of accounts receivable (\$36,906 as of December 31, 2023) and because the estimation of the allowance for impairment losses involves significant Management judgment. In particular, we focused our audit efforts on the methodology used and the assumptions considered in the calculation of the expected credit losses of accounts receivable determined by Management: A. Probability of default by the counterparty and, b. Loss given default of the counterparty.	In connection with our audit, we performed the following audit procedures: - With the support of our valuation experts, we assessed the methodology used by Management to estimate the allowance for impairment losses. - Through sampling testing: a. The probability of default by the counterparty was compared with the historical and current trends on collections of accounts receivable and with market rates for similar entities. b. Loss given default was compared with available public information about the market recovery rate and the country risk rate. c. Contractual terms of accounts receivable and letters of credit contracted that serve as collateral were compared with the respective agreements. On a selective testing basis, we reperformed the calculations of allowance for impairment losses over accounts receivable.

Key audit matter	How our audit addressed the key audit matter
Valuation of derivative financial instruments As mentioned in Note 10, the Company enters into interest rate swaps, which are transactions with derivative financial instruments (DFIs). DFIs – assets amount to \$14,276 and represent 1.6% of total assets. We have focused on this matter in our audit mainly due to the significance of the carrying value of DFIs and because determining the fair value involves the exercise of judgment by Management. Specifically, we have focused our audit efforts on the model and the interest rate curves assumption used for the valuation of DFIs.	With the support of our auditor's experts in valuation, we performed the following audit procedures: - We compared the model used to determine the fair value with models commonly accepted for similar assets. - We compared the interest rate curves with those of comparable business entities together with the information published by independent market sources. - We independently determined the fair value of a sample of DFIs using valuation models commonly accepted and gathering data from market sources and we compared them with the values determined by Management.

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

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

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



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

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

The engagement partner on the audit resulting in this independent auditor's report is stated below.

PricewaterhouseCoopers, S. C.

A handwritten signature in black ink, appearing to read "Omar Penna", enclosed within a large, loopy oval shape.

C.P.A. Omar Penna Estrada
Audit Partner

Mexico City, May 28, 2024

Esentia Pipeline El Encino, S. de R. L. de C. V.

(subsidiary of Esentia Energy EELL, S. de R.L. de C.V., whose ultimate parent is Esentia Energy Systems)

Statements of Financial Position

(Notes 1, 2, 3 and 4)

December 31, 2023 and 2022

Thousands of US Dollars

	Notes	2023	2022 ⁽¹⁾	January 1, 2022 ⁽¹⁾
Assets				
CURRENT ASSETS:				
Cash		\$ 982	\$ 1,999	\$ 8,951
Restricted cash	8	45,048	33,532	34,188
Trade receivables - Net	9	36,185	36,189	36,414
Tax receivables	12	2,400	1,233	2,323
Contract assets	17	85,404	85,404	73,656
Receivables related parties	11	831	898	696
Derivative financial instruments	4 and 10	1,740	3,266	-
Imbalances		864	-	1,099
Other current assets		1,575	3,574	3,096
Total current assets		175,029	166,095	160,423
NON-CURRENT ASSETS:				
Property, equipment and construction in progress - Net	13	656,900	667,854	688,181
Rights of way - Net	14	29,606	30,835	32,016
Derivative financial instruments	4 and 10	12,536	11,727	-
Right of use assets		5,912	6,057	-
Contract assets	17	26,613	7,830	-
Receivables related parties	11	-	79	69
Total non-current assets		731,567	724,382	720,266
Total assets		\$ 906,596	\$ 890,477	\$ 880,689
Liabilities and Partners' Equity				
CURRENT LIABILITIES:				
Short-term debt	15	\$ 649,527	\$ 24,112	\$ 21,314
Trade payables	7	14,003	6,496	9,628
Payables related parties	11	139	178	2,608
Derivative financial instruments	4 and 10	-	-	4,884
Imbalances		-	191	-
Income tax payables		11,743	8,210	-
Other liabilities and accrued expenses		7,070	9,614	8,690
Total current liabilities		682,482	48,801	47,124
NON-CURRENT LIABILITIES:				
Long-term debt	15	-	631,977	640,468
Payables related parties	11	51,197	72,189	83,618
Derivative financial instruments	4 and 10	-	-	10,196
Deferred income tax liabilities	22	15,577	46,170	35,422
Employee benefits		6	8	-
Total non-current liabilities		66,780	750,344	769,704
Total liabilities		749,262	799,145	816,828
PARTNERS' EQUITY:				
Social participation	16	96,733	58,333	58,333
Legal reserve	16	5,621	5,157	4,536
Valuation of cash flow hedges	10	9,846	10,492	(10,558)
Cumulative results		45,134	17,350	11,550
Total partners' equity		157,334	91,332	63,861
Total liabilities and partners' equity		\$ 906,596	\$ 890,477	\$ 880,689

The accompanying notes are an integral part of these financial statements, which were authorized for their issuance on May 28, 2024 by the officers who signed below.



Stephen David Griffiths-James
Chief Financial Officer



Leticia Eugenia Lara Torres
Controller

Esentia Pipeline El Encino, S. de R. L. de C. V.

(subsidiary of Esentia Energy EELL, S. de R.L. de C.V., whose ultimate parent is Esentia Energy Systems)

Statements of Net Income and Comprehensive Income

(Notes 1, 2, 3 and 4)

Year ended on December 31, 2023 and 2022

Thousands of US Dollars

	Notes	2023	2022 ⁽¹⁾
Statements of Net Income:			
Revenue from contracts with customers	17	\$ 97,230	\$ 93,102
Cost for providing services	18	(24,507)	(23,460)
Gross profit		72,723	69,642
Administrative expenses	19	(1,390)	(632)
Other income - Net	20	675	95
Operating income		72,008	69,105
Finance income	21	5,927	380
Finance costs	21	(50,271)	(49,779)
Finance costs - Net	21	(44,344)	(49,399)
Profit before income tax		27,664	19,706
Income tax expense	22	584	(13,285)
Net profit for the year		28,248	6,421
Statements of Comprehensive Income:			
Net profit for the year		\$ 28,248	\$ 6,421
Items that may be reclassified to profit or loss:			
Valuation of cash flow hedges	4	(764)	30,072
Employee benefits		(111)	-
Income tax relating to valuation of cash flow hedge expense			
hedge benefit (expense)	22	229	(9,022)
Other comprehensive (loss) income for the year, net		(646)	21,050
Total comprehensive income for the year		\$ 27,602	\$ 27,471

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Statements of Changes in Partners' Equity

(Notes 1, 2, 3 and 4)

December 31, 2023 and 2022

Thousands of US Dollars

	Social participation	Legal reserve	Cumulative results	Valuation of cash flow hedges	Total partners' equity
Balances as of January 1, 2022, restated (Note 2)	\$ 58,333	\$ 4,536	\$ 11,550	\$ (10,558)	\$ 63,861
Legal reserve	-	621	(621)	-	-
Net profit for the year	-	-	6,421	-	6,421
Other comprehensive income	-	-	-	21,050	21,050
Total comprehensive income for the year	-	-	6,421	21,050	27,471
Balances as of December 31, 2022, restated (Note 2)	\$ 58,333	\$ 5,157	\$ 17,350	\$ 10,492	\$ 91,332
Increase in social participation (Note 16)	38,400	-	-	-	38,400
Legal reserve	-	464	(464)	-	-
Net profit for the year	-	-	28,248	-	28,248
Other comprehensive loss	-	-	-	(646)	(646)
Total comprehensive income for the year	-	-	28,248	(646)	27,602
Balances as of December 31, 2023	\$ 96,733	\$ 5,621	\$ 45,134	\$ 9,846	\$ 157,334

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Statements of Cash Flows

(Notes 1, 2, 3 and 4)

Year ended on December 31, 2023 and 2022

Thousands of US Dollars

	Notes	2023	2022 ⁽¹⁾
Operating activities			
Profit before income tax		\$ 27,664	\$ 19,706
Adjustments for reconciling profit before income tax to:			
Depreciation and amortization	13 and 14	17,182	17,256
Interest income	21	(1,717)	(382)
Interest expense of bank borrowings	15 and 21	40,755	33,479
Interest expense with related parties	11 and 21	4,631	6,776
Impairment of trade receivables		19	10
Swaps (received) payment	21	(3,293)	4,756
Other finance costs	21	4,885	4,264
		<u>90,126</u>	<u>85,865</u>
Changes in working capital increase (decrease)			
Tax receivables		(1,167)	1,090
Trade receivables		(15)	215
Contract assets		(18,783)	(19,578)
Other assets		(2,742)	(3,070)
Related parties		1,070	893
Trade payables and other liabilities		(448)	(3,127)
Tax payments		<u>(27,449)</u>	<u>(3,238)</u>
Net cash flows of operating activities		<u>40,592</u>	<u>59,050</u>
Investing activities			
Acquisitions of property, equipment and construction in progress	13	228	(1,358)
Rights of way	14	-	(17)
Net cash flows provided (used in) by investing activities		<u>228</u>	<u>(1,375)</u>
Financing activities			
Bank loans payment	15	(9,449)	(9,614)
Loans payments to related parties	11	(23,589)	(11,941)
Interests collected	20	1,717	380
Interest debt payments	15	(37,695)	(29,557)
Interest payments to related parties	11	(2,998)	(9,798)
Interest rate swaps payments	21	3,293	(4,756)
Restricted cash		(11,516)	656
Increase in social participation	16	38,400	-
Net cash flows used in financing activities		<u>(41,837)</u>	<u>(64,630)</u>
Net decrease of cash		(1,017)	(6,952)
Cash at the beginning of the year		1,999	8,951
Cash at the end of the year		<u>\$ 982</u>	<u>\$ 1,999</u>

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Notes to the Financial Statements

December 31, 2023 and 2022

Amounts expressed in thousands of US Dollars, except amounts expressed in foreign currencies, number of social participation and exchange rates

Note 1 - General information:

On October 25, 2022 the Partners of Fermaca Pipeline El Encino, S. de R.L. de C.V., agreed to change the name of the entity to Esentia Pipeline El Encino S. de R.L. de C.V.

Esentia Pipeline El Encino, S. de R. L. de C. V. (the "Company" or "El Encino") was incorporated on October 29, 2008 and is a subsidiary of Esentia Energy EELL, S. de R.L. de C.V. (as majority holder formerly Fermaca El Encino-La Laguna, S. de R. L. de C. V.) and Esentia New Projects Holding, S.A. de C.V. (ENP) (as minority holder formerly Fermaca New Projects, S.A. de C.V.), both Companies have Esentia Energy Systems (as their ultimate holding Companies, formerly Fermaca de México).

The Company is engaged in the transportation of natural gas through pipeline, and other equipment and accessories, in accordance with applicable laws, as well as the related activities for achieving its main business objective.

On December 19, 2014, El Encino signed a natural gas transportation agreement with CFE to transport natural gas through an approximate 445 kilometers long, 42-inch and a capacity up to 1,500 MMSCFD pipeline that will be constructed, operated and maintained by the Company. The pipeline is located in Chihuahua and Durango, which are states of Mexico.

On March 10, 2016 the Energy Regulatory Commission (CRE by its Spanish acronym) granted the Company 30 years permit to transport 1,670 MMSCFD of natural gas. This permit is renewal for half of the original term upon the Company request. The Company started operations on May 1, 2018.

Net current liabilities

On December 31, 2023, in compliance with IAS 1 "Presentation of Financial Statements", the Company reclassified to current liabilities \$623,045 of debt obligations whose original maturities were long term, since certain contractual obligations (covenants) as of December 31, 2023, were in default (Note 17). Consequently, net current liabilities (current assets minus current liabilities) are negative in the amount of \$507,453.

It should be noted that the Company has been settling its debt service obligations in accordance with the original maturity schedule and none of the creditors have requested immediate repayment or acceleration of such obligations related with the default mentioned above.

Note 2 - Basis of preparation:

i. Compliance with IFRS

The financial statements of the Company as of December 31, 2023 and 2022, and for the years then ended, have been prepared in accordance with International Financial Reporting Standards (IFRS Accounting Standards) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS Accounting Standards. The financial

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Notes to the Financial Statements

December 31, 2023 and 2022

statements comply with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

ii. Historical cost convention

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

Fair value is defined as the price that would be received to the sale of 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 addition, 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: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.
- Level 2: The fair value of financial instruments that are not traded in an active market (such as over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to determine fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case of unlisted equity securities.

iii. New and amended standards adopted by the Company.

The Company has applied the following standards and amendments for the first time for their annual reporting period starting on

a. January 1, 2023:

- IFRS 17 Insurance Contracts.
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 - The Company reviewed the accounting policies and made updates to the information disclosed in this note in certain instances in line with the amendments.
- Definition of Accounting Estimates – Amendments to IAS 8.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12.

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Notes to the Financial Statements

December 31, 2023 and 2022

These new and amended standards are not expected to have a material impact on the Company in the current or future reporting periods.

These new and amended standards are not expected to have a material impact on the Company in the current or future reporting periods.

iv. New and amended standards not yet adopted by the Company.

Certain new and amended accounting standards and interpretations have been published and are not mandatory for December 31, 2023 reporting periods and have not been early adopted by the Company.

These amendments are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Amendment with effective date January 1, 2024:

- Classification of Liabilities as Current or Non-current

IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period.

The amendments clarify that the right to defer settlement of a liability must exist for at least 12 months after the reporting period. Amendments may lead to changes in the classification of certain liabilities as current or non-current. Additional disclosures may need to provide for liabilities classified as non-current and subject to covenants within 12 months of the reporting date.

v. Restatement of financial statements.

The following tables present the impact of the restatement adjustments in the previously issued financial statements as of and for the fiscal year ended December 31, 2022, and as of January 1, 2022.

Esentia Pipeline El Encino, S. de R. L. de C. V.

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Notes to the Financial Statements

December 31, 2023 and 2022

Condensed statement of financial position as of January 1, 2022:

The statement of financial position as of 1 January 2022 is presented below showing the originally reported balances (in thousands of dollars), the effects of restatement and the restated balances.

	Balances originally report	Adjustment	Reference	Restated balances
Assets				
Total current assets	\$ 160,423	\$ -		\$ 160,423
Total non-current assets	720,266	-		720,266
Total assets	<u>\$ 880,689</u>	<u>\$ -</u>		<u>\$ 880,689</u>
Liabilities and Partners' Equity				
CURRENT LIABILITIES:				
Other current liabilities	\$ 38,434	\$ -		\$ 38,434
Other liabilities and accrued expenses	9,618	(928)	(a)	8,690
Total current liabilities	<u>48,052</u>	<u>(928)</u>		<u>47,124</u>
NON-CURRENT LIABILITIES:				
Deferred income tax liabilities	35,144	278	(b)	35,422
Other non-current liabilities	734,282	-		734,282
Total non-current liabilities	<u>769,426</u>	<u>278</u>		<u>769,704</u>
Total liabilities	<u>817,478</u>	<u>(650)</u>		<u>816,828</u>
PARTNERS' EQUITY:				
Others	\$ 52,311	\$ -		\$ 52,311
Cumulative results	10,900	650	(a) (b)	11,550
Total partners' equity	<u>63,211</u>	<u>650</u>		<u>63,861</u>
Total liabilities and partners' equity	<u>\$ 880,689</u>	<u>\$ -</u>		<u>\$ 880,689</u>

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Notes to the Financial Statements

December 31, 2023 and 2022

The statements of financial position, comprehensive income, changes in equity and cash flows for the year ended December 31, 2022 are presented below, showing the balances originally reported, the effects of restatement and the restated balances.

Condensed statement of financial position as of December 31, 2022:

	Balances originally report	Adjustment	Reference	Restated balances
Assets				
Total current assets	\$ 166,095	\$ -		\$ 166,095
Total non-current assets	724,382	-		724,382
Total assets	<u>\$ 890,477</u>	<u>\$ -</u>		<u>\$ 890,477</u>
Liabilities and Partners' Equity				
CURRENT LIABILITIES:				
Other current liabilities	\$ 39,187	\$ -		\$ 39,187
Other liabilities and accrued expenses	10,715	(1,101)	(a)	9,614
Total current liabilities	<u>49,902</u>	<u>(1,101)</u>		<u>48,801</u>
NON-CURRENT LIABILITIES:				
Deferred income tax liabilities	45,840	330	(b)	46,170
Other non-current liabilities	704,174	-		704,174
Total non-current liabilities	<u>750,014</u>	<u>330</u>		<u>750,344</u>
Total liabilities	<u>799,916</u>	<u>(771)</u>		<u>799,145</u>
PARTNERS' EQUITY:				
Others	\$ 73,982	\$ -		\$ 73,982
Cumulative results	16,579	771	(a) (b)	17,350
Total partners' equity	<u>90,561</u>	<u>771</u>		<u>91,332</u>
Total liabilities and partners' equity	<u>\$ 890,477</u>	<u>\$ -</u>		<u>\$ 890,477</u>

Esentia Pipeline El Encino, S. de R. L. de C. V.

(subsidiary of Esentia Energy EELL, S. de R.L. de C.V., whose ultimate parent is Esentia Energy Systems)

Notes to the Financial Statements

December 31, 2023 and 2022

Condensed Statements of net income for the year ended as of December 31, 2022:

	Balances originally report	Adjustment	Reference	Restated balances
Statements of Net Income:				
Revenue from contracts with customers	\$ 92,929	\$ 173	(a)	\$ 93,102
Cost for providing services	(23,460)	-		(23,460)
Gross profit	69,469	173	(a)	69,642
Administrative expenses	(632)	-		(632)
Other income - Net	95	-		95
Operating income	68,932	173	(a)	69,105
Finance income	380	-		380
Finance costs	(49,779)	-		(49,779)
Finance costs - Net	(49,399)	-		(49,399)
Profit before income tax	19,533	173	(a)	19,706
Income tax expense	(13,233)	(52)	(b)	(13,285)
Net profit for the year	\$ 6,300	\$ 121	(a) (b)	\$ 6,421
Statements of Comprehensive Income:				
Net profit for the year	\$ 6,300	\$ 121		\$ 6,421
Other comprehensive income for the year, net	21,050	-		21,050
Total comprehensive income for the year	\$ 27,350	\$ 121		\$ 27,471

Statement of changes in equity as of December 31, 2022:

	Social participation	Legal reserve	Cumulative results	Valuation of cash flow hedges	Total partners' equity
Balance as of December 31, 2021, originally report \$	58,333	\$ 4,536	\$ 10,900	\$ (10,558)	\$ 63,211
Adjustments	-	-	650	-	650
Balance as of December 31, 2021, restated	58,333	4,536	11,550	(10,558)	63,861
Legal reserve	-	621	(621)	-	-
Net profit for the year	-	-	6,421	-	6,421
Other comprehensive income	-	-	-	21,050	21,050
Total comprehensive income for the year	-	-	6,421	21,050	27,471
Balances as of December 31, 2022	\$ 58,333	\$ 5,157	\$ 17,350	\$ 10,492	\$ 91,332

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The condensed cash flow statement as of December 31, 2022 is presented below:

	Balances originally <u>report</u>	<u>Adjustment</u>	<u>Reference</u>	<u>Restated balances</u>
Operating activities				
Profit before income tax	\$ 19,533	\$ 173	(a)	\$ 19,706
Subtotal of adjustments for reconciling profit before income tax to:	66,161	-		66,161
	85,694	173		85,867
Other operating activities	(23,688)	-		(23,688)
Trade payables and other liabilities	(2,954)	(173)	(a)	(3,127)
	59,052	-		59,052
Total investing activities	(1,373)	-		(1,373)
Total financing activities	(64,631)	-		(64,631)
Net decrease of cash	(6,952)	-		(6,952)
Cash at the beginning of the year	8,951	-		8,951
Cash at the end of the year	\$ 1,999	\$ -		\$ 1,999

Description of the adjustments:

- a) During the year ended December 31, 2023, El Encino, determined that it had not appropriately accounted for a liability with clients. The liability was recorded based on a wrong interpretation of the approved terms and conditions of the transportation permits issued by the Energy Regulatory Commission. Firm natural gas transportation services that have unused capacity, can be sold to other customers under interruptible natural gas transportation services, which generates additional revenue and a reimbursement to the firm reserved capacity customers. However, after the consultation with legal advisors, management reviewed the current terms and conditions of its transportation permits and determined that there is no basis for recognition of reimbursement liability for this additional revenue.

El Encino, evaluated the materiality of the error from qualitative and quantitative perspectives, individually and in aggregate, and concluded that the error was material to the Financial Statements for the fiscal year ended December 31, 2022. Management restated these impacted financial statements and the previously recognized liability was reversed as an error under IAS 8. At January 1, 2022, the liability balance was decreased by \$928 with a corresponding adjustment in retained earnings for the same amount. At 31 December 2022, this liability decreased for \$1,101, with an increase in the Revenue from contracts with customers for \$173 and a decrease in the cumulative results the previous year for \$928.

- b) Effect on deferred tax related to the reversal of liability: As of January 1, 2022, the balance of deferred income tax liability increased for \$278 with a corresponding adjustment in cumulative losses of the same amount and as of December 31, 2022, the balance of the deferred income tax liability increased for \$330 with an increase in the income tax expense of \$52 and an increase in cumulative results of the previous year for \$278.

The cash flow statement for the year 2022 considered the effects of the above adjustments.

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Additionally, as part of these effects, the notes reformulated in the FS were the following:

Note 17 – Revenue from contracts with customers

Note 22 – Income taxes

Financial statements authorization

These financial statements and their accompanying notes were authorized for their issuance on May 28, 2024, by Stephen David Griffiths-James, Chief Financial Officer and Leticia Eugenia Lara Torres, Controller.

Note 3 - Summary of material accounting policies:

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

The preparation of financial statements in conformity with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 6.

a. Foreign currency translation

i. Presentation and functional currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (functional currency). The financial statements are presented in U.S. Dollars, which is the functional and presentation currency of the Company.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss, and translation differences on non-monetary assets such as equities classified as

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at fair value through other comprehensive income are recognized in other comprehensive income.

Financial statements remeasurement

The Company's financial statements having a recording currency different from the functional currency were translated to the functional currency using the following procedure that would produce the same amounts in the functional currency as would have occurred had all the items been recorded in the functional currency in the first place:

- i. The balances of monetary assets and liabilities as of December 31, 2023 and 2022 expressed in Mexican Pesos (MxN) and Euros (€), where the functional currency was the US Dollar, were translated at the exchange rate prevailing at such dates, which were: MxN16.89 in 2023 and MxN19.36 in 2022, respectively.
- ii. Balances as of December 31, 2023 and 2022 of non-monetary assets and liabilities and capital stock and retained earnings were translated at the historical exchange rate at the date of the transaction.
- iii. Income, costs and expenses of the periods presented, expressed in recording currencies (MxN) and Euros (€), were translated the date the transaction was recognized in the statement of comprehensive income, except when they arose from non-monetary items in which case the historical exchange rate of the non-monetary items was used.
- iv. Exchange differences arising in the translation from recording currency to functional currency were recognized in the statement of comprehensive income within "Finance cost - Net" in the period they were originated.

b. Financial assets

i. Classification

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

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

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

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

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ii. Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

iii. Measurement

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

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

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of income and comprehensive income.

The following financial assets are classified in this business model and category: Cash (Bank deposits), Restricted cash, Trade receivables, Other current and non-current assets, and contract assets. The business model is held to collect the cash flows associated with these assets as they are solely to collect payments of principal and interests.

iv. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Company currently has a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. As of December 31, 2023 and 2022, there were no offsetting of financial instruments.

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- v. Impairment of financial assets carried at amortized cost and fair value through other comprehensive income (FVOCI).

The Company assesses on a forward-looking basis the expected credit loss (ECL) associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and

Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets subject to impairment are divided into three categories, based on the stage of each instrument with regard to its level of credit risk:

- Stage 1: financial instruments for which no significant increase in credit risk is identified since its initial recognition. In this case, the impairment provision reflects expected credit losses arising from defaults over the following 12 months from the reporting date.
- Stage 2: if there has been a significant increase in risk since the date of initial recognition but the impairment event has not materialized, the financial instrument is classified as Stage 2. In this case, the impairment provision reflects the expected losses from defaults over the life of the financial instrument.
- Stage 3: a financial instrument is catalogued in this stage when shows effective signs of impairment as a result of one or more events that have already occurred resulting in a loss. In this case, the amount of the impairment provision reflects the expected losses for credit risk over the expected life of the financial instrument.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets.

- c. Cash and restricted cash

Cash includes cash on hand and bank deposits available for operations with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash subject to restrictions (in use and access) or intended for a specific (with a specific authorization) purpose is presented separately under current assets. (See Note 8).

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d. Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Company designates its derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values derivative instruments used for hedging purposes are disclosed in Note 10.

Movements on the hedging reserve in shareholders' equity are shown in Statements of Changes in Partner's Equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedge

The effective portion of changes in the fair value of derivatives designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognized immediately in the statement of comprehensive income within "Finance costs - Net".

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate debt is recognized in the statement of comprehensive income within "Finance costs - Net".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income within "Finance costs - Net".

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e. Accounts receivable

Accounts receivable are recognized when the good or service is accrued, that is, when control has been transferred in accordance with the contract entered into with customers. Accounts receivable are initially valued at the price of the transaction based on the contracts with customers and subsequently at the price of the transaction pending collection minus bonuses, discounts or refunds and the allowance for credit losses, if applicable.

When collection of accounts receivable is expected in a period of one year or less from the closing date (or in the normal operating cycle of the business if this cycle exceeds this period), they are presented as current assets. If the above is not met, they are presented as non-current assets.

The impairment for expected credit losses is determined considering the probability of default and the severity of the loss of accounts receivable based on the historical experience, current conditions and reasonable forecasts observed in their behavior.

Accounts that are considered uncollectible are canceled when all means of payment have been legally exhausted and/or when there is a practical impossibility of collection.

f. Imbalances

Imbalances represent amounts payable or receivable for natural gas pipeline imbalances depending on the net imbalance position of the pipeline. Natural gas pipeline imbalances are settled in kind, subject to the terms of the agreement.

g. Property, equipment and construction in progress

Property, equipment and construction in progress, comprise mainly natural gas pipeline and compression station which are stated at historical cost less depreciation. The acquisition and construction cost of the property and equipment requiring a substantial period to be in usage conditions includes the acquisition cost and the capitalization of the finance cost accrued in such period attributable at acquisition and construction.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item are likely to flow to the Company and the cost of the item can be reliably measured. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. Repairs and maintenance are recognized in the statement of comprehensive income in the period in which they are incurred. Major improvements are depreciated over the remaining useful life of the related asset. Cushion gas is recognized at cost and is depreciated using the straight-line method.

Leasehold improvements assets are depreciated over the term of the contract or over their useful life, the shorter.

Depreciation is calculated considering separately each of the asset's components. Land is not subject to depreciation. (See Note 13).

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Depreciation is calculated using the straight-line method to allocate their cost net of their residual values over estimated useful lives, as shown as follows:

Pipeline	50 years
Cushion gas	50 years
Compression station	25 years
Furniture and office equipment	10 years
Transportation equipment	4 years
Computer equipment	3 years

The asset residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. As of December 31, 2023 and 2022, the Company has not had any changes in this regard.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses from disposals are determined by comparing the proceeds to the carrying amount and are recognized under 'Other income - Net' in the statements of income and comprehensive income.

Prepayments to suppliers are recognized as part of construction in progress when risks and benefits have been transferred to the Company.

h. Rights of way

Rights of way, which are one-off payments to obtain the right to access the land in which the pipeline is constructed. The rights of way contracts are for a term of 30 years. These rights can be renovated upon agreement of both parties and if the Company makes the corresponding payment for the renewal. Rights of way are stated at historical cost less amortization. Amortization is calculated using the straight-line method. (See Note 14).

i. Impairment of non-financial assets

Assets that have a finite useful life are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the highest of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. As of the end of December 31, 2023 and 2022, there was no impairment identified of non-financial assets.

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j. Financial liabilities

Liabilities within the scope of IFRS 9 (before IAS 39) are classified as trade payables and other liabilities. These amounts represent liabilities for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities unless payment is not due within 12 months after the reporting period (or in the normal operating cycle of the business if longer) if not, they are presented as non-current liabilities. Trade payables and other liabilities are initially recognized at fair value and are subsequently recognized at amortized cost using the effective interest method.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

k. Debt

Debt is recognized initially at fair value, net of transaction costs incurred. Debt is subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the debt using the effective interest method. (See Note 15).

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all the facility will be draw down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Debt is removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired.

Debt is classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

For the assessment of "substantially different" between a new and an existing financial liability, the Company perform a quantitative test which consist in determining whether the present value of the new cash flows under the new terms including any fees paid net of any fees received (fees paid or received between borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf) and discounted using the original effective interest rate is at least 10% different from the present value of the remaining cash flows of the original liability, using the original effective interest rate. If the difference is 10% or greater, the existing liability is de-recognized, and a new financial liability is recognized, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability. If the quantitative test is passed, the Company has chosen an accounting policy to also perform a qualitative test based on judgement and on the specific facts and circumstances of each case, which allows it to determine whether the current financial liability should be accounted for as refinanced or as extinguished.

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Changes to the terms of the liability might be significant, on a qualitative basis, if they significantly affect the economic risks of the liability. Alternatively, the substance of the modification might be that the existing liability is prepaid/settled, and a new liability has been issued, which includes some of the following factors:

- A change in the currency in which the liability is denominated.
- A change in the interest basis (such as a change from fixed rate to floating rate, or vice versa).
- A change in any conversion features in the instrument.
- A substantial change in covenants.
- The liability was prepayable at par, with no significant penalty at the date of the renegotiation, which results in the renegotiated rate approximating the current market rate of interest for the new terms and conditions.
- The liability was close to its maturity date at the date of the renegotiation and was extended for a significant additional period, which results in the renegotiated rate approximating the current market rate of interest for the new terms and conditions (including the new maturity date).

I. Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized during the period that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period to get ready for their intended use or sale. Generally, assets that take more than one year.

Investment income earned on the temporary investment of specific debt pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in statements of income and comprehensive income in the period in which they are incurred.

m. Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company operates and generate taxable income. Tax payable balance mainly corresponds to current income tax.

The Company periodically evaluates its positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets are recognized only when it is probable that future taxable profits will exist against which the deductions for temporary differences can be taken. The deferred income tax on temporary differences arising is recognized unless the period of reversal of temporary differences is controlled by the Company and it is probable that the temporary differences will not reverse in the near future. Deferred tax assets and liabilities are offset when a legal right exists, and when the taxes are levied by the same tax authority. (See Note 22).

n. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

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o. Asset retirement obligations

Asset retirement obligations represent legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. The Company recognizes the fair value of a liability for an asset retirement obligation in the period when it is incurred if a reasonable estimate of the fair value can be made. The Company is not able to estimate reasonably the fair value of the asset retirement obligations for portions of its assets, primarily certain pipeline assets, because the settlement dates are indeterminable given the expected continued use of the assets with proper maintenance.

The Company expects its pipeline asset, for which it is unable to estimate reasonably the fair value of the asset retirement obligation, will continue in operation as long as supply and demand for natural gas exists.

p. Partners' equity

The Company's common social parts are classified as partners' equity within equity. Partners' equity is expressed at historical value. Incremental costs directly attributable to the issuance of new social parts are included in equity as a deduction from the consideration received net of tax.

q. Revenue from contracts with customers

(1) Transportation of Natural Gas:

The pipeline of the Company is an open access natural gas transportation service system. The Company has firm transportation contracts (charged monthly regardless of the volumes transported) as well as interruptible Gas Transportation contract (charged per volume transported).

Revenue from the transportation of natural gas includes two performance obligations: Firm natural gas transportation services and interruptible natural gas transportation service. Firm transportation services are a stand ready obligation that is generally recognized on a straight-line basis over the contracted period. Billings to clients generally differ from revenue recognized, and therefore, a contract asset or contract liability is recognized for the difference between revenue recognized and the performance. When the Company performs the service before having the right to bill the client, a contract asset is recognized as it represents the Company's right to consideration in exchange for the service that the Company has already transferred to the client. On the other hand, when the Company bills the clients based on tariffs agreed in contracts that do not represent the right to consideration for performance completed to date, a contract liability is recognized.

The interruptible natural gas transportation services are associated with the volume of natural gas transported. Revenue for this performance obligation is recognized over time when the volumes are being transported. The Company uses the right-to-invoice practical expedient to measure progress and recognize revenue under IFRS 15 based on the amounts invoiced to customer, since the Company has the right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date.

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(2) Financing components:

The Company has contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. The recognition of financing component is applicable in those cases as a finance costs (when there is a contract liability) or as a finance income (when there is a contract asset). (See Note 17).

(3) Contract modifications:

The Company recognizes a contract modification upon its approval by the Company and its counterpart. Contract modifications are recognized prospectively, as a cumulative catch-up adjustment or as a separate contract considering all relevant facts and circumstances including the terms of the contract and other evidence. (See Note 17).

Note 4 - Financial risk management:

The Company's activities expose it to the following financial risks: market risk (foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The overall risk management program of the Company focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. The objective of the financial risk management is to protect the financial performance of the business.

a. Market risk

i. Foreign exchange risk

At December 31, 2023 and 2022, the Company's exposure to foreign currency risk (MxN pesos) at the end of the reporting period, expressed in thousands of US dollars, was as shown as follow:

	2023	2022
Assets	\$ 5,667	\$ 2,060
Liabilities	<u>(5,031)</u>	<u>(133)</u>
	636	1,927
Liabilities (Euros expressed in U.S. Dollars)	<u>(6,719)</u>	-
Net position	<u>\$ (6,083)</u>	<u>\$ 1,927</u>

At December 31, 2023 and 2022, the exchange rates were MxN16.89 and MxN19.36 per US dollar, respectively.

At December 31, 2023 the exchange rate was MxN18.76 per euro (€).

At the date of issuance of the financial statements, the exchange rate was MxN16.70 per US dollar and MxN18.10 per euro.

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Following is a summary of the main foreign currency transactions (MXN pesos) recognized in profit or loss by the Company during the years ended December 31, 2023 and 2022 (excluding the acquisition or sale of property, equipment and construction in progress for its own use).

	2023	2022
Expenses	\$ 991	\$ 306

Sensitivity analysis

At December 31, 2023, if the exchange rate increases 7% or decreases 7% (holding all other variables constant), the impact on profit before income tax would have been an estimated \$44 lower or \$44 higher.

At December 31, 2022, if the exchange rate increases 7% or decreases 7% (holding all other variables constant), the impact on profit before income tax would have been an estimated \$135 lower or \$135 higher.

ii. Cash flow interest rate risk

The Company's interest rate risk arises from long-term debt with variable rates, which expose the Company to cash flow interest rate risk. Company policy is to maintain debt at fixed rates using interest rates swaps to achieve this when necessary. During 2023 and 2022, the Company's debt at variable rate were denominated in US dollars.

The Company's debt and receivables are carried at amortized cost. The debt is periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.

As of the end of the reporting period, the Company had the following outstanding variable rate borrowings and interest rate swap contracts:

	2023		2022	
	Balance	% of Total loans	Balance	% of Total loans
Credit facility - Syndicated ⁽¹⁾	\$ 191,177	29%	\$ 200,625	31%
Interest rate swaps (notional principal amount)	(191,177)	100%	(200,625)	100%
Net exposure to cash flow interest rate risk	\$ -	0%	\$ -	0%

⁽¹⁾ Loan as nominal value.

An analysis of maturities is provided in section c. of this note. The percentage of total loans shows the proportion of loans that are currently at variable rates in relation to the total amount of debt.

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Amounts recognized in profit or loss and other comprehensive income.

During the year, the loss recognized in other comprehensive income in relation to interest rate swaps were \$764 (gain of \$30,072 in 2022).

Sensitivity

If interest rates during the year ended December 31, 2023 and 2022 of debt denominated in US dollars, would have been 10% higher (with all the other variables constant), the profit after tax corresponding to each period would had been \$3,465 and \$3,931 higher/lower, respectively, mainly as a result of a higher/lower interest payment in connection with the variable rate borrowings.

b. Credit risk

Credit risk arises from cash, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers. Credit risk is managed on Company basis. For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted.

Customer concentration: CFE (the National Energy Company, with a rating of BBB) is the Company's main customer. Credit risk is monitored regularly by the finance area. As of December 31, 2023 and 2022, the Company recognized revenue per firm natural gas transportation service. (See Note 17).

The Company maintains long-term capacity agreements with CFE for the transportation of natural gas through its pipeline. The revenues generated with CFE accounted for 88% of the total revenue in 2023 (92% in 2022).

The Company believes that revenue concentration risk posed by having a reduced number of counterparts is offset by the creditworthiness of the said customers, however, if the Company's customers, particularly CFE, fail to perform or become unable to meet their contractual obligations on a timely basis, or if any of these agreements is prematurely terminated, it would have a material adverse effect on the financial condition and results of operations of the Company.

The Company obtains security through guarantees or letter of credit which can be called upon the counterparty is in default under the terms of the agreement.

No credit limits were exceeded during the reporting period, and Management does not expect any losses from non-performance by these counterparties.

According to the analysis performed by the Company, there was not significant expected credit loss for the financial assets recognized as of December 31, 2023 and 2022.

The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. (See Note 9).

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c. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet payment obligations when they fall due. The finance department manages liquidity and flexibility in funding by monitoring forecast and actual cash flows and the maturity profile of financial assets and liabilities. Such forecasting takes into consideration the Company's debt financing plans and covenant compliance.

The tables below summarize the Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting such cash flows is not significant.

For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total	Carrying amount
As of December 31, 2023:						
Debt (Note 15) ⁽¹⁾	\$1,040,404	\$ -	\$ -	\$ -	\$1,040,404	\$ 649,527
Related parties (Note 11)	139	-	-	51,197	51,336	51,336
Trade payables	14,003	-	-	-	14,003	14,003
	<u>\$1,054,546</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,197</u>	<u>\$1,105,743</u>	<u>\$ 714,866</u>
As of December 31, 2022:						
Debt (Note 15) ⁽¹⁾	\$ 30,328	\$ 90,172	\$ 289,525	\$ 656,210	\$1,066,235	\$ 656,089
Related parties (Note 11)	178	-	-	72,189	72,367	72,367
Trade payables	6,496	-	-	-	6,496	6,496
	<u>\$ 37,002</u>	<u>\$ 90,172</u>	<u>\$ 289,525</u>	<u>\$ 728,399</u>	<u>\$1,145,098</u>	<u>\$ 734,952</u>

⁽¹⁾ Amounts before commissions and issuance costs.

The Company expects to comply with its financial obligations with cash flows generated by its operations and capital contributions made by the Company's partners.

Note 5 - Capital management:

Risk management

The Company's objectives in capital management are to safeguard its ability to continue as ongoing business in order to provide yields to partners as well as to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust dividends paid to partners, return capital to partners, issue new social parts or sell assets to reduce debt.

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Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total debt (including "current and non-current debt" as shown in the statement of financial position) less cash. Total capital is calculated as 'equity', as shown in the statement of financial position plus net debt. Gearing refers to the relationship, or ratio, of a Company's net debt-to-total equity. Gearing ratio measures a Company's financial leverage.

The gearing ratio at December 31, 2023 and 2022 was:

	2023	2022
Total debt (Note 15)	\$ 649,527	\$ 656,089
Less: cash (including restricted cash)	(46,030)	(35,531)
Net debt	603,497	620,558
Total equity	157,334	91,332
Total	\$ 760,831	\$ 711,890
Gearing ratio	384%	679%

The net debt to equity ratio increased from 384% to 679% as a result of debt commitment payments and the refinancing plan, which has resulted in an increase of debt cash flows from new financial institutions to continue with our investment plans.

As of December 31, 2023, the company's current liabilities exceeded its total current assets by \$507,453. It should be noted that the Company has been settling its debt service obligations in accordance with the original maturity schedule and none of the creditors have requested immediate repayment or acceleration of such obligations related with the default mentioned in Note 1.

Note 6 - Critical accounting estimates and judgments:

The preparation of financial statements requires the use of accounting estimates which, by definition, seldom equal actual results. Management also needs to exercise judgment in applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

This note provides an overview of areas that involved a higher degree of judgment or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. The estimates and projections that have a significant risk of material adjustments on assets and liabilities recognized during the following year are detailed below:

Estimates:

Fair value of derivatives

The fair value of financial instruments that are not traded in an active market (such as over-the-counter derivatives) is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

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The sensitivity analysis of derivatives is within the Note 4.

Note 7 - Financial instruments:

The Company holds the following financial instruments:

a. Financial instruments by category:

December 31, 2023					
	At amortized cost	Derivatives used for hedging		Other financial liabilities at amortized cost	Derivatives used for hedging
Financial assets:			Financial liabilities:		
Cash (including restricted cash)	\$ 46,030	\$ -	Trade payables	\$ 14,003	\$ -
Contract assets	112,017	-	Payable to related parties	51,336	-
Receivable from related parties	831	-	Debt	649,527	-
Trade receivables - Net	36,185	-			
Other assets	1,575	-			
Derivative financial instruments	-	14,276			
Total financial assets	<u>\$ 196,638</u>	<u>\$ 14,276</u>	Total financial liabilities	<u>\$ 714,866</u>	<u>\$ -</u>

December 31, 2022					
	At amortized cost	Derivatives used for hedging		Other financial liabilities at amortized cost	Derivatives used for hedging
Financial assets:			Financial liabilities:		
Cash (including restricted cash)	\$ 35,531	\$ -	Trade payables	\$ 6,496	\$ -
Contract assets	93,234	-	Payable to related parties	72,367	-
Receivable from related parties	977	-	Debt	656,089	-
Trade receivables - Net	36,189	-			
Other assets	3,574	-			
Derivative financial instruments	-	14,993			
Total financial assets	<u>\$ 169,505</u>	<u>\$ 14,993</u>	Total financial liabilities	<u>\$ 734,952</u>	<u>\$ -</u>

Note 8 - Restricted cash:

As of December 31, 2023 and 2022, restricted cash is \$45,048 and \$33,532, respectively.

As of December 31, 2023 and 2022, debt service reserve of the Company will be used for the payment of interest and principal of debt. (See Note 15).

The cash has no Fair Value risk because it does not have more than 3 months old from the contracting date.

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Note 9 - Trade receivables:

As of December 31, 2023 and 2022, accounts receivable are as follows:

	2023	2022
CFE ⁽¹⁾	\$ 36,853	\$ 36,862
Other clients	53	67
	<u>36,906</u>	<u>36,929</u>
Impairment	(721)	(740)
Trade receivables - Net	<u>\$ 36,185</u>	<u>\$ 36,189</u>

⁽¹⁾ Firm natural gas transportation client; see description of the contract in Notes 17 and 23.

Trade receivables represent amounts due from customers that are generated by services provided in the normal course of the Company's operations. Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognized at fair value. The Company holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

If collection of the amounts is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are generally due for settlement within 30 days and therefore are all classified as current.

Due to the short-term nature of the current receivables, their carrying amount is equal to their fair value. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables above mentioned.

The recovery of accounts receivable from the Company guarantees timely payment and compliance with the obligations that are owed through the debt.

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Note 10 - Derivative financial instruments:

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as 'held for trading' for accounting purposes.

- i. The Company holds the following derivative financial instruments:

	2023	2022
Interest rate swaps - cash flow hedges		
Current assets	\$ 1,740	\$ 3,266
Non-current assets	12,536	11,727
Total financial instruments	<u>\$ 14,276</u>	<u>\$ 14,993</u>

On June 21, 2018, the Company, entered into a credit agreement with several banks, described in Note 15.

The credit agreement was issued at variable rates. On the same date, the Company entered into interest rate swaps agreements that have the economic effect of converting debt from floating rates to fixed rates.

Below it is a summary with the main characteristics of the interest rate swaps:

Counterpart	Maturity Date	Notional amount		Fixed rate
		2023	2022	
BNP Paribas	31-ene-32	\$ 41,887	\$ 43,957	2.207%
ING	31-ene-32	41,887	43,957	2.199%
Nord LB	30-ene-32	39,306	41,248	2.205%
Mizuho	31-ene-32	41,887	43,957	2.205%
Sabadell	30-ene-32	26,210	27,506	2.215%

As of December 31, 2023 and 2022, did not exist ineffective portion.

- ii. Classification of derivatives

Derivatives are only used for hedge accounting purposes and not as speculative investments.

Derivatives are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period.

- iii. Fair value measurement

Interest rate swaps recognized used for hedging were classified in level 2, by technical valuation model (estimated future discounted flows at a present value).

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Changes in the fair value of the ineffective financial instrument are accounted for in the statement of comprehensive income, within Finance costs - net. (See Note 21).

There were no transfers between levels during the years presented.

A reconciliation of other comprehensive income movements of 2023 and 2022, related to interest rate swaps is included in the statement of comprehensive income.

Note 11 - Related parties:

The Company is a subsidiary of Esentia Energy EELL, S. de R. L. de C. V., whose ultimate parent is Esentia Energy Systems.

a. The main balances at December 31, 2023 and 2022 with related parties are as follows:

	2023	2022
Receivables:		
Short-term loans:		
Affiliated Companies:		
Esentia Comercializadora de GN, S. de R. L. de C. V. (Comercializadora)	\$ 786	\$ 730
Esentia Pipeline La Laguna, S. de R. L. de C. V. (La Laguna)	38	168
Tarahumara Pipeline, S. de R.L. de C.V.	2	-
Esentia Pipeline de Toluca, S. de R.L. de C.V.	2	-
Esentia Compression Solutions, S. de R.L. de C.V.	2	-
Esentia MEMS III, S. de R.L. de C.V.	1	-
	<u>831</u>	<u>898</u>
Long-term loans:		
Esentia Anáhuac Holding, S. de R. L. de C. V. (Anáhuac)	-	79
	<u>\$ 831</u>	<u>\$ 977</u>
Payables:		
Short-term other:		
Affiliated Companies:		
Tarahumara Pipeline, S. de R. L. de C. V. (Tarahumara)	67	67
Esentia Pipeline de Toluca, S. de R. L. de C. V. (Toluca)	37	45
Esentia MEMS III, S. de R. L. de C. V. (MEMS III)	32	65
Esentia MEMS II, S. de R.L. de C.V. (MEMS II)	2	-
Esentia Comercializadora de GN, S. de R. L. de C. V. (Comercializadora)	1	1
	<u>\$ 139</u>	<u>\$ 178</u>

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	2023	2022
Long-term loans:		
Affiliated Companies:		
Herbodem, S. A. de C. V. SOFOM, E. N. R.(Herbodem)	\$ 48,572	\$ 70,072
Esentia Pipeline de Toluca, S. de R. L. de C. V. (Toluca)	1,755	1,416
Tarahumara Pipeline, S. de R. L. de C. V. (Tarahumara)	870	701
	<u>51,197</u>	<u>72,189</u>
	<u>\$ 51,336</u>	<u>\$ 72,367</u>

- b. During the years ended December 31, 2023 and 2022 the Company carried out the following operations with related parties:

	2023	2022
Income:		
Natural gas transportation services	\$ 11,409	\$ 7,251
Other income	8	178
Interest income (Note 21)	4	4
	<u>\$ 11,421</u>	<u>\$ 7,433</u>
Expenses:		
Interest expenses (Note 21) ¹	\$ 4,631	\$ 6,776
Operation, supervision and maintenance ²	1,015	1,082
Leases	20	18
	<u>\$ 5,666</u>	<u>\$ 7,876</u>

¹ As of December 31, 2023 and 2022, interest accrued with related parties mainly with Herbodem (see incise d. of this Note), is recorded as part of the finance cost - Net.

² As of December 31, 2023 and 2022, the amounts of operation, supervision and maintenance services were recorded as part of the cost of providing services. (See Note 18).

- c. The Company entered into the following agreements with its related parties:

- i. A specialized security, integrity and logistics services entered into with MEMS III.
- ii. An operations, maintenance and management's agreement were celebrated between the Company and Toluca, which covers the supervisory services of Toluca of the efficiency, safe and cost - effective of the operation.
- iii. On December 17, 2015, the Company and Herbodem entered into a credit agreement for an amount of \$118,742 million, which matures on the first business day of January, 2034. The credit is subject to annual ordinary interest on the unpaid balance of the principal amount at a fixed rate of 8.05 during the first 24 months of the credit agreement term and from the 25th month at a rate of 8.8%.

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- d. During 2023, the Company had the following loans (from) to related parties:

Name of entity	Incorporation date	Due date	Principal	% Interest from January to June	% Interest from July to December	Balance as of December 31, 2023
Receivables						
Anahuac	17/01/2014	13/12/2040	\$ 53	10.3%	13.8%	\$ -
Payables						
Tarahumara	27/12/2013	13/12/2038	\$ (480)	9.5%	9.5%	(870)
Toluca	21/03/2014	13/12/2038	(937)	10.3%	13.8%	(1,755)
Herbodern	17/12/2015	13/12/2038	(45,575)	8.8%	8.8%	(48,572)
			(46,992)			(51,197)
			\$ (46,939)			\$ (51,197)

During 2022, the Company had the following loans (from) to related parties:

Name of entity	Incorporation date	Principal	% Interest from January to June	% Interest from July to December	Balance as of December 31, 2022
Anahuac	17/01/2014	\$ 46	9.5%	9.6%	\$ 79
Enterprises	23/05/2014	\$ (291)	9.5%	9.6%	-
Tarahumara	27/12/2013	(419)	9.5%	9.6%	(701)
Toluca	21/03/2014	(818)	9.5%	9.6%	(1,416)
Herbodern	17/12/2015	(69,217)	8.8%	8.8%	(70,072)
		(70,745)			(72,189)
		\$ (70,699)			\$ (72,110)

- The following table present the reconciliation of loans:

	2023	2022
Loans (from) to affiliated companies:		
As of January 1	\$ (72,189)	\$ (85,857)
Interest paid	2,998	9,798
Interest expense accrued	(4,631)	(6,776)
Interest income accrued (Note 21)	4	4
Loans principal payments	23,589	11,941
Currency exchange	(968)	(1,299)
	<u>\$ (51,197)</u>	<u>\$ (72,189)</u>

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Note 12 - Tax receivables:

Tax receivables are comprised as follows:

	2023	2022
Value added tax ¹	\$ 2,400	\$ 1,233

¹ At December 31, 2023 and 2022, the Company had not VAT refunds.

Note 13 - Property, equipment and construction in progress - Net:

The balances of property, equipment and construction in progress at December 31, 2023 and 2022 are shown below:

	Land	Pipeline	Others ¹	Construction in progress	Cushion gas	Total ²
As of January 1, 2023:						
Opening balance	\$ 3,937	\$ 661,893	\$ 187	\$ 21	\$ 1,816	\$ 667,854
Additions	-	-	54	6,926	-	6,980
Disposals and write-off	-	(577)	-	-	(349)	(926)
Transfers	-	88	-	(88)	-	-
Imbalances	-	-	-	-	(1,055)	(1,055)
Depreciation of the year	-	(15,878)	(47)	-	(28)	(15,953)
Carrying amount at December 31, 2023	\$ 3,937	\$ 645,526	\$ 194	\$ 6,859	\$ 384	\$ 656,900
	Land	Pipeline	Others ¹	Construction in progress	Cushion gas	Total ²
As of January 1, 2022:						
Opening balance	\$ 3,937	\$ 666,383	\$ 218	\$ 17,088	\$ 555	\$ 688,181
Additions	-	24	18	1,316	-	1,358
Disposals and write-off	-	(859)	-	-	-	(859)
Transfers	-	12,215	-	(12,215)	-	-
Transfers to right of use	-	-	-	(6,168)	-	(6,168)
Imbalances	-	-	-	-	1,289	1,289
Depreciation of the year	-	(15,870)	(49)	-	(28)	(15,947)
Carrying amount at December 31, 2022	\$ 3,937	\$ 661,893	\$ 187	\$ 21	\$ 1,816	\$ 667,854

¹ Others includes transportation, computer, furniture and office equipment.

² In order to guarantee the timely payment and compliance of the obligations with the banks, the Company has guaranteed debt with all assets in a trust with CIBanco, S. A. (Fiduciary) (formerly Deutsche Bank México, S. A., Multiple Banking Institution).

Depreciation expense of \$15,953 in 2023 and \$15,947 in 2022 has been charged in cost of services and administrative expenses, in the statement of income and comprehensive income.

As of December 31, 2023 and 2022, there were non-cash transactions related to property, equipment and construction in progress by an amount \$6,752 and \$5,971, respectively.

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Construction in progress

As of December 31, 2023, there is construction in progress related to the construction of the compressor station.

Note 14 - Rights of way - Net:

At December 31, 2023 and 2022, the rights of way are comprised as follows:

	2023	2022
Opening balance	\$ 30,835	\$ 32,016
Additions	-	17
Amortization charge of the year ⁽¹⁾	(1,229)	(1,198)
Carrying amount	<u>\$ 29,606</u>	<u>\$ 30,835</u>

¹ As of December 31, 2023 and 2022, the amortization of rights of way is recognized within the costs of services in the comprehensive income statements of \$1,229 and \$1,198, respectively.

As of December 31, 2023 and 2022, the Company has recognized a right of use by an amount of \$5,912 and \$6,168 in the non-current assets, respectively, and \$111 of depreciation charged to the cost of sales at the end of the both years.

Note 15 - Debt:

Debt is comprised as follows:

	2023	2022
Short-term:		
Notes Purchase Agreement	\$ 455,903	\$ 10,247
Credit facility - Syndicated	193,624	13,865
Total short-term	<u>649,527</u>	<u>24,112</u>
Long-term:		
Notes Purchase Agreement	-	445,434
Credit facility - Syndicated	-	186,543
Total long-term	<u>-</u>	<u>631,977</u>
Total debt	<u>\$ 649,527</u>	<u>\$ 656,089</u>

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On December 26, 2017, the Company executed a hybrid financing composed of:

i. 14-year term loan with the following Financial Institutions as Lenders:

1. BNP Paribas Securities Corp.
2. ING Capital LLC
3. Norddeutsche Landesbank Girozentrale, New York Branch
4. Mizuho Bank, Ltd.
5. Sabcapital, S. A. de C. V. S.O.F.O.M. E.R.

Term Loan	\$255,000
Debt Service Reserve Letter of Credit	30,000
Transportation Agreement Letter of Credit	72,506

Until June 27, 2023, the interests rate of the loans is USD LIBOR 6M plus the applicable margin.

Due to the discontinuation of the Libor reference rate and the adoption of the Reference Interest Rate Reform - Phase 2, on June 27, 2023, the Company made amendments to the previous financing agreement to substitute the Libor reference rate for SOFR, establishing that the annual interest calculation will be at the Adjusted Daily Compounded SOFR rate plus an applicable margin. The Group applied the Amendments to IFRS 9 practical expedient for the transition from LIBOR to SOFR for the Credit Agreement recognizing the changes in future cash flows due to rate changes in profit or loss through the effective interest rate method.

ii. On June 21, 2018, the Company executed a Note Purchase Agreement in the international market amounting \$450,000, net of transaction costs incurred amounting to \$5,258 maturing on April 30, 2041. Interest on the Note Purchase Agreement are payable semi-annually at a fixed rate of 5.465% per year (effective interest rate of 5.5659% starting on July 31, 2018). The net proceeds from the issuance of the Note Purchase Agreement and Credit Agreement were used to repay in full the previously Credit Facility Syndicated and interest rate swaps contracted. (See Note 10).

The credit agreement and the bond are guaranteed by a social part of the Company. (See Note 16).

Under the Mexican Income Tax Law, payments of interest made in respect of the Credit Agreement and Notes (including original issue discount are deemed to be interest) to a Non-Mexican holder will be subject to a withholding tax rate from 4.9% to 10% under certain conditions. Interest paid is subject to a withholding tax rate of 4.9%.

During 2023 and 2022, the Company has made payments of principal in connection with the Credit Agreement by an amount of \$9,449 and \$9,614 respectively.

Relating the Note Purchase Agreement, the first payment of principal will be made on January 31, 2032.

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The loans establish the following covenants:

- Not engage in any business or activity other than the development and operation of the Project.
- Not contract, create, incur, become liable for, assume or permit to subsist any indebtedness.
- Not agree to create, incur, assume, suffer to occur or permit to subsist any lien upon or with respect to any of its property, revenues or assets.
- Not agree to enter into any hedging program or hedging agreements other than any Permitted Hedging Agreements.
- Not make and will not instruct any relevant person to make any investments of any person, except to acquire and hold Permitted Investments.
- The Borrower will not make any loans or advances to any Person except trade credit.
- Not form, own or have any subsidiaries or otherwise own beneficially an ownership interest in any person.
- Assets contribution to the Trust.
- Not establish or maintain any bank accounts other than the project accounts and any other accounts permitted to be established or maintained pursuant to the Security and Depositary Agreement.
- Not sponsor, maintain or contribute to any pension plan or multiemployer plan.
- Not issue any equity interests or any other security convertible into any other equity interests in the Borrower's capital to any Person other than to the Sponsor and the Equity Holder.

As of December 31, 2023 and 2022, the Company complied with the covenants above mentioned, except for:

On May 15, 2023, the Company signed an agreement with its services supplier (the Supplier) for the acquisition of impellers without the Lenders authorization. As per the company Credit Agreement and Note Purchase Agreements, the company should have obtained the authorization from the Lenders before signing an agreement according to the covenant that requires the Company not to amend or terminate any Material Agreement or enter into new agreements above \$2.500M obligations. Therefore, the Company entered in default with Credit Agreement and Note Purchase Agreements

The afore mentioned breaches originated potential events of default that provided the Lenders the right to accelerate the repayment of the debt. Although Lenders have neither exercised such right nor manifested the intention to do so, the entire balance of the debt, in the amount of \$623,045, was reclassified from the non-current to current liabilities as a consequence of the events of default, in accordance with accounting standard IAS-1.

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On March 14, 2024, the Company obtained a waiver from the Lenders to cure the default, which requested an Equity Support Agreement from Esentia Energy Systems to the Company to pay the agreement with the Supplier and additionally requested a debt service coverage ratio of 1.00:1.00 or greater and the payment of the impellers. These requirements will take place from this day until the payment of the impellers is completed.

The payment schedule shows the original long-term maturities, excluding the reclassification to current liabilities arising from the breach of contractual covenants mentioned previously.

Year	2023	2022
2023	\$ -	\$ 9,449
2024	9,657	9,657
2025	10,301	10,301
2026	10,285	10,285
2027 -2041	610,933	610,933
	<u>\$ 641,176</u>	<u>\$ 650,625</u>

Fair value

To assess the fair value of debts, a technical valuation model recognized in the financial environment was used (estimated discounted future cash-flows at present value) using market information available at the valuation date. For most of the debt, the fair values are not materially different to their carrying amounts since the interest payable on those debt is either close to current market rates or the debt is of a short-term nature. Material differences on debt is shown below:

	December 31, 2023		December 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Note Purchase Agreement	\$ 455,903	\$ 457,824	\$ 455,681	\$ 387,254
Credit facility - Syndicated	193,624	205,117	200,408	210,417
Total	<u>\$ 649,527</u>	<u>\$ 662,941</u>	<u>\$ 656,089</u>	<u>\$ 597,671</u>

The fair value of Note Purchase Agreement was classified in level 1 and the fair value of Credit Facilities was classified in level 2, both by technical valuation model (estimated future discounted flows at a present value). There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

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Reconciliation of financing activities as of December 31, 2023 and 2022:

	Credit facility - Syndicated	Notes Purchase Agreement	Total
December 31, 2023:			
Net debt as of January 1, 2023	\$ 200,408	\$ 455,681	\$ 656,089
Principal payments	(9,449)	-	(9,449)
Accrued interests (Note 21)	15,930	24,825	40,755
Interest payments	(13,102)	(24,593)	(37,695)
Others	(163)	(10)	(173)
Ending balance December 31, 2023	<u>\$ 193,624</u>	<u>\$ 455,903</u>	<u>\$ 649,527</u>
December 31, 2022:			
Net debt as of January 1, 2022	\$ 206,311	\$ 455,471	\$ 661,782
Principal payments	(9,614)	-	(9,614)
Accrued interests (Note 21)	9,379	24,100	33,479
Interest payments	(4,964)	(24,593)	(29,557)
Others	(704)	703	(1)
Ending balance December 31, 2022	<u>\$ 200,408</u>	<u>\$ 455,681</u>	<u>\$ 656,089</u>

Note 16 - Partners' equity:

a. During 2023, the Partners' Meeting approved the following resolutions:

- On February 14, 2023 an increase of the variable portion of social participation by an amount of \$5,000.
- On March 1, 2023 an increase of the variable portion of social participation by an amount of \$29,170.
- On May 9, 2023 an increase of the variable portion of social participation by an amount of \$2,000.
- On July 20, 2023 an increase of the variable portion of social participation by an amount of \$2,230.

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After the increases and previous resolution, the equity as of December 31, 2023 is composed as follows:

	Social units	Fixed portion of social participation Series "A"	Variable portion of social participation Series "B"	Total
At December 31, 2023:				
Esentia Energy EELL, S. de R. L. de C. V. ^(a)	1	\$ -	\$ 96,733	\$ 96,733
Esentia Energy RR Holdings Two, S. de R. L. de C. V.	1	-	-	-
Total	2	\$ -	\$ 96,733	\$ 96,733

During fiscal year 2022, there were no increases or decreases in partners' equity.

As of December 31, 2022, the equity is composed as follows:

	Social units	Fixed portion of social participation Series "A"	Variable portion of social participation Series "B"	Total
At December 31, 2022:				
Esentia Energy EELL, S. de R. L. de C. V. ^(a)	1	\$ -	\$ 58,333	\$ 58,333
Esentia Energy RR Holdings Two, S. de R. L. de C. V.	1	-	-	-
Total	2	\$ -	\$ 58,333	\$ 58,333

(a) As of December 31, 2023 and 2022, a social part is pledged as collateral to CIBanco, S. A. (formerly Deutsche Bank México, S. A.) in connection with the bank debt (See Note 15). The social part is deposited in a Trust created for this purpose, which is managed by CIBanco, S. A. (Fiduciary).

- b. Net income is subject to the legal provision requiring that at least 5% of the income for each year is set aside to increase the legal reserve until it is equal to a fifth of the amount of capital paid. As of December 31, 2023 and 2022 the legal reserve has a value of \$5,621 and \$5,157 respectively.
- c. Dividends paid are not subject to income tax if paid from the net tax profit account (CUFIN by its Spanish acronym). Any dividends paid in excess of CUFIN and CUFINRE (CUFINRE by its Spanish acronym) will cause a tax equivalent to 42.86%. The current tax is payable by the Company and may be credited against its income tax in the same year or the following two years. Dividends paid coming from profits previously taxed by income tax are not subject to withholding tax or additional tax payment. For this purpose, the income tax Law establishes the obligation to maintain the CUFIN with the profits generated until December 31, 2013 and start another CUFIN with the profits generated as of January 1, 2014.

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Note 17 - Revenue from contracts with customers:

Our revenue from contracts with customers are mainly related to our natural gas transportation agreement. The revenue from contracts with customers for the years ended December 31, 2023 and 2022 is shown below:

a. Disaggregation of revenue from contracts with customers

The Company derives revenue from services in over time in the following major product lines:

	2023	2022 ⁽¹⁾
Firm natural gas transportation services	\$ 96,933	\$ 93,014
Other compression services	132	25
Interruptible natural gas transportation services	165	63
	<u>\$ 97,230</u>	<u>\$ 93,102</u>

(1) Restatement figures, see Note 2.

b. Unsatisfied long-term contracts

As of December 31, 2023 and 2022, the aggregate amount of the transaction price of the unsatisfied performance obligations resulting from firm natural gas transportation services by an amount of \$1,652,939 and \$1,738,342, respectively (with remaining period of 20 and 21 years, respectively).

Management expects that transaction price allocated to the unsatisfied contracts as of December 31, 2023 will be recognized as revenue during the next reporting period by an amount of \$85,403. The remaining will be recognized after the 2023 financial year ratably over the corresponding years by an amount of \$1,567,536.

c. Assets and liabilities related to contracts with customers

As of December 31, 2023 and 2022, the Company has recognized an asset related to contracts with customers by an amount of \$112,017 and \$93,234, respectively.

In addition to the contract balance disclosed above, the Company does not have an asset in relation to costs to fulfil a long-term contract.

d. Determination of the significant financing component

The Company has adjusted the promised amount of consideration for the effects of the time value of money because the timing of payments agreed with the customer provides the Company with a significant benefit of financing the transfer of services to the customer.

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The Company considered all relevant facts and circumstances in assessing whether a contract contains a financing component and whether that financing component is significant to the contract, including both of the following:

- a. The difference between the cash selling price of the promised services and the amount of promised consideration; and
- b. The combined effect of both of the following:
 - i. The expected length of time between when the customer pays for the promised services and when the Company transfers those services to the customer, being greater than 12 months; and

The observable market rate at the date in which the customer pays for the promised services considering the Company's credit risk and the financing term.

The Company determined that the contract with CFE, from firm natural gas transportation services does not contain significant financing component.

Note 18 - Cost for providing services:

The analysis of the cost for providing services for the years ended December 31, 2023 and 2022 is:

	2023	2022
Depreciation and amortization	\$ 17,154	\$ 17,225
Pipeline operation and maintenance	4,587	3,759
Insurance	1,658	1,633
Employee compensations	1,108	843
	<u>\$ 24,507</u>	<u>\$ 23,460</u>

Note 19 - Administrative expenses:

An analysis of administrative expenses, classified by function in the statement of comprehensive income, for the years ended December 31, 2023 and 2022, is shown as follows:

	2023	2022
Fees ⁽¹⁾	\$ 1,039	\$ 391
General expenses ⁽²⁾	321	186
Depreciation	28	31
Other expenses	2	24
	<u>\$ 1,390</u>	<u>\$ 632</u>

⁽¹⁾ As of December 31, 2023 the audit fees of the Company were \$51.

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- (2) General expenses are mainly composed of administrative services, subscriptions and expenses for the operation.

Note 20 - Other income - Net:

Other income for the years ended December 31, 2023 and 2022, is comprised as follows:

	2023	2022
Insurance reimbursement	\$ 484	\$ -
Other income - Net	210	-
Interconnection fees	8	145
Other expenses - Net	(8)	(40)
Impairment of trade receivables	(19)	(10)
	<u>\$ 675</u>	<u>\$ 95</u>

Note 21 - Finance (costs) - Net:

An analysis of the finance (costs) income for the years ended December 31, 2023 and 2022, is shown as follows:

	2023	2022
Finance costs		
Interest expense:		
Bank borrowings (Note 15)	\$ (15,930)	\$ (9,379)
Security secured notes (Note 15)	(24,825)	(24,100)
Related parties (Note 11)	(4,631)	(6,776)
	<u>(45,386)</u>	<u>(40,255)</u>
Other finance costs *	(4,885)	(4,264)
Swaps payments	-	(4,756)
Foreign exchange loss	-	(504)
	<u>(50,271)</u>	<u>(49,779)</u>
Finance income		
Swaps received	3,293	-
Foreign exchange income	917	-
	<u>4,210</u>	<u>-</u>
Interest income on short-term bank deposits	1,713	376
Interest income on loans to related parties (Note 11)	4	4
	<u>1,717</u>	<u>380</u>
Finance income in the statement of comprehensive income	<u>5,927</u>	<u>380</u>
Finance cost - Net	<u>\$ (44,344)</u>	<u>\$ (49,399)</u>

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* Mainly includes letters credit fees.

Note 22 - Income taxes:

- a. Income tax of the year is calculated by applying a 30% rate on the taxable profit. In 2023, the Company determined a tax profit of \$99,267 (tax profit of \$68,810 in 2022 to which were applied tax losses of previous years by an amount of \$30,235 in 2022). Tax income differs from accounting income, mainly due to items accumulating over time a deducted different for accounting and tax proposes, such as recognition of the effects of inflation for tax purposes, as well as items affecting only the accounting or the tax income.
- b. The income tax provision is analyzed as follows:

	2023	2022 ⁽¹⁾
Income tax for the year	\$ (29,780)	\$ (11,611)
Deferred income tax expense	30,364	(1,674)
	<u>\$ 584</u>	<u>\$ (13,285)</u>

⁽¹⁾ Restatement figures, see Note 2.

As of December 31, 2023 the Company has no cumulative tax losses carry forwards.

- c. At December 31, 2023 and 2022, the main temporary differences on which the deferred income tax liability was recognized are analyzed as follows:

	December 31,	
	2023	2022 ⁽¹⁾
Property, equipment and construction in progress	\$ (84,132)	\$ 34,326
Revenue from contract assets	112,016	93,234
Prepaid expenses	966	11,451
Other items	8,843	(103)
	<u>37,693</u>	<u>138,908</u>
Income tax payable rate	<u>30%</u>	<u>30%</u>
Deferred tax liabilities	<u>11,308</u>	<u>41,672</u>
Derivative financial instruments	\$ 14,229	\$ 14,993
Income tax payable rate	<u>30%</u>	<u>30%</u>
	<u>\$ 4,269</u>	<u>\$ 4,498</u>
Deferred income tax liability, net	<u>\$ 15,577</u>	<u>\$ 46,170</u>

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- d. Following is the reconciliation between income tax payable and the effective rate:

	December 31,	
	2023	2022 ⁽¹⁾
Profit before income tax	\$ 27,664	\$ 19,705
Income tax legal rate	30%	30%
Income tax at legal rate	8,299	5,912
Plus (less) effect of the following items on the income tax:		
Non-deductible expenses	16	12
Annual inflation adjustment	9,512	16,737
Other items	(18,411)	(9,376)
Deferred income tax expense	\$ (584)	\$ 13,285
Income tax relating to valuation of cash flow hedge expense	\$ 229	\$ (9,022)

(1) Restatement figures, see Note 2.

Note 23 - Commitments and contingencies:

- a. Commitments:

- i. CFE: On January 15, 2015, the Company entered into a Transportation Service Agreement with CFE, that sets forth the basis for a long term "Take or Pay" agreement under the following conditions:

Duration: 25 years.

Minimum Firm natural gas transportation: 1,500 MMSCFD.

On April 30, 2018, the Commercial Operating Date was approved by CFE. Therefore, on May 1, 2018, the capitalization of the Company gas pipeline was carried out.

The Company contracted a letter of credit issued by Santander in the amount of \$72.5 million to guarantee the obligations under the gas transportation services contract with CFE. On December 12, 2023, the Company reduced this guarantee to \$49.4 million. As of December 31, 2023, this letter of credit is outstanding.

The Company contracted a letter of credit issued by ING, Mizuho and BNP in the amount of \$24.1 million to guarantee the debt service obligations. As of December 31, 2023, this letter of credit is outstanding.

- ii. Long Term Program Frame Agreement (LTPFA)

The Company has entered into gas turbine and compression maintenance agreement (LTPFA) with a qualified third-party supplier of the gas turbines and gas compression units. The agreement provides for labor and supervision during scheduled inspections, repairs, and overhauls of gas turbine and gas compression equipment. The agreement further allows for the supply of replacement and refurbished spare parts required for the maintenance of the equipment in accordance with prudent industry practice.

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This agreement has terms 25 years of maintenance, considering annual and quarterly fixed fees and variable fees based on Equivalent Operating Hours (EOH) accrued that varies with output following contractual guidelines and gas turbine maintenance events. This maintenance is recognized in the profit and loss during the period in which they are incurred.

b. Contingencies:

- i. During the normal course of its operations, the Company has taken no uncertain or aggressive tax positions. Likewise, the Company does not anticipate that significant unrecognized tax benefits will be recognized over the next 12 months. The Company is not currently subject to any tax audit process.
- ii. The Company's main activity, natural gas transportation, is subject to obtaining natural gas transportation permits issued by the CRE. Current permits are for 30 years. Changes in regulatory environment could affect the operation of the natural gas transportation due to the failure to obtain a renewal permit.
- iii. Environmental risk factors

The Company's current activity is the transportation of natural gas, for which the risks to which it is exposed as a result of climate change are mainly physical risks, such as the potential occurrence of natural disasters, particularly severe weather conditions (landslides intense or atypical rains), which significantly affect the operations.

The Company environmental management plans and protocols are established to minimize the greenhouse gas emissions, carbon footprint, waste management and energy needs of stationary, mobile and fugitive combustion, and electricity usage.

An environmental risk may impact accounting estimates and judgments in the preparation of the financial statements, including, but not limited to assess of asset useful lives, potential impairment of property and equipment and accrued environmental costs.

Increasing international and national environmental concerns and related new or proposed legislation and regulation or changes to existing legislation or regulation, such as increased requirements for monitoring and surveillance, pollution monitoring and control equipment, safety practices, emission fees, taxes, penalties or other obligations or restrictions, could have a negative impact on the Company's future cash flows performance.

As of December 31, 2023, the Company has had no impact related with these risks.

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Note 24 - Subsequent events:

On March 7, 2027, the Partners' Meeting approved an increase of the variable portion of social participation by an amount of for \$12,000 from Esentia Energy EELL, S. de R.L. de C.V.

As mentioned in Note 13, a waiver from the Lenders was obtained on March 14, 2024 that cures the default of the credit agreement.



Stephen David Griffiths-James
Chief Financial Officer



Leticia Eugenia Lara Torres
Controller