

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

(subsidiary of Fermaca El Encino-La Laguna, S. de R. L. de C. V., whose ultimate parent is Fermaca de México)

Audited Financial Statements

December 31, 2019 and 2018

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

(subsidiary of Fermaca El Encino-La Laguna, S. de R. L. de C. V., whose ultimate parent is Fermaca de México)

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December 31, 2019 and 2018

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Independent Auditor's Report

To the Partners meeting of
Fermaca El Encino, S. de R. L. de C. V.

Opinion

We have audited the financial statements of Fermaca El Encino, S. de R. L. de C. V. (the Company), which comprise the statement of financial position as at December 31, 2019, and the related statements of income and comprehensive income, of changes in equity and of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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 Ethics Standards of Mexican Institute of Public Accountants together with other requirements applicable to our audit of the financial statements in Mexico. We have fulfilled our other ethical responsibilities in accordance with these requirements and standards. 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
Assessment of the recoverability of Receivables As described in Notes 4b and 8 to the financial statements, the recoverability of receivables is regularly assessed by setting up an impairment allowance based on the expected credit loss method. We have focused on this heading, mainly due to the importance of the carrying value of receivables (USD \$51,662 as of December 31, 2019) and because the estimation of their recoverability implies the exercise of significant judgment by Management. Specifically, our audit efforts were devoted to the methodology used in the assumptions considered in the calculation of the expected credit loss of the receivables determined by management, as is: a) Probability of default by the counterparty and, b) Loss severity for the counterparty.	As part of our audit we have performed the following audit procedures: - With the support of our appraisers, we have examined the methodology used by Management for the assessment to estimate the provision for impairment of the recoverability of receivables. - On a selective test basis: a) We have matched the probability of default by the counterparty with the Company's experience in the recovery of receivables. b) We have compared the loss severity with information publicly available on the recovery market rate and country risk rate and default market rate for entities with similar characteristics. c) Contractual terms of accounts receivable have been matched with the letters of credit in effect which are used as collateral, with the correspondent agreements. Based on the above-mentioned procedures, on a selective test basis, we have reprocessed calculations to the estimate for recoverability of receivables.

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 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, related safeguards.

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

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 "C.P.C. Omar Penna Estrada", written over a horizontal line.

C.P.C. Omar Penna Estrada
Audit Partner

Mexico City, May 11, 2020

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

(subsidiary of Fermaca El Encino-La Laguna, S. de R. L. de C. V., whose ultimate parent is Fermaca de México)

Statements of Financial Position

(Notes 1, 2, 3, 4 and 5)

December 31, 2019 and 2018

Thousands of US Dollars

		December 31,	
	Notes	2019	2018
Assets			
CURRENT ASSETS:			
Cash	9	\$ 8,994	\$ 53,878
Restricted cash	9 and 15	53,328	51,812
Trade receivables - Net	8	51,017	32,110
Tax receivables	12	7,576	13,299
Contract assets	17	38,421	27,319
Receivables related parties	11	103	57
Other current assets		1,309	1,134
Derivative financial Instruments	5 and 10	-	3,821
Total current assets		160,748	183,430
NON-CURRENT ASSETS:			
Property, equipment and construction in progress - Net	13	697,713	701,537
Rights of way - Net	14	34,411	35,138
Total non-current assets		732,124	736,675
Total assets		\$ 892,872	\$ 920,105
Liabilities and Stockholders' equity			
Liabilities			
CURRENT LIABILITIES:			
Short-term debt	15	\$ 33,247	\$ 16,685
Trade payables		15,680	18,262
Payables related parties	11	2,369	9,165
Derivative financial instruments	5 and 10	11,884	-
Other liabilities and accrued expenses		8,026	5,257
Total current liabilities		71,206	49,369
NON-CURRENT LIABILITIES:			
Long-term debt	15	657,036	674,865
Payables related parties	11	128,008	153,478
Deferred income tax liabilities	22	26,046	24,917
Total non-current liabilities		811,090	853,260
Total liabilities		882,296	902,629
PARTNERS' EQUITY:			
Social participation	16	26,449	26,449
Valuation of cash flow hedges	5 and 10	(8,322)	2,672
Cumulative losses		(7,551)	(11,645)
Total partners' equity		10,576	17,476
Total liabilities and partners' equity		\$ 892,872	\$ 920,105

The accompanying notes are an integral part of these financial statements, which were authorized for their issuance on May 11, 2020 by the officers who signed below.



Daniel Elguea Solis
Chief Financial Officer



Leticia Lara Torres
Controller

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

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Statements of Income and Comprehensive Income

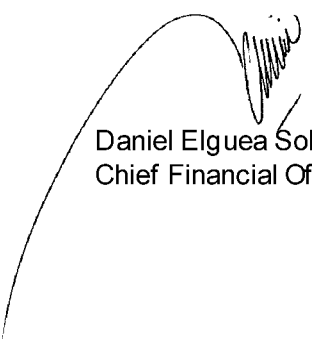
(Notes 1, 2, 3, 4 and 5)

Year ended on December 31, 2019 and 2018

Thousands of US Dollars

Statements of Income:	Notes	December 31,	
		2019	2018
Revenue from contracts with customers	17	\$ 85,412	\$ 85,403
Cost for providing services	18	(21,961)	(13,041)
Gross profit		63,451	72,362
Project development	19	-	(3,758)
Administrative expenses	19	(1,059)	(1,787)
Other (expenses) income	20	(422)	1,315
Operating income		61,970	68,132
Finance income	21	33	2,737
Finance costs	21	(52,068)	(94,811)
Finance cost - Net	21	(52,035)	(92,074)
Profit (loss) before income tax		9,935	(23,942)
Income tax (expense) benefit	22	(5,841)	1,053
Net income (loss) for the year		4,094	(22,889)
Statements of Comprehensive (loss) income :			
Net income (loss) for the year		4,094	(22,889)
Items that may be reclassified to profit or loss:			
Valuation of cash flow hedges	5	(15,706)	47,844
Income tax relating to valuation of cash flow hedge benefit (expense)	22	4,712	(14,354)
Other comprehensive (loss) income for the period, net of tax		(10,994)	33,490
Total comprehensive (loss) income for the year		(6,900)	10,601

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Daniel Elguea Solis
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Leticia Lara Torres
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Statements of Changes in Partners' equity

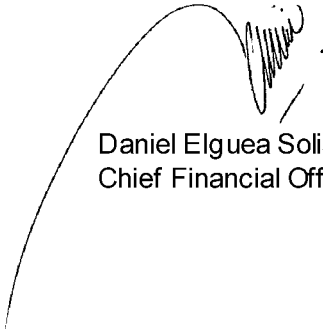
(Notes 1, 2, 3, 4 and 5)

Year ended on December 31, 2019 and 2018

Thousands of US Dollars

	Social participation	Cumulative losses	Valuation of cash flow hedges	Total partners' equity
Balances as of January 1, 2018	\$ 25,808	\$ 11,244	\$ (30,818)	\$ 6,234
Increase in social participation	641	-	-	641
Net loss for the year	-	(22,889)	-	(22,889)
Other comprehensive income for the year	-	-	33,490	33,490
Total comprehensive income for the year	-	(22,889)	33,490	10,601
Balances as of December 31, 2018	\$ 26,449	\$ (11,645)	\$ 2,672	\$ 17,476
Net income for the year	-	4,094	-	4,094
Other comprehensive loss for the year	-	-	(10,994)	(10,994)
Total comprehensive loss for the year	-	4,094	(10,994)	(6,900)
Balances as of December 31, 2019	\$ 26,449	\$ (7,551)	\$ (8,322)	\$ 10,576

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Daniel Elguea Solis
Chief Financial Officer



Leticia Lara Torres
Controller

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Statements of Cash Flows

(Notes 1, 2, 3, 4 and 5)

Year ended on December 31, 2019 and 2018

Thousands of US Dollars

		December 31,	
	Notes	2019	2018
Operating activities			
Profit (loss) before income tax		\$ 9,935	\$ (23,942)
Adjustments for reconciling profit (loss) before income tax to:			
Depreciation and amortization	13 and 14	16,539	11,014
Interest income	21	(33)	(333)
Valuation of derivative financial instruments - sw aps	21	-	2,201
Fair value loss on interest rate sw aps designated as cash flow hedges – transfer from OCI	21	-	53,000
Interest expense of bank borrow ings		40,778	22,942
Interest expense w ith related parties		10,602	7,111
		<u>77,821</u>	<u>71,993</u>
Changes in working capital increase (decrease)			
Tax receivables		2,076	(12,141)
Value added tax recovered		3,647	26,411
Trade receivables		(18,907)	(151)
Contract assets	17	(13,097)	(27,319)
Other assets		(2,447)	399
Related parties		(5,291)	153
Trade payables and other liabilities		(709)	(9,290)
Net cash flow s of operating activities		<u>43,093</u>	<u>50,055</u>
Investing activities			
Acquisitions of property, equipment and construction in progress		(11,517)	(38,602)
Rights of way		(471)	(845)
Interest loans payments		-	(7,996)
Net cash flow s used in investing activities		<u>(11,988)</u>	<u>(47,443)</u>
Financing activities			
Bank loans obtained	15	-	707,253
Bank loans payment	15	(1,810)	(609,635)
Interest loans payments		(35,968)	(8,243)
Interest payments from related parties loans		(37,591)	-
Interest received		-	329
Interest rate sw aps payments	21	205	(55,091)
Restricted cash		(1,516)	16,353
Increase in social participation	16	-	641
Net cash flow s (used) provided by financing activities		<u>(76,680)</u>	<u>51,607</u>
Foreign exchange gain on cash		691	(424)
Net (decrease) increase of cash		<u>(44,884)</u>	<u>53,795</u>
Cash at the beginning of the year		<u>53,878</u>	<u>83</u>
Cash at the end of the year		\$ 8,994	\$ 53,878

The main non-cash transactions in 2019 and 2018 are included in Note 13.

The accompanying notes are an integral part of these financial statements, which were authorized for their issuance on May 11, 2020 by the officers who signed below.

Daniel Elguea Solis
Chief Financial Officer

Leticia Lara Torres
Controller

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Notes to the Financial Statements

December 31, 2019 and 2018

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

Note 1 - General information:

Fermaca 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 Fermaca El Encino-La Laguna, S. de R. L. de C. V., whose ultimate parent is Fermaca de México (until October 3, 2019 Fermaca Luxembourg, S.à.r.l.).

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

The Company has no employees and all supervisory and administrative services are provided by related parties.

Note 2 - Significant events in the current reporting period:

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 construction of the pipeline started on January 15, 2015 and its located in the states of Chihuahua and Durango, Mexico.

The agreement was executed as result of the award issued by CFE in favor of El Encino in connection with the international public bid number LPSTGN-003/14. The agreement is for 25 years starting since May 1, 2018 date when the Commercial Operating Date (COD) is granted by CFE. A renewal is allowed, but not mandatory for CFE, as both parties has to agree it so.

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 Commercial Operating Date approved by CFE was April 30, 2018. Thus, the Company started operations on May 1, 2018.

On the other hand, in 2018, the Company obtained a new financing to replace the original one. Details on this refinancing are described in Note 15.b.

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Notes to the Financial Statements

December 31, 2019 and 2018

Note 3 - Basis of preparation:

i. Compliance with IFRS

The financial statements of the Company as of December 31, 2019 and 2018, and for the years then ended, have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRIC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

ii. Historical cost convention

The financial statements have been prepared on at historical cost basis, except for derivative financial instruments and financial liabilities at fair value through profit or loss that are measured at fair value.

Fair value is defined as the price that would be received in 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 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

- a. The Company has applied the following standards and amendments for the first time for their annual reporting period starting on January 1, 2019:

- IFRS 16 Leases

The Company had to change its accounting policies as a result of adopting IFRS 16. The Company elected to adopt the new rules retrospectively but recognized the cumulative effect of initially applying the new standard on January 1, 2019. This is disclosed in Note 4h.

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Notes to the Financial Statements

December 31, 2019 and 2018

- Interpretation 23 Uncertainty over Income Tax Treatments.

The Company has assessed and adopted the Interpretation 23 "Uncertainty over Income Tax Treatments", such interpretation explains how to recognize, and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. The Company has concluded that there were no impacts since the date of adoption and as of December 31, 2019.

Other IFRS amendments or new standards are not listed above either because they are not applicable for the Company or they did not have impact in its financial statement.

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

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Financial statements authorization

These financial statements and the accompanying notes were authorized for their issuance on May 11, 2020 by Daniel Elguea Solís, Chief Financial Officer and Leticia Lara Torres, Controller.

Note 4 - Summary of significant accounting policies:

The main 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 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 7.

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 US 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

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December 31, 2019 and 2018

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

iii. 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 at December 31, 2019 and 2018 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: MxN 18.87 in 2019 and MxN 19.66 in 2018, respectively.
- ii. Balances at December 31, 2019 and 2018 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), 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

From January 1, 2018, 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.

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Notes to the Financial Statements

December 31, 2019 and 2018

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.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

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

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 profit or loss.

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.

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Notes to the Financial Statements

December 31, 2019 and 2018

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

As of December 31, 2019, no financial assets have been classified in this category.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

As of December 31, 2019, no financial assets have been classified in this category.

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, 2019 and 2018, there were no offsetting of financial instruments.

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

From January 1, 2018, the Company assesses on a forward-looking basis the expected credit losses (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

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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.

Cash subject to restrictions or intended for a specific purpose is presented separately under current assets. (See Note 15).

As of December 31, 2019 and 2018, debt service reserve of the Company to be used for the payment of interest and principal of debt. For the presentation in the cash flows statement this is considered as financing activities.

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 of various derivative instruments used for hedging purposes are disclosed in Note 10.

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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 qualifying 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 (cost) - Net".

Amounts accumulated in equity are reclassified to profit or loss in the periods in which 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 borrowings is recognized in the statement of comprehensive income within "Finance (cost) - 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 (cost) - Net".

e. Prepayments to suppliers

Prepayments to suppliers represents expenditures made by the Company where the risks and benefits inherent to the goods to be acquired or services to be received have not been transferred. Prepayments to suppliers are recorded at their cost and are presented in the statement of financial position as current or non-current assets, depending on the destination item. Once the goods and/or services related to advanced payments are received, they should be recognized as an asset in the statement of financial position or as an expense in the statement of comprehensive income, according to their nature.

f. Guarantee deposits

The guarantee deposits are included in "Other current assets", except for maturities greater than 12 months after the end of the reporting period which are recognized as "Other non-current assets" in the statements of financial position.

g. Property, equipment and construction in progress

Property, equipment and construction in progress, comprise mainly gas pipelines 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.

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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.

Improvements to leasehold 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).

Depreciation is calculated using the straight-line method to allocate cost net of their residual values over estimated useful lives, 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 assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. As of December 31, 2019, 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 (expenses) income - Net' in the statement of comprehensive income.

Prepayments to suppliers are recognized as part of fixed asset line item when risks and benefits have been transferred to the Company.

h. Leases

The Company has changed its accounting policy for leases where the Company is the lessee.

Until December 31, 2018, leases of property, equipment and construction in progress where the Company, as lessee, had substantially all the risks and rewards of ownership been classified as finance leases.

Finance leases were capitalized at the lease's inception at the fair value of the leased property, equipment and construction in progress or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on

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the remaining balance of the liability for each period. The property, equipment and construction in progress acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Company as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Company is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature.

Changes in accounting policies

The Company has adopted IFRS 16 Leases retrospectively from January 1, 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.83%.

a. Measurement of right-of-use assets

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid lease payments relating to that lease recognized in the statement of financial position as at December 31, 2019.

b. Lessor accounting

The Company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

i. Rights of way

Rights of way which are one-off payments to obtain the right to access the land on which the pipeline is constructed. 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.

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j. 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.

k. Financial liabilities

Liabilities within the scope of IFRS 9 (before IAS 39 except for changes in fair value related to own credit risk) are classified as financial liabilities at fair value through profit or loss or trade payables and other liabilities, as appropriate.

- Financial liabilities at fair value through profit or loss

They are initially recognized at fair value. Transactions costs are expensed as incurred in the statement of comprehensive income. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial liabilities at fair value through profit or loss category are presented in the statement of comprehensive income within "Finance income (cost) - Net", in the period in which they arise, except for the changes in fair value related to own credit risk which are recognized in Other Comprehensive Income.

l. 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.

m. 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 borrowings using the effective interest method. (See Note 15).

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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 of the facility will be drawn 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.

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

Borrowings are 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 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. If the 10% test is failed, however, the existing liability is de-recognized, regardless of whether the entity’s policy is to also perform a qualitative analysis. Otherwise, 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.

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).

n. 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 of time to get ready for their intended use or sale. Generally, assets that take more than one year.

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

o. 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 for 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 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.

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 tax balances relate to the same tax 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).

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p. Provisions

Provisions are recognized when the Company has a present legal or construction 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.

q. 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 recognize 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 assets, 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.

r. 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.

s. Revenue from contracts with customers

1) Transportation of Natural Gas:

The Company is obligated to reserve capacity on its transportation pipeline for customers up to the maximum monthly quantity. The Company is entitled to a capacity reservation fee (charged monthly regardless of the volumes transported) as well a Natural Gas Transportation services fee (charged per volume transported).

Revenue from the transportation of natural gas includes two performance obligations: Reserve Capacity and natural gas transportation services. Reserved capacity is a stand ready obligation that is generally recognized on a straight-line basis over the contracted period. Billings to clients might differ from revenue recognized, and therefore, a contract asset or contract liability is

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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 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.

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).

As of December 31, 2019, the Company has a contract asset by an amount of \$38,421, which does not include a significant financing component. (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.

t. Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand currency units unless otherwise stated.

Note 5 - Financial risk management:

The Company's activities expose it to the following financial risks: market risk (foreign exchange risk and cash flow and fair value 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.

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a. Market risk

i. Foreign exchange risk

At December 31, 2019 and 2018, 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 follow:

	2019	2018
Assets:	\$ 7,815	\$ 14,015
Liabilities:	<u>(10,364)</u>	<u>(11,657)</u>
Net position:	<u>\$ (2,549)</u>	<u>\$ 2,358</u>

At December 31, 2019 and 2018, the exchange rates were MxN18.87 and MxN19.66 per US dollar, respectively.

At the date of issuance of the financial statements, the exchange rate was MxN23.68 per US dollar.

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, 2019 and 2018 (excluding the acquisition or sale of property, equipment and construction in progress for its own use).

	2019	2018
Expenses	<u>\$ 1,346</u>	<u>\$ 1,704</u>

ii. Cash flow interest rate risk

The Company's interest rate risk arises from long-term borrowings with variable rates, which expose the Company to cash flow interest rate risk. Company policy is to maintain borrowings at fixed rates using interest rates swaps to achieve this when necessary. As of December 31, 2019 and 2018, the Company maintained approximately 100% both years of its borrowings in fix rate instruments.

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

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

	December 31, 2019		December 31, 2018	
	Balance	% of total loans	Balance	% of total loans
Credit facility - Syndicated (Note 15)	\$ 235,075	34%	\$ 236,474	34%
Interest rate swaps (notional principal amount)	<u>(239,054)</u>		<u>(240,416)</u>	
Net exposure to cash flow interest rate risk	<u>\$ (3,979)</u>	<u>.(1%)</u>	<u>\$ (3,942)</u>	<u>.(1%)</u>

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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 borrowings.

Amounts recognized in profit or loss and other comprehensive income

During the year, the following (losses) gains were recognized in profit or loss and other comprehensive income in relation to interest rate swaps.

	2019	2018
(Loss) / Gain recognized in other comprehensive income	\$ (15,706)	\$ 47,844
Loss on valuation of derivatives (ineffective portion) (See Note 21)	-	(2,612)
Loss reclassified from other comprehensive income - fair value loss on interest rate swaps designated as cash flow hedge - transfer from OCI to loss (Note 21)	-	(53,000)

Sensitivity

If interest rates during the year ended December 31, 2019 and 2018 of borrowings 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 \$20,562 and \$8,247 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 in banks and financial institutions, as well as credit exposures to customers.

As concerns banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted.

CFE (the National Energy Company, with a rating of BBB+) is the Company's main customer. Credit risk is monitored by the finance area. As of December 31, 2019 and 2018, the Company recognized revenue per fixed charge per capacity (See Note 17).

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.

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, 2018. Therefore, not significant impairment losses have been recognized as of that date.

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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.

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 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.

<u>As of December 31, 2019:</u>	<u>Less than 1 year</u>	<u>From 1 to 2 years</u>	<u>From 2 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>	<u>Carrying amount</u>
Debt (Note 15) ⁽¹⁾	\$ 39,319	\$ 85,965	\$ 219,880	\$ 843,496	\$ 1,188,660	\$ 690,283
Related parties (Note 11)	2,369			128,008	130,377	130,377
Derivative financial instruments (Note 10)	11,884				11,884	11,884
Trade payables	15,680				15,680	15,680
	<u>\$ 69,252</u>	<u>\$ 85,965</u>	<u>\$ 219,880</u>	<u>\$ 971,504</u>	<u>\$ 1,346,601</u>	<u>\$ 848,224</u>

<u>As of December 31, 2018:</u>	<u>Less than 1 year</u>	<u>From 1 to 2 years</u>	<u>From 2 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>	<u>Carrying amount</u>
Debt (Note 15) ⁽¹⁾	\$ 53,959	\$ 42,988	\$ 128,278	\$ 982,117	\$ 1,207,342	\$ 691,550
Related parties (Note 11)	9,165	-	-	153,478	162,643	162,643
Trade payables	18,262	-	-	-	18,262	18,262
	<u>\$ 81,386</u>	<u>\$ 42,988</u>	<u>\$ 128,278</u>	<u>\$ 1,135,595</u>	<u>\$ 1,388,247</u>	<u>\$ 872,455</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 6 - 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.

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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.

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 borrowings (including "current and non-current borrowings" 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.

The gearing ratio at December 31, 2019 and 2018 was:

	December 31,	
	2019	2018
Total debt (Note 15)	\$ 690,283	\$ 691,550
Less: cash (including restricted cash)	(62,322)	(105,690)
Net debt	627,961	585,860
Total equity	10,579	17,476
Total capital	\$ 638,540	\$ 603,336
Gearing ratio	98%	97%

Note 7 - 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 involving a higher degree of judgment or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions that turn out to be wrong. Estimates and projections that have a significant risk of material adjustments on assets and liabilities recognized during the following year are detailed below:

Estimates:

- i. 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.

The sensitivity analysis of derivatives is within the Note 5.

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Note 8 - Trade receivables:

As of December 31, 2019 and 2018, short term accounts receivable are as follows:

	December 31,	
	2019	2018
CFE ⁽¹⁾	\$ 51,662	\$ 32,110
Impairment of trade receivables	(645)	-
Trade receivables, net	<u>\$ 51,017</u>	<u>\$ 32,110</u>

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

Fair value of trade receivables is equal to their carrying amount. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

The Company's accounts receivable guarantee the timely payment and the compliance of the obligations that are held through the debt.

As of December 31, 2018, there are no estimates for past due balances or impairment.

Note 9 - Financial instruments:

The Company holds the following financial instruments:

a. Financial instruments by category:

December 31, 2019				
	Trade and other receivables	Derivate used for hedging	Other financial liabilities at amortized cost	Derivatives used for hedging
Financial assets:			Financial liabilities:	
Cash				
(including restricted cash)	\$ 62,322	\$ -	Trade payables	\$ 15,680
Contract assets	38,421	-	Payable to related parties	130,377
Receivable from related parties	103	-	Debt	690,283
Trade receivables - Net	51,017	-	Derivative financial instruments	-
Other assets	1,309	-		11,884
Derivate financial instruments	-	-		
Total financial assets	<u>\$ 153,172</u>	<u>\$ -</u>	Total financial liabilities	<u>\$ 836,340</u>
				<u>\$ 11,884</u>
December 31, 2018				
	Trade and other receivables	Derivate used for hedging	Other financial liabilities at amortized cost	Derivatives used for hedging
Financial assets:			Financial liabilities:	
Cash				
(including restricted cash)	\$ 105,690	\$ -	Trade payables	\$ 18,262
Contract assets	27,319	-	Payable to related parties	162,643
Receivable from related parties	57	-	Debt	691,550
Trade receivables	32,110	-	Derivative financial instruments	-
Other assets	1,134	-		-
Derivate financial instruments	-	3,821		
Total financial assets	<u>\$ 166,310</u>	<u>\$ 3,821</u>	Total financial liabilities	<u>\$ 872,455</u>
				<u>\$ -</u>

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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:

	2019	2018
Interest rate swaps - cash flow hedges		
Assets - current	\$ -	\$ 3,821
Liabilities - current	(11,884)	-
Total financial instruments	<u>\$ (11,884)</u>	<u>\$ 3,821</u>

On July 24, 2015 the Company entered into a credit agreement with several financial institutions as described in Note 15.

This credit agreement was issued at variable rates. At the same dates, the Company entered into interest rate swaps agreements that have the economic effect of converting debt from floating rates to fixed rates. The interest rate swaps have the follow fixed rates: 1.588% for the due dates in 2018 and 3.1206%, 3.115% and 3.13% for due dates in 2039, depending on the corresponding financial institution.

The interest rate swaps were entered with the following financial institutions: 1) Santander, 2) Banamex, 3) ING, 4) Nord LB, 5) Sabadell and 6) Goldman Sachs.

On June 21, 2018, this credit agreement was liquidated as well as the interest rate swaps related with it by an amount of \$53 million and it was reclassified to Statements of Income.

On June 12, 2018, the Company, entered into a credit agreement with several banks, described in Note 15.

The credit agreement was issued at variable rates. At 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.

The interest rate swaps have 2.627% as fixed rate with the due date in 2032.

The interest rate swaps were entered with the following institutions: 1) BNP Paribas, 2) ING, 3) Nord LB, 4) Mizuho and 5) Sabadell.

As of December 31, 2019, does not exist ineffective portion. As of December 31, 2018, the ineffective portion recognized in the profit or loss that arises from fair value hedges amounts to a loss of \$2,201.

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ii. Classification of derivatives

Derivatives are only used for economic hedging 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 valuation method.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. Changes in the fair value of the financial instrument are accounted for in the statement of comprehensive income, within Finance cost - net. (See Note 21).

There were no transfers between levels during the years presented.

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Note 11 - Related parties:

The Company is a subsidiary of Fermaca El Encino-La Laguna, S. de R. L. de C. V., whose ultimate parent is Fermaca de México.

- a. The main balances at December 31, 2019 and 2018 with related parties are as follows:

	December 31,	
	2019	2018
<u>Receivables</u>		
Short-term loans:		
<u>Affiliated Companies:</u>		
Fermaca Pipeline Anáhuac, S. de R. L. de C. V.	\$ 65	\$ 57
<u>Short-term other:</u>		
Cia. Comercializadora de Hidrocarburos y Gas Natural, S. de R. L. de C. V. (CCHyGN)	38	-
	<u>\$ 103</u>	<u>\$ 57</u>
<u>Payables</u>		
Short-term loans:		
<u>Affiliated Companies:</u>		
Tejas Gas de Toluca, S. de R. L. de C. V. (TGT)	\$ 1,179	\$ 1,039
Tarahumara Pipeline, S. de R. L. de C. V. (TP)	578	507
Fermaca Enterprises, S. de R. L. de C. V. (FE)	413	363
	<u>2,170</u>	<u>1,909</u>
<u>Short-term other:</u>		
Others	199	98
Fermaca Pipeline La Laguna, S. de R. L. de C. V. (La Laguna)	-	332
Fermaca New Projects, S. A. de C. V. (FNP)	-	6,295
Bcysa Servicios Industriales, S. A. de C. V. (Bcysa)	-	531
	<u>199</u>	<u>7,256</u>
	<u>2,369</u>	<u>9,165</u>
<u>Long-term loans:</u>		
<u>Affiliated Companies:</u>		
Herbodem, S. A. de C. V. SOFOME. N. R. (Herbodem)	128,008	153,478
	<u>\$ 130,377</u>	<u>\$ 162,643</u>

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- b. During the years ended December 31, 2019 and 2018 the Company carried out the following operations with related parties:

	Years ended December 31,	
	2019	2018
<u>Revenue:</u>		
Gas transportation	\$ 34	\$ -
Interest income	33	4
	<u>\$ 67</u>	<u>\$ 4</u>
<u>Expenses:</u>		
Interest expenses ⁽¹⁾ (c. iii)	10,602	10,594
Construction and supervision services ⁽²⁾ (c. i) (c. ii)	3,695	2,999
Other expenses ⁽³⁾	<u>2,051</u>	<u>1,038</u>
	<u>\$ 16,348</u>	<u>\$ 14,631</u>

- (1) As of December 31, 2019 accrued interest with related parties were registered as part of comprehensive financing result. As of May 1, 2018, \$3,483 of accrued interest with related parties was capitalized as part of the construction of the gas pipeline (See Note 21).
- (2) As of May 1, 2018, the amounts of construction supervision services were capitalized as part of the construction of the gas pipeline.
- (3) In 2019 and 2018, other expenses include rents, administrative expenses and cushion gas purchase.

- c. The Company entered into the following agreements with its related parties:
- Supervisory services owners engineering and rights of way negotiations of the project agreement between the Company and BCYSA (an entity wholly owned by some directors and indirect partners of the Company).
 - An operations, maintenance and management's agreement were celebrated between the Company and TGT, which covers the supervisory services of TGT of the efficiency, safe and cost - effective of the operation.
 - On December 17, 2015, the Company and Herbodem entered into a credit agreement for \$118.7 million, which matures on the first business day of January 2046. The credit is subject to interest of 8.05% and 8.8% (starting month 25).

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- d. As of December 31, 2019 and 2018, the Company had the following loans (from) to related parties:

Name of entity	Incorporation date ^(*)	Principal	% Interest from January to December	Balance as of December 31, 2019
Anahuac	17/01/2014	\$ 47	10%	\$ 65
Enterprises	23/05/2014	(299)	10%	(413)
Tarahumara	27/12/2013	(430)	10%	(578)
TGT	21/03/2014	(839)	10%	(1,179)
Herbodem ⁽ⁱⁱⁱ⁾	17/12/2015	(118,743)	8.8%	(128,008)
		<u>\$ (120,264)</u>		<u>\$ (130,113)</u>

Name of entity	Incorporation date ^(*)	Principal	% Interest from January to December	Balance as of December 31, 2018
Anahuac	17/01/2014	\$ 46	10%	\$ 57
Enterprises	23/05/2014	(287)	10%	(363)
Tarahumara	27/12/2013	(413)	10%	(507)
TGT	21/03/2014	(805)	10%	(1,038)
Herbodem ⁽ⁱⁱⁱ⁾	17/12/2015	(118,743)	8.8%	(153,478)
		<u>\$ (120,202)</u>		<u>\$ (155,329)</u>

(*) With no specific maturity date, except for Herbodem which maturity date is January 2, 2046.

Loans (from) to affiliated companies:	2019	2018
As of January 1	\$ (155,329)	\$ (143,169)
Interest paid	37,591	-
Interest charged	(33)	-
Interest expense	(10,569)	(10,590)
Loans granted	1,300	-
Proceeds from loans	(1,300)	-
Currency exchange	(1,773)	(1,570)
	<u>\$ (130,113)</u>	<u>\$ (155,329)</u>

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Note 12 - Tax receivables:

Tax receivables are comprised as follows:

	December 31,	
	2019	2018
Value added tax ⁽¹⁾	\$ 7,437	\$ 13,164
Income tax	139	135
	<u>\$ 7,576</u>	<u>\$ 13,299</u>

- (1) At December 31, 2019 and 2018, the Company received VAT refunds of \$3,868 and \$26,412, respectively, (the amounts returned includes restatement for inflation by \$223 and \$1,315, respectively, which were registered within other income). (See Note 20).

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

The balances of property, equipment and construction in progress at December 31, 2019 and 2018 are shown below:

At January 1, 2019	Land	Pipeline	Others ⁽¹⁾	Construction in progress	Cushion gas	Total ⁽²⁾
Opening balance	\$ 3,903	\$ 697,097	\$ 537	\$ -	\$ -	\$ 701,537
Additions	34	16	117	9,973	1,377	11,517
Transfer	-	-	(412)	412	-	-
Depreciation of the year	-	(15,303)	(22)	-	(16)	(15,341)
Carrying amount at December 31, 2019	<u>\$ 3,937</u>	<u>\$ 681,810</u>	<u>\$ 220</u>	<u>\$ 10,385</u>	<u>\$ 1,361</u>	<u>\$ 697,713</u>

At January 1, 2018	Land	Pipeline	Others ⁽¹⁾	Construction in progress	Cushion gas	Total ⁽²⁾
Opening balance	\$ 3,903	\$ -	\$ 11	\$ 651,409	\$ -	\$ 655,323
Additions	-	-	540	55,890	-	56,430
Transfer	-	707,299	-	(707,299)	-	-
Depreciation of the year	-	(10,202)	(14)	-	-	(10,216)
Carrying amount at December 31, 2018	<u>\$ 3,903</u>	<u>\$ 697,097</u>	<u>\$ 537</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 701,537</u>

- (1) As of December 31, 2019 and 2018 "other", is comprised by 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 Deutsche Bank México, S. A., Multiple Banking Institution (Fiduciary).

Depreciation expense of \$15,341 in 2019 and \$10,216 in 2018 has been charged in cost of services and administrative expenses, in the statement of comprehensive income.

As of December 31, 2019, the Company was not capitalized borrowing costs. During 2018, the Company capitalized borrowing costs by an amount of \$11,479. (See Note 21).

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As of December 31, 2019, there was not non-cash transactions related to property, equipment and construction in progress. As of December 31, 2018, there was non-cash transactions related to property, equipment and construction in progress by an amount of \$12,391.

Construction in progress:

In December 2014, the Company was awarded the Encino-La Laguna project. That gas pipeline will cover the demand for natural gas at the CFE generating plants located in Chihuahua and Durango, as well as in the Central and Western regions of Mexico. The 42 inches diameter pipeline is 414 km in length, running from El Encino in the state of Chihuahua and ending in Lerdo in the state of Durango.

The Commercial Operating Date of El Encino – La Laguna system was accepted by CFE on April 30, 2018. Therefore, on May 1, 2018, the capitalization of the El Encino gas pipeline was completed.

On November 20, 2018, El Encino signed the interconnection and measurement contract number UTA / CIM / 003/2018, with el Centro de Control de Gas Natural (CENAGAS) through which, it was formalized the request to interconnect El Encino - La Laguna gas pipeline with the Sistema Nacional de Gasoductos (SNG). As of December 31, 2019, this interconnection is still in construction.

Note 14 - Rights of ways - Net:

At December 31, 2019, and 2018, rights of way are comprised as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Opening balance	\$ 35,138	\$ 35,091
Additions ⁽¹⁾	471	845
Accumulated amortization	<u>(1,198)</u>	<u>(798)</u>
Carrying amount	<u>\$ 34,411</u>	<u>\$ 35,138</u>

- ⁽¹⁾ The rights of way started to be amortized since May 1, 2018, the date on which the capitalization of the Company's gas pipeline was completed. As of December 31, 2019 and 2018, the amortization of rights of way is recognized within the costs of services in the comprehensive income statements of \$1,198 and \$798, respectively.

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Note 15 - Debt:

Debt is comprised as follows:

	December 31,	
	2019	2018
<u>Short-term:</u>		
Notes Purchase Agreement ^(b)	\$ 10,164	\$ 10,247
Credit facility - Syndicated ^{(a) (b)}	23,083	6,438
Total short-term	33,247	16,685
<u>Long-term:</u>		
Notes Purchase Agreement ^(b)	445,044	444,829
Credit facility - Syndicated ^{(a) (b)}	211,992	230,036
Total long-term	657,036	674,865
Total debt	\$ 690,283	\$ 691,550

- (a) On July 24, 2015, the Company entered into a credit facility in an aggregate principal amount not exceeding \$603,925 with ING, Nord LB, Goldman Sachs, Sabadell, Santander and Banamex.

On September 30, 2015, Sabadell, GS and Nord LB with the consent of the Company assigned a portion of their credit principal amount to Kreditanstalt für Wiederaufbau.

The interest rate of the loan was LIBOR plus the applicable margin.

On June 21, 2018, the Company made payment for the total of debt by an amount of \$587 million (including interest) and signed a new credit agreement which is described in the item b. The original expiration date was on December 31, 2018.

- (b) 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:	79,800

The interest rate of the loans is LIBOR plus the applicable margin.

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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 annum (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).

On June 12, 2018, the Company executed an amended and restated credit agreement and note purchase agreement. The funding of Credit and Notes was done on June 21, 2018. A prepayment penalty of \$65 was paid and recognized as finance cost in the income statement.

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 2019 and 2018, the Company has made payments of principal by \$1,810 and \$14,584, respectively, in connection with the Credit Agreement. Relating the Note Purchase Agreement, the first payment of principal will be made on January 31, 2032.

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 Permitted Hedging Agreements.
- Not make or 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.
- Not incur operating expenses in excess of 115% of the operating expenses set forth in the operating budget for such financial year without the prior written consent of the Administrative Agent.
- Not incur capital expenditures except for capital expenditures which are consistent with the operating budget for such financial year and less than \$1 million in the aggregate for all capital expenditures.
- 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.

The Company satisfactorily complied with the covenants above mentioned during the terms of the contract.

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As of December 31, 2019 and 2018, the Company has recognized restricted cash, which consists of cash available to pay interest and principal of the debt, by an amount of \$53,328 and \$51,812, respectively.

Fair value

For the majority of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. Material differences are identified only for the following borrowings:

	December 31, 2019		December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Note Purchase Agreement	\$ 455,208	\$ 458,613	\$ 455,076	\$ 476,133
Credit facility - Syndicated	235,075	240,967	236,474	231,026
Total	<u>\$ 690,283</u>	<u>\$ 699,580</u>	<u>\$ 691,550</u>	<u>\$ 707,159</u>

Reconciliation of financing activities as of December 31, 2019 and 2018:

	Note Purchase Agreement	Credit facility - Syndicated	Total	
<u>December 31, 2019.</u>				
Net debt as at January 1, 2019	\$ 455,076	\$ 236,474	\$ 691,550	
Principal payments	-	(1,810)	(1,810)	
Interests	24,725	11,786	36,511	
Interest payments	(24,593)	(11,375)	(35,968)	
Ending balance December 31, 2019	<u>\$ 455,208</u>	<u>\$ 235,075</u>	<u>\$ 690,283</u>	
	Note Purchase Agreement	Credit facility - Syndicated	Credit Facility VAT	Total
<u>December 31, 2018.</u>				
Net debt as at January 1, 2018	\$ -	\$ 570,541	\$ 8,693	\$ 579,234
Cash flows Acquisitions	444,829	246,430	15,993	707,252
Principal payments	-	(585,014)	(24,621)	(609,635)
Interests	13,120	17,004	814	30,938 ⁽¹⁾
Interest payments	(2,873)	(12,487)	(879)	(16,239)
Ending balance December 31, 2018	<u>\$ 455,076</u>	<u>\$ 236,474</u>	<u>\$ -</u>	<u>\$ 691,550</u>

⁽¹⁾ In 2018, \$7,996 of accrued interest was capitalized as part of construction of the gas pipeline.

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Note 16 - Partners' equity:

a. Social participation

The social participation as of December 31, 2019 and 2018 is integrated as follows:

	Social units	Fixed portion of social participation Series "A"	Variable portion of social participation Series "B"	Total
At December 31, 2019 and 2018				
Fermaca El Encino-La Laguna, S. de R. L. de C. V. ^(a)	1	\$ -	\$ 26,449	\$ 26,449
Fermaca LNG del Caribe, S. de R. L. de C. V.	1	-	-	-
Total	2	\$ -	\$ 26,449	\$ 26,449

(a) As of December 31, 2019 and 2018, a social part are pledged as collateral to Deutsche Bank México, S. A., in connection with the bank debt (Note 15). The social part is deposited in a Trust created for this purpose, which is managed by Deutsche Bank Mexico (Fiduciary). As of December 31, 2019 and 2018, the fixed portion of social participation has not been paid.

- 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. At December 31, 2019, the legal reserve has not been created.
- c. Dividends to be paid will be free from income tax if they come from Net Tax Profit Account (CUFIN, by its Spanish acronym). Any dividends paid in excess of CUFIN will cause a tax equivalent to 42.86%. The current tax is payable by the Company and may be credited against its income tax of the year or the following two years. Dividends paid coming from profit previously taxed by income tax are not subject to tax withholding or additional tax payment. As of 2013, Income Tax Law sets the obligation of keeping CUFIN with profit generated up to December 31, 2013 and starting another CUFIN with profit generated from January 1, 2014.

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, 2019 and 2018 is shown below:

a. Disaggregation of revenue from contracts with customers

	2019	2018
Reserved capacity and Natural gas transportation services	\$ 85,412	\$ 85,403
Timing of revenue recognition:		
Over time	\$ 85,412	\$ 85,403

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b. Unsatisfied long-term contracts

As of December 31, 2019 and 2018, the aggregate amount of the transaction price of the unsatisfied performance obligations resulting from reserved capacity by an amount of \$1,994,553 and \$2,079,956, respectively (with remaining period of 23 and 24 years, respectively).

The amount showed before including a financing component, which will be recognized as financing expense or financing income in accordance with its nature year after year.

Management expects that transaction price allocated to the unsatisfied contracts as of December 31, 2019 will be recognized as revenue during the next reporting period by an amount of \$85,403. The remaining will be recognized after the 2020 financial year ratably over the corresponding years by an amount of \$1,909,150.

c. Assets and liabilities related to contracts with customers

As of December 31, 2019 and 2018, the Company has recognized an asset related to contracts with customers by an amount of \$38,421 and \$27,319, respectively.

In addition to the contract balance disclosed above, the Company has not had 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. Therefore, some of the natural gas reserved capacity contracts contain a significant financing component.

Reserved capacity is 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.

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
 - ii. 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.

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The Company determined that the contract with CFE, from reserved capacity for natural gas transportation does not contains significant financing component.

Note 18 - Cost for providing services:

The analysis of the cost for providing services for the years ended December 31, 2019 and 2018 is:

	2019	2018
Depreciation and amortization	\$ 16,523	\$ 11,000
Pipeline maintenance	4,445	1,553
Insurance	993	488
	<u>\$ 21,961</u>	<u>\$ 13,041</u>

Note 19 - Administrative expenses:

An analysis of the most relevant development and administrative expenses, classified by function in the statement of comprehensive income, for the years ended December 31, 2019 and 2018, is shown as follows:

	2019	2018
Project development ^(a)	\$ -	\$ 3,758
General expenses ^(b)	\$ 774	\$ 652
Fees	156	1,059
Other expenses	95	41
Leases	18	21
Depreciation	16	14
	<u>\$ 1,059</u>	<u>\$ 1,787</u>

(a) Non-capitalizable costs for the development of the project.

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

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Note 20 - Other (expenses) incomes:

Other (expenses) incomes for the years ended December 31, 2019 and 2018, is comprised as follows:

	2019	2018
Inflation adjustment of VAT reimbursed	\$ 223	\$ 1,315
Impairment of trade receivables	(645)	-
	<u>\$ (422)</u>	<u>\$ 1,315</u>

Note 21 - Finance (cost) and income:

An analysis of the finance (cost) income for the years ended December 31, 2019 and 2018, is shown as follows:

	2019	2018
<u>Finance costs:</u>		
Interest expense:		
Bank borrow ings (Note 15)	\$ (36,511)	\$ (30,938)
Related parties (Note 11)	(10,602)	(10,594)
	<u>(47,113)</u>	<u>(41,532)</u>
Fair value loss on interest rate sw aps designated as cash flow hedges - transfer from OCI (Notes 5 and 10)	-	(53,000)
Loss on valuation of derivatives (Notes 5 and 10)	-	(2,612)
Other finance costs (*)	(4,267)	(9,146)
Total finance costs	<u>(51,380)</u>	<u>(106,290)</u>
Foreign exchange loss	(688)	-
Less: amounts capitalized on qualifying assets (Note 13)	-	11,479
Finance costs in the statement of comprehensive income	<u>(52,068)</u>	<u>(94,811)</u>
<u>Finance income:</u>		
Gain on valuation of derivatives	-	411
Interest income on short-term bank deposits	-	329
Interest income on loans to related parties (Note 11)	33	4
Foreign exchange income	-	1,993
Finance income in the statement of comprehensive income	<u>33</u>	<u>2,737</u>
Finance cost - Net	<u>\$ (52,035)</u>	<u>\$ (92,074)</u>

(*) Mainly includes commissions for use of letters of credit.

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Note 22 - Income taxes:

- a. Income tax of the year is calculated by applying a 30% rate on the taxable profit. In 2019, the Company determined a tax profit of \$65,216, to which were applied tax losses of previous years and the tax benefit of the amortizations was \$19,565 (tax loss of \$25,879 in 2018). 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:

	Year ended on December 31,	
	2019	2018
Deferred income tax (expense) benefit	\$ (5,841)	\$ 1,053

- c. At December 31, 2019 the Company had cumulative tax losses carry forwards for a total of \$51,726 whose right to be amortized against future taxable income expires according to the following schedule:

Year of loss	Restated Amount	Year of expiration
2016	\$ 23,148	2026
2018	28,578	2028
Total	<u>\$ 51,726</u>	

- d. At December 31, 2019 and 2018, the main temporary differences on which the deferred income tax liability was recognized are analyzed as follows:

	December 31,	
	2019	2018
Property and equipment	\$ (97,635)	\$ (145,928)
Revenue from contract assets	(38,421)	(27,319)
Prepaid expenses	(14,457)	(16,841)
Derivative financial instruments	11,884	(3,821)
Tax losses carry forwards	51,726	110,744
Other items	82	107
	<u>(86,821)</u>	<u>(83,058)</u>
Income tax payable rate	30%	30%
Deferred tax liabilities	<u>\$ (26,046)</u>	<u>\$ (24,917)</u>

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Following is the deferred income tax recognized outside the results of the period, in the other comprehensive loss:

	2019	2018
Derivative financial instruments	\$ 3,565	\$ (1,146)

Deferred income tax assets are recognized for tax loss carryforwards (NOL's) to the extent that realization of the tax benefit related to future tax benefits is probable.

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

	2019	2018
Profit (loss) before income tax	\$ 9,935	\$ (23,942)
Income tax legal rate	30%	30%
Income tax at legal rate	2,981	(7,183)
Plus (less) effect of the following items on the income tax:		
Non-deductible expenses	6	9
Annual inflation adjustment	6,561	10,833
Valuation of financial instruments (ineffective portion of the hedge) (Note 10)	(4,712)	(8,863)
Income not subject to tax	(6,247)	-
Derivative financial instruments	-	1,146
Other items	7,252	3,005
Deferred income tax expense (benefit)	\$ 5,841	\$ (1,053)
Income tax relating to valuation of cash flow hedge (benefit) expense	\$ (4,712)	\$ 14,354

Note 23 - Commitments and contingencies:

a. Commitments

CFE: On January 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 Reserved Capacity: 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 start of operations has changed based on the events described in Note 2. As indicated in said note, as a force majeure event was documented and confirmed as provided in the agreement, the Company has not and will not incur in any penalty for this matter. As of December 31, 2018, the Company contracted two letters of credit issued by Santander in guarantee of the obligations resulting from the gas

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transportation services contract with CFE and to guarantee the debt service obligations, in the amount of \$79.8 million and \$30 million. As of December 2019, these letters of credit are outstanding.

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, 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.

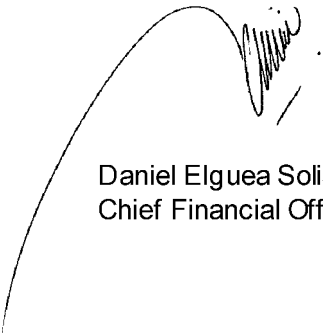
Note 24 - Events after the financial statements:

The effects of the COVID-19 outbreak are considered to have happened after the reporting date, and therefore, no adjustments were recognized in the financial statements due to the COVID-19 pandemic as of December 31, 2019. Subsequently to the close of the fiscal year, the Company has been closely monitoring the impact of the COVID-19 pandemic on all aspects of our business, including the potential effects in our main business partners. While the Company has not experienced disruptions during the three-months period ended March 31, 2020 and as of the issuance of the financial statement from the COVID-19 pandemic, we are unable to predict the impact that it would have on our financial condition, results of operations and cash flows due to uncertainties.

We continuously monitor our customers' credit risks and use our judgement for modeling and understanding the implications of all scenarios on earnings as well as any other impact that this situation could bring to our business.

Fitch Ratings has recently downgraded the international Foreign and Local Currency Long-Term ratings for CFE to BBB- and some companies within our industry. CFE's rating downgrade reflect their direct linkage to Mexico's sovereign ratings, and, given the nature of the crisis, there is a higher than usual level of uncertainty around our forecasts, and the balance of risks is firmly to the downside.

This situation might also represent an increased counterparty risk for us, since CFE represents a high portion of the Company's cash flow. In the first quarter of 2020 and as of the issuance of the financial statement, we have not experienced an adverse result in our cash collections, and we have met all of our commitments. However, we continue to monitor this situation closely, and, we will be reflecting any impacts on the financial statements, if applicable, in accordance with IFRS.



Daniel Elguea Solis
Chief Financial Officer



Leticia Lara Torres
Controller